2019 INTERIM RESULTS

RSA Insurance Group plc

1 August 2019

Solid first half results, underwriting actions 'on track'

- **Current year underwriting profit up 70%**

Excluding exit portfolios[1]:

- **Group underwriting profit £181m**
- **Group combined ratio 94.3%; underlying EPS 21p per share**
- **UK & International region underwriting profit £86m; combined ratio 94.0%**

Statutory profit before tax £227m, impacted by exits and non-operating charges

Interim dividend 7.5p per share, up 3% vs. H1 2018

Stephen Hester, RSA Group Chief Executive, commented:

"RSA is reporting a solid first half 2019. Particularly pleasing is the improvement in current year underwriting results, which represent our best first half in the last 10 years[1]. Our Personal Lines business continues to drive this performance.

While the full earned effect of underwriting, pricing and portfolio changes will show next year, at this stage we are on or ahead of schedule in each region for those planned actions. There are some headwinds from lower bond yields and weaker prior year development and we have more to do in many areas. Nevertheless, we expect to make continued progress overall."

Trading results

- Underlying profit before tax £292m (ex. exits). Statutory profit before tax £227m was impacted by exits and non-operating charges (H1 2018: £296m)
- Group operating profit £308m (ex. exits): Scandinavia £127m; Canada £50m; UK & International £155m (£127m inc. exits). Group total operating profit £280m (H1 2018: £304m)
- Underwriting profit of £181m (ex. exits). Group total underwriting profit £153m (H1 2018: £171m). Current year underwriting profit up 70% vs. H1 2018
- Group combined ratio of 94.3% (ex. exits): Scandinavia 89.1%; Canada 97.8%; UK & International 94.0%. Group combined ratio including exits 95.2%; UK & International 96.1%:
  - Group attritional loss ratio[2] improved 0.6 points vs. H1 2018 and by 1.6[2] points vs. H2 2018
  - Group weather costs 3.2% (H1 2018: 4.9%) of premiums
  - Large losses 9.6% of premiums excluding exits, total 9.9% (H1 2018: 9.7%)
  - Group prior year underwriting profit of £19m (H1 2018: £92m)

[1] Excluding UK/ London Market exit portfolios, refer to pages 30 to 38 for further information
[2] At constant FX and ex. changes in reinsurance, refer to pages 30 to 38 for further information

- Personal Lines (57%[1] of net written premiums) combined ratio was 89.9% (ex. exits), while Commercial Lines was 98.8% (ex. exits)
- Net written premiums ('NWP') of £3,254m, up 1%[2] vs. H1 2018 (down 2%[3] underlying but up c.0.5%[3] ex. exits):
  - NWP up 2%[3] in Scandinavia
  - NWP up 4%[3] in Canada
  - NWP down 8%[3] in UK & International as underwriting and rating actions take effect (exits account for c.6 points of the reduction)
- Group written controllable costs £694m (H1 2018: £697m). Earned controllable cost ratio 21.3%
- Investment income of £154m (H1 2018: £160m) down 4% as expected
- Non-operating charges include £17m for completion of the UK Legacy sale contracted in 2017 (capital accretive) and £15m of accounting impact from a reduction in the discount rate on long-term insurance liabilities in Denmark. Losses on UK/ London market exit portfolios were £28m
- Statutory profit after tax £183m (H1 2018: £245m)
- Underlying EPS 20.9p excluding exits (inc. exits: H1 2018: 21.0p; H1 2019: 18.6p), headline earnings per share 15.3p
- Interim dividend of 7.5p per ordinary share proposed, up 3% (H1 2018: 7.3p) and consistent with dividend policy.

Capital & balance sheet

- Solvency II coverage ratio of 167%[4] (31 March 2019: 164%), above 130-160% target range
- Tangible equity £2.92bn up 2% (31 March 2019: £2.88bn), 283p per share
- Underlying return on tangible equity of 15.0% excluding exits, within the 13-17% target range
- IFRS pension surplus £164m (31 December 2018: £182m). Fall in bond yields increases estimated full year 2019 capital impact of bond 'pull-to-par' to c.£70m.

Strategic and market update

- RSA's focus is on building capabilities to outperform in our markets. In that context many initiatives continue – targeted at customer service, underwriting and costs
- RSA's 2018 underwriting results declined for the first time since 2013. Consequently, our particular focus for 2019 is to progress restorative actions, whilst sustaining momentum in the large parts of our business that continued to perform well:
  - Across our Commercial Lines businesses, programmes are underway re-underwriting and re-pricing business where needed and possible, or lapsing if necessary; much of the pricing and underwriting actions targeted for 2019 have already been implemented. However, results will take more time to show the benefits we expect
  - Underwriting capabilities more broadly continue to receive intensive focus across the Group. These include more sophisticated and agile pricing models, underwriter training and portfolio discipline and technology driven insights

[1] Split for year ended 31 December 2018; [2] At constant FX
[3] At constant FX and excluding changes in reinsurance, refer to pages 30 to 38 for further information
[4] The Solvency II capital position at 30 June 2019 is estimated

- In our 2018 Preliminary Results, we confirmed London Market portfolio exits and other business lapses targeted at reducing unprofitable business and risk exposures by c.£250m vs. 2017 NWP baseline. This will have been substantially accomplished by the end of 2019 and just c.£30m of earned premium remains to run-off in H2 and c.£10m thereafter. We will continue to review market conditions in the remaining portfolios and adjust further if merited.

Market conditions

- Insurance market conditions remain competitive across our territories with significant price/ volume trade-offs. However, rate hardening and capacity adjustment is helping us re-price in Canada and in loss-making international business lines
- Financial market conditions are volatile, driven by political developments and their knock-on to monetary and economic trends. RSA is relatively well protected with conservative investment portfolios and a broad array of internationally derived profits. However, bond yields have fallen c.50bps in most of our territories in H1 2019. If sustained this will reduce future investment income in addition to its 'pull to par' impact on capital usage. FX movements also have a translation effect on RSA, costing c.2% at underwriting profit level in H1 2019 compared to the prior period.

MANAGEMENT REPORT – KEY FINANCIAL PERFORMANCE DATA

Management basis

£m (unless stated)	***H1 2019 ex. exits***	**H1 2019**	H1 2018
Profit and loss			
Group net written premiums	*3,242*	3,254	3,219
Underwriting profit ◊	*181*	153	171
Combined operating ratio ◊	*94.3%*	95.2%	94.7%
Investment result ◊	*131*	131	136
Operating result ◊	***308***	**280**	304
Profit before tax	*255*	227	296
Underlying profit before tax ◊	***292***	**264**	291
Profit after tax		183	245
Metrics			
Earnings per share (pence)		15.3p	21.8p
Underlying earnings per share (pence) ◊	***20.9p***	**18.6p**	21.0p
Interim dividend per ordinary share (pence)		7.5p	7.3p
Return on tangible equity (%)		11.0%	16.2%
Underlying return on tangible equity (%) ◊	***15.0%***	**13.4%**	15.6%

	30 June 2019	31 Dec 2018
Balance sheet		
Net asset value (£m)	3,871	3,786
Tangible net asset value (£m) ◊	2,921	2,867
Net asset value per share (pence) ◊	363p	357p
Tangible net asset value per share (pence) ◊	283p	279p
Capital		
Solvency II surplus (£bn)	1.2	1.2
Solvency II coverage ratio	167%	170%

◊ Alternative performance measures:

The Group uses Alternative Performance Measures (marked ◊ throughout), 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 30 to 38.

CHIEF EXECUTIVE'S STATEMENT

RSA has reported a solid first half performance. Our mission for 2019 is to sustain momentum in the large parts of our business that did well last year, whilst successfully improving the areas that disappointed. Results for the first half show pleasing evidence to support both objectives.

Financial results

Group underwriting profit is £181m (excluding exits) and consistent with our plans. Results from current year underwriting are up strongly versus H1 2018 and our best in the last 10 years. Progress is even more marked versus H2 2018. Within these totals, attritional loss ratios have improved. Weather losses are also lower but offset by weaker prior year development as 2018 actuarial estimates were refined. Cost discipline remained strong. Our Personal Lines results are excellent, while Commercial Lines need more time to see results improve as targeted and were particularly impacted by prior year 'true-ups'.

Underlying EPS (excluding exits) is 21p per share as lower investment income dampens the robust underwriting profit. Underlying return on tangible equity is 15% (excluding exits).

Customer focus & market conditions

RSA's focus is on serving both customers and shareholders well, consistently improving our capabilities in order to do better for both constituencies. In H1 2019 our customer volumes grew, with strong retention and satisfaction indices, in our international Personal Lines businesses where profitability is also strong. In our Commercial Lines businesses, planned exits and underwriting/ pricing action is reducing volumes but targets a stronger, more sustainable business going forward.

Insurance market conditions remain competitive, though business lines facing industrywide profitability challenges are seeing stronger pricing trends. The insurance industry is also exposed to investment returns, particularly bond yields. Sharp falls in yields year to date across most markets therefore represent a future headwind.

Regional progress

A critical task for RSA is to achieve better and more consistent performance from our UK & International region. We are pleased to report that current year underwriting profits more than doubled and that the H1 combined ratio (ex. exits) was 94.0%, with on-target UK results and helped by unusually strong Ireland and Middle East performance. There is much more to do, in particular to finish the year without the level of London Market losses that cost dearly in 2017/ 2018. In that context, our business exits and other underwriting actions are on track. It will still take some years to get the business to our ambitions for it but our new management team in this division have made a strong start.

RSA's international businesses continue to perform strongly, driven particularly by Personal Lines. In Canada underwriting profits rose substantially (although less than planned due to another tough winter). Extensive pricing and underwriting actions market-wide are expected to continue the improvement. Commercial Lines remains a challenged area, although we target better H2 results.

RSA's flagship Scandinavian business continues to perform well though not yet in line with our ambitions. Sweden overall and Danish Personal Lines remain the outstanding performers, with Norway much improved from last year. Danish Commercial Lines remains weak, with continuing underwriting action required.

Outlook

Our objectives for the year are unchanged. We will strive to finish 2019 with significant performance gains versus 2018 and evidence carry forward into 2020 of further improvement potential still. Our business will experience challenges from external events not least; we will work hard to meet them with resilience and positive ambition.

Stephen Hester
Group Chief Executive
31 July 2019

MANAGEMENT REPORT

SEGMENTAL INCOME STATEMENT

Management basis – 6 months ended 30 June 2019

	Scandi -navia £m	Canada £m	*UK&I ex. exits £m*	*UK&I exit portfolios[1] £m*	UK&I total £m	Central functions £m	***Group ex. exits £m***	**Group HY19 £m**	**Group HY18 £m**
Net written premiums	**1,039**	**768**	***1,399***	***12***	**1,411**	**36**	***3,242***	**3,254**	**3,219**
Net earned premiums	879	835	*1,442*	*57*	1,499	(4)	*3,152*	3,209	3,212
Net incurred claims	(632)	(591)	*(865)*	*(59)*	(924)	(13)	*(2,101)*	(2,160)	(2,148)
Commissions	(27)	(103)	*(268)*	*(16)*	(284)	-	*(398)*	(414)	(423)
Operating expenses	(124)	(122)	*(223)*	*(10)*	(233)	(3)	*(472)*	(482)	(470)
Underwriting result ◊	**96**	**19**	***86***	***(28)***	**58**	**(20)**	***181***	**153**	**171**
Investment income	44	34	*76*	-	76	-	*154*	154	160
Investment expenses	(1)	(2)	*(4)*	-	(4)	-	*(7)*	(7)	(7)
Unwind of discount	(12)	(1)	*(3)*	-	(3)	-	*(16)*	(16)	(17)
Investment result ◊	**31**	**31**	***69***	***-***	**69**	**-**	***131***	**131**	**136**
Central expenses	-	-	-	-	-	(4)	*(4)*	(4)	(3)
Operating result ◊	**127**	**50**	***155***	***(28)***	**127**	**(24)**	***308***	**280**	**304**
Interest								(16)	(13)
Other non-operating charges								(37)	5
Profit before tax								**227**	**296**
Tax								(44)	(51)
Profit after tax								**183**	**245**
Non-controlling interest								(13)	(10)
Other equity costs[2]								(12)	(12)
Net attributable profit ◊								**158**	**223**
Loss ratio (%)	71.9	70.8	*59.9*		61.6		*66.6*	67.3	*66.9*
Weather loss ratio	*0.9*	*7.2*	*1.8*		2.3		*3.0*	*3.2*	*4.9*
Large loss ratio	*8.5*	*8.9*	*9.9*		10.6		*9.6*	*9.9*	*9.7*
Current year attritional loss ratio ◊	*63.8*	*56.2*	*48.4*		48.5		*54.9*	*54.9*	*55.3*
Prior year effect on loss ratio	*(1.3)*	*(1.5)*	*(0.2)*		0.2		*(0.9)*	*(0.7)*	(3.0)
Commission ratio (%)	3.1	12.3	*18.6*		18.9		*12.7*	12.9	13.2
Expense ratio (%)	14.1	14.7	*15.5*		15.6		*15.0*	15.0	14.6
Combined ratio (%)◊	**89.1**	**97.8**	***94.0***		**96.1**		***94.3***	**95.2**	**94.7**
Controllable expense ratio (%)[3] ◊	22.0	17.6	*22.9*		22.8		*21.3*	21.3	21.2

Notes:

UK & International comprises the UK (and European branches), Ireland and Middle East. Refer to page 26 for comparatives.

[1] *Exit portfolios in UK & International which will substantially run-off over the course of 2019*
[2] *Preference dividends of £5m and coupons of £7m paid on Restricted Tier 1 securities*
[3] *On an earned basis*

Premiums

Net written premiums ('NWP') of £3,254m were up 1% in the period at constant FX. Underlying premiums were down 2%[1] when adjusted for reinsurance changes but grew c.0.5%[1 2] excluding the exit portfolios.

Group retention increased to 80.7% in the period (H1 2018: 80.3%). In Personal Lines, we are pleased to report improvements in Scandinavia, the UK and Johnson, our direct business in Canada. In Commercial Lines, retention was up in Scandinavia but down in the UK and Canada, where we are taking the most rating and underwriting action.

Regional trends for H1 2019 include:

- Scandinavian premiums were up 1% or up 2% excluding changes in reinsurance, both at constant FX. Personal Lines premiums grew 3%[1 3] and this was driven by Sweden and Denmark, our most attractive markets. Both rate and retention contributed and policies-in-force ('PIFs') grew. Premiums were up 3%[1] in Commercial Lines. Rate was ahead of plan and the same period last year but was dampened by a reduction in volumes as higher retention was more than offset by lower new business
- Premiums grew 3% in Canada and 4% excluding changes in reinsurance, both at constant FX. This was driven by an 8%[1] increase in Personal Lines. We achieved high single-digit rate and hard market conditions meant that retention remained strong at 90% for Johnson. Overall, PIFs were up 1% and Johnson continued to grow organically. Premiums in Commercial Lines decreased by 5%[1] where a reduction in volumes was partly offset by strong rate. Lower volumes were driven by targeted lapses and were in line with our plans
- Premiums were down 9% in the UK & International region and 8% excluding changes in reinsurance, both at constant FX. Exits accounted for c.6 points of the reduction. UK Personal Lines premiums were down 12% in the period, with exits driving c.2 points of the reduction; Household was down 13% with the sale of Oak Home accounting for c.5 points of the reduction. Importantly, we have continued to achieve good rate increase through our Household book. Motor and Pet premiums also decreased. Commercial Lines premiums were down 8%[1] excluding reinsurance changes, but up c.2%[1 2] excluding exits. Rate was positive in all major lines of business, although retention and new business were both impacted. Premiums in Ireland increased by 7%[1] helped by strong new business in Personal Motor. In the Middle East, premiums were down 6%[1] largely due to lower volumes in Commercial Lines and rating pressure in Personal Lines
- Net written premiums in the UK/ London Market exit portfolios were £12m. Net earned premiums were higher at £57m reflecting the ongoing run-off of exposures. A further c.£30m of premiums are expected to be earned out in H2, with this reducing significantly to c.£10m in 2020.

More detail is provided in the regional reviews on pages 14 to 19.

[1] *At constant FX and excluding changes in reinsurance, refer to pages 30 to 38 for further information*
[2] *Excluding UK/ London Market exit portfolios, refer to pages 30 to 38 for further information*
[3] *Excluding a one-off adjustment in Swedish Personal Accident in Q1 2018*

Underwriting result

Total Group underwriting result:

	Current year UW ◊		Prior year UW ◊		Total UW result ◊	
£m	**H1 2019**	**H1 2018**	**H1 2019**	**H1 2018**	**H1 2019**	**H1 2018**
Scandinavia	87	95	9	17	96	112
Canada	6	(29)	13	25	19	(4)
UK & International	61	27	(3)	45	58	72
UK & International ex. exits	*82*		*4*		*86*	
Central functions	(20)	(14)	-	5	(20)	(9)
Total Group	**134**	**79**	**19**	**92**	**153**	**171**
Total Group ex. exits	***155***		***26***		***181***	

- The Group attritional loss ratio of 54.9% was 0.6[1] points better than H1 2018 and a pleasing 1.6[1] points better than H2. The ratio increased by 0.4[1] points in Scandinavia, mainly in Commercial Motor and Commercial Property. Action plans are in place to address this for both lines of business. In Canada, the attritional loss ratio improved by 2.0 points and was better across all major lines. Pleasingly, Personal Auto was 1.5 points better as rate and claims initiatives started to impact. The UK & International attritional loss ratio improved by 1[1] point compared to H1 last year. In the UK, improvements in Household and Pet were partly offset by an increase in Motor. In particular, Household improved by 5 points reflecting the actions taken to address the 'escape of water' claims inflation issue which presented in H2 2017
- Weather losses amounted to £103m or 3.2% of net earned premiums (H1 2018: 4.9%; five year average: 3.1%[2]). While weather was only marginally higher than our plans at a Group level, Canada experienced another period of heavy losses. Insured damage for catastrophic weather events across Canada was $0.6bn[3] for the industry. Spring floods in Quebec, Ontario and New Brunswick followed a severe winter and cost more than $0.2bn[3]
- Large losses were £316m or 9.9% of net earned premiums (H1 2018: 9.7%; five year average: 9.6%[2]). This was 9.6% excluding UK exit portfolios. Scandinavia increased by 0.5 points mainly due to a Danish Commercial Property fire which added 1.2 points. Large losses increased by 2 points in Canada, mainly in Household and Commercial Property. The UK & International was 0.7 points better in H1
- Reinsurance: The retentions were not reached on the Group Volatility Cover ('GVC') or the new regional aggregate covers in H1 2019. The percentage retention reached for each of our covers was as follows: GVC 17%; Scandinavia 78%; Canada large 51%; Canada catastrophe 79%; UK 22%. Please see page 25 for further details of the relevant covers.

Group prior year profit of £19m provided a 0.9 point benefit excluding exits (0.7% inc. exits; H1 2018: 3.0 points) to the combined ratio. Q1 was flat, while Q2 was broadly in line with our planning assumptions. The first half included positive development from each region, excluding the exit portfolios in the UK & International region which incurred negative development of £7m. The principal 'swing item' was negative prior year development in Commercial Lines on the 2018 accident year as actuarial estimates were refined.

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 at c.5% of best estimate claims reserves.

[1] Excluding changes in reinsurance, refer to pages 30 to 38 for further information
[2] 2014 to 2018; [3] Source: Catastrophe Indices & Quantification Inc.

Underwriting operating expenses

The Group underwriting expense ratio of 15.0% increased as expected, despite flat costs. This was due to UK business exits and meant that the ratio was 0.4 points higher than H1 2018. Scandinavia improved by 0.2 points and Canada improved by 0.8 points, although the latter was helped by certain timing differences. The expense ratio in UK & International increased by 1.4 points, or 1.0 points excluding exit portfolios. This was in line with expectations and reflected the contraction in premiums. We expect to commence a further UK focused cost programme in H2 to address this.

Commissions

The Group commission ratio of 12.9% decreased by 0.3 points (H1 2018: 13.2%), mainly due to a lower proportion of Commercial Lines in the business mix.

Investment result

The investment result was £131m (H1 2018: £136m) with investment income of £154m (H1 2018: £160m), investment expenses of £7m (H1 2018: £7m) and the liability discount unwind of £16m (H1 2018: £17m).

Investment income was down 4% on prior year, primarily reflecting the impact of reinvestment at lower yields which was partially offset by increased income from actions taken on the portfolios to increase exposure to less liquid credit investments. The average book yield across our major bond portfolios was 2.2% (H1 2018: 2.3%).

Based on current forward bond yields and FX rates, for H2 2019 we project investment income of c.£130-140m and the capital element of the bond pull-to-par of c.£40m (post tax).

Controllable costs

Group written controllable costs were £694m (H1 2018: £697m). This comprised 2% cost reductions, offset by 2% inflation. Scandinavia delivered cost reductions of 4%, Canada delivered 4% and UK & International delivered 1%, all gross of inflation and at constant FX.

Group FTE[2] was 2% lower than H1 2018, despite additional resources required to support the new Scotiabank partnership in Canada. FTE is down 24% (excluding disposals) since the beginning of 2014 to 12,554 at 30 June 2019.

The earned controllable expense ratio of 21.3% was up slightly versus H1 2018 (21.2%) due to UK business exits. The ratio is down over 3[1] points since H1 2013 and our ambition of an earned controllable expense ratio of less than 20% is unchanged.

Earned controllable expense ratio: ◊	Scandinavia %	Canada %	*UK&I ex. exits %*	UK&I total %	***Group ex. exits %***	**Total Group %**
6 months ended 30 June 2019	**22.0**	**17.6**	***22.9***	**22.8**	***21.3***	**21.3**
6 months ended 30 June 2018	22.3	19.0		21.5		21.2

Non-operating items

Interest costs:

- Interest costs were £16m (£23m including the Tier 1 issuance), up from £13m in H1 2018. The increase reflects changes to lease accounting (IFRS 16), mainly on properties

[1] *At constant FX and ex. disposals (where relevant)*
[2] *Full time equivalent employees*

- Coupon costs of £7m (H1 2018: £7m) for the 2017 Tier 1 issuance are presented at the bottom of the management P&L as 'other equity costs'. Under IFRS, these are recognised in the statement of changes in equity.

Other non-operating charges:

£m	H1 2019	H1 2018
Net gains/ losses/ FX	(18)	15
Amortisation	(6)	(7)
Pension net interest cost	2	(3)
Changes in economic assumptions	(15)	-
Total	**(37)**	**5**

- Net losses of £18m in H1 2019 included a £15m contribution to Enstar Group Limited following the sanction of the Part VII transfer by the High Court of Justice of England and Wales of the UK Legacy liabilities on 13 June 2019. The completion of this transaction provided a net benefit to capital
- Changes in economic assumptions represents £15m for the accounting impact of a reduction in the discount rate on long-term insurance liabilities in Denmark.

Tax

The Group reported a tax charge of £44m for H1 2019, giving an effective tax rate ('ETR') of 20% (H1 2018: 17%). The tax charge largely comprises tax payable on overseas profits. The Group underlying tax rate for H1 2019 was 18%. This is lower than forecast for 2019 due to better UK & International results (H1 2018: 19%).

The carrying value of the Group's deferred tax assets at 30 June 2019 was £231m (31 December 2018: £234m), of which £189m (31 December 2018: £189m) are in the UK. At expected tax rates, a further c.£241m (31 December 2018: c.£261m) of deferred tax assets remain available for use but not recognised on balance sheet; these are predominantly in the UK and Ireland.

The carrying value of the Group's deferred tax liabilities at 30 June 2019 was £103m (31 December 2018: £79m), the majority of which are in Sweden and Denmark. The increase in H1 2019 is mainly due to an increase in available for sale ('AFS') investment gains in Sweden.

For 2019 as a whole, we expect the Group's ETR and underlying tax rate to be in the region of 21% and 19% respectively, subject to profit mix. In the medium term, we continue to expect the ETR and underlying rate to be in the region of 20%, given the scale of still unrecognised UK and Irish tax assets.

Dividend

We are pleased to declare an interim dividend of 7.5p per ordinary share, up 3% (H1 2018: 7.3p). Our medium-term policy of ordinary dividend payouts of between 40-50% of earnings is unchanged, 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 2019	**3,786**	**168**	**297**	**4,251**	**441**	**4,692**	**2,867**
Profit after tax	170	13	-	183	-	183	214
Foreign exchange gains net of tax	11	1	-	12	-	12	(1)
Fair value gains net of tax	156	1	-	157	-	157	156
Pension fund losses net of tax	(109)	-	-	(109)	-	(109)	(109)
Repayment of loan capital	-	-	-	-	(39)	(39)	-
Share issue	4	-	-	4	-	4	4
Share based payments	6	-	-	6	-	6	6
Prior year final dividends	(141)	(12)	-	(153)	-	(153)	(141)
Other equity costs[2]	(12)	-	-	(12)	-	(12)	(12)
Goodwill and net intangible additions	-	-	-	-	-	-	(63)
Balance at 30 June 2019	**3,871**	**171**	**297**	**4,339**	**402**	**4,741**	**2,921**
Per share (pence) ◊							
At 1 January 2019	**357**						**279**
At 30 June 2019	**363**						**283**

Tangible net assets increased by 2% to £2.9bn at 30 June 2019.

The increase was driven by profit after tax of £214m[3] and fair value mark-to-market movements of £156m, mainly reflecting tightening credit spreads and falling bond yields. Tangible net assets were reduced by payment of the 2018 final dividend (£141m), together with investment of £63m in intangible assets which were primarily IT related (net investment of £19m after amortisation of £44m shown as part of profit).

The pension schemes generated a loss of £109m in net asset terms and this was primarily as a result of tighter 'AA' corporate bond spreads, by which liabilities are discounted. The IAS 19 surplus at 30 June 2019 was £164m, please see page 24 for more details.

TNAV per share increased by 1% to 283p.

[1] Ordinary shareholders' funds including preference share capital of £125m
[2] Includes preference dividends of £5m and coupons of £7m paid on 2017 issued restricted tier 1 securities
[3] Adjusted for items relating to goodwill and intangible assets

CAPITAL POSITION

Solvency II position[1]:	Requirement (SCR) £bn	Eligible Own Funds £bn	Surplus £bn	Coverage %
30 June 2019	**1.7**	**2.9**	**1.2**	**167%**
31 March 2019	1.7	2.8	1.1	164%
31 December 2018	1.8	3.0	1.2	170%

The Solvency II coverage ratio[1] decreased to 167% during the period:

	%
At 1 January 2019	**170**
Underlying capital generation	13
Net capital investment	(1)
Impact of pension contributions (paid annually in Q1)	(4)
Pull-to-par on unrealised bond gains	(2)
Exit losses	(2)
Notional dividend[2]	(7)
Market movements (including IAS 19) and other	-
At 30 June 2019	**167**

Please refer to appendix (page 23) for further Solvency II details (including sensitivities).

[1] The Solvency II capital position at 30 June 2019 is estimated
[2] Represents 6 months' accrual of a 'notional' dividend amount for the year

REGIONAL REVIEW – SCANDINAVIA

Management basis

	Net written premiums H1 2019 £m	H1 2018 £m	Change CFX %	Underwriting results H1 2019 £m	H1 2018 £m	Change CFX %
Split by country						
Sweden	556	577	1	115	113	6
Denmark	412	409	2	(12)	14	(193)
Norway	71	71	2	(7)	(15)	55
Total Scandinavia	**1,039**	**1,057**	**1**	**96**	**112**	**(11)**
Split by class						
Household	183	186	1			
Personal Motor	200	198	4			
Personal Accident & Other	184	193	(1)			
Total Scandinavia Personal	**567**	**577**	**1**	**109**	**114**	**-**
Policy count change			*0.3*			
Property	196	199	1			
Liability	96	97	1			
Commercial Motor	128	130	2			
Other	52	54	(2)			
Total Scandinavia Commercial	**472**	**480**	**1**	**(13)**	**(2)**	**(656)**
Volume change			*(3)*			
Total Scandinavia	**1,039**	**1,057**	**1**	**96**	**112**	**(11)**
Investment result				31	35	(10)
Scandinavia operating result				**127**	**147**	**(11)**

Operating ratios (%)	Claims H1 2019	Claims H1 2018	Commission H1 2019	Commission H1 2018	Expenses H1 2019	Expenses H1 2018	Combined H1 2019	Combined H1 2018
Scandinavia Personal	**63.8**	62.4	**3.1**	3.0	**12.1**	12.9	**79.0**	78.3
Scandinavia Commercial	**83.8**	80.1	**3.1**	4.0	**16.9**	16.3	**103.8**	100.4
Total Scandinavia	**71.9**	69.8	**3.1**	3.5	**14.1**	14.3	**89.1**	87.6
Earned controllable expense ratio	*22.0*	*22.3*						
Claims ratio:			*5 year average*					
Weather loss ratio	*0.9*	*0.5*	*0.7*					
Large loss ratio	*8.5*	*8.0*	*6.1*					
Current year attritional loss ratio	*63.8*	*63.0*						
Prior year effect on loss ratio	*(1.3)*	*(1.7)*						

SCANDINAVIA

Scandinavia delivered operating profit of £127m, down 11%[1]. The combined ratio of 89.1% was 1.5 points higher than the first half last year. Personal Lines remained excellent with a combined ratio of 79% despite higher weather losses and lower (but still favourable) prior year development. Commercial Lines increased by 3.4 points to a combined ratio of 103.8%. Higher weather, large and attritional losses all contributed and Property was the most impacted.

Net written premiums of £1,039m increased by 1% at constant FX or 2%[2] on an underlying basis. Personal Lines premiums were up 1%[2] or 3%[2] [3] excluding a one-off adjustment in H1 last year. Swedish Personal Lines premiums grew 3%[2] [3] and Household, Motor and Personal Accident were all up. This was driven by mid-single digit rate and higher retention (up 0.4 points to 85.8%) which translated to an increase in policies-in-force ('PIFs'). Danish Personal Lines premiums increased by 4%[2] and both rate and retention contributed. PIFs grew in all lines of business.

Net written premiums increased by 3%[2] in Commercial Lines. Rate was ahead of plan and H1 last year in all lines of business but was dampened by a 3% reduction in volumes. Higher retention was more than offset by lower new business where action to improve performance in Motor and Property began to impact premiums.

Customer metrics continue to improve. An 'effortless' measure determines and tracks how seamless customer interactions are against defined targets. Swedish Personal Lines reported a score of 68%, close to target and up 6 points since Q2 last year. Danish Claims reported a score of 80% (up 10 points) and an NPS[4] of +57. Best-in-class metrics have been helped by strong call centre availability (92%) and an increase in digital claims notifications to 23% (up 10 points). Overall, retention improved to 85% (H1 2018: 82%) and was better in all countries.

Large losses of 8.5% were above the five year average of 6.1% (H1 2018: 8.0%) and driven by Denmark. While we saw some increase in frequency, our independent reviews to date indicate that the risks were appropriately underwritten. One Danish Commercial Property fire, which was first insured more than 10 years ago, added 1.2 points to the large loss ratio. The attritional loss ratio of 63.8% increased by 0.8 points or 0.4 points excluding the impact of 2019 reinsurance changes. This was driven by Danish Commercial Lines, primarily the Motor and Property books. Action plans are in place for both and include re-pricing, re-underwriting and reducing capacity.

Written controllable expenses were down 2%[1] in H1 2019, with 4% cost reductions offset by 2% inflation. The earned controllable cost ratio of 22.0% improved by 0.3 points, helped by a 2%[1] reduction in staff related costs. Written premium per FTE increased by 8% in Q2 2019 compared to the same period last year. We are investing in important areas such as pricing sophistication, data analytics, the IT hub in Malmö and a talent acquisition hub.

Geographically, Sweden generated an underwriting profit of £115m (H1 2018: £108m[1]) and a combined ratio of 77.3% (H1 2018: 77.9%). Lower large losses, more favourable prior year development and lower expenses were partly offset by higher weather losses. Denmark reported an underwriting loss of £12m (H1 2018: £14m[1] profit) and a combined ratio of 104% (H1 2018: 95.7%). There was adverse prior year development in Personal Lines but the result was driven by our unusually poor Danish Commercial Lines performance with higher attritional and large losses, notably in Motor (attritional only) and Property. The underwriting loss in Norway of £7m more than halved, driven by improvement in the loss ratio of nearly 11 points.

[1] *At constant FX*
[2] *At constant FX and excluding changes in reinsurance, refer to pages 30 to 38 for further information*
[3] *Excluding a one-off adjustment in Swedish Personal Accident in Q1 2018*
[4] *Net Promoter Score*

REGIONAL REVIEW – CANADA

Management basis

	Net written premiums H1 2019 £m	H1 2018 £m	Change CFX %	Underwriting result H1 2019 £m	H1 2018 £m	Change CFX %
Household	217	202	6			
Personal Motor	329	297	8			
Total Canada Personal	**546**	**499**	**7**	**33**	**(14)**	**329**
Policy count change			*1*			
Property	85	89	(6)			
Liability	44	49	(12)			
Commercial Motor	68	69	(3)			
Marine & Other	25	23	4			
Total Canada Commercial	**222**	**230**	**(5)**	**(14)**	**10**	**(237)**
Volume change			*(15)*			
Total Canada	**768**	**729**	**3**	**19**	**(4)**	**568**
Investment result				31	29	7
Canada operating result				**50**	**25**	**95**

Operating ratios (%)	Claims H1 2019	Claims H1 2018	Commission H1 2019	Commission H1 2018	Expenses H1 2019	Expenses H1 2018	Combined H1 2019	Combined H1 2018
Canada Personal	**69.6**	76.2	**10.3**	11.0	**14.6**	15.4	**94.5**	102.6
Canada Commercial	**73.6**	61.7	**17.3**	18.5	**14.7**	15.6	**105.6**	95.8
Total Canada	**70.8**	71.7	**12.3**	13.3	**14.7**	15.5	**97.8**	100.5
Earned controllable expense ratio	17.6	19.0						

			5 year average
Claims ratio:			
Weather loss ratio	*7.2*	*10.0*	*4.7*
Large loss ratio	*8.9*	*6.9*	*6.4*
Current year attritional loss ratio	*56.2*	*58.2*	
Prior year effect on loss ratio	*(1.5)*	*(3.4)*	

CANADA

Canada delivered operating profit of £50m for H1 2019, almost twice that of H1 last year. The combined ratio improved by 2.7 points to 97.8%. Personal Lines improved by over 8 points to 94.5%, despite another heavy period for weather losses. The combined ratio in Commercial Lines was disappointing and increased by almost 10 points due to higher weather and large losses and significantly lower (but still favourable) prior year development.

Net written premiums of £768m increased by 3% at constant FX or 4%[1] on an underlying basis. This was driven by growth of 8%[1] in Personal Lines in H1. We applied rate of just over 7% in Personal Auto, notwithstanding the rate cap of 5% in Alberta, while we applied nearly 10% in Household. This helped to combat ongoing and significant claims inflation and build an allowance for heavier weather losses expected as a result of climate change. Hard market conditions meant that retention remained strong at 90% for Johnson, our direct business. Personal broker reported a 4 point decrease to 85%; this was in line with our plans and reflected targeted actions to improve profitability. Overall, policies-in-force were up 1% and Johnson continued to grow organically (9%). We commenced writing new business for Scotiabank in April and renewals followed in July. Premiums in Commercial Lines decreased by 5%[1] where a 15% reduction in volumes was partly offset by rate of almost 10%. Lower volumes were in line with our plans and mainly driven by targeted lapses. We expect to continue to prioritise profitability over volume in the second half.

Our customer metrics continue to report well, although rating action impacted in H1. Johnson sales and service NPS was +42 in Q2, with first contact resolution for inbound calls at 94%. The Q2 'voice of the broker' survey scored the ease of doing business with us at 75%. User adoption rates for 'RSA Pro' (our online quote and bind tool for SMEs) continue to increase and feedback has been positive.

While the weather loss ratio reduced by 2.8 points to 7.2%, it was again elevated relative to the five year average of 4.7%. At an industry level, insured damage for catastrophic losses was around $0.6bn[2] in H1. Spring floods in Quebec, Ontario and New Brunswick followed a severe Q1 and cost more than $208m[2]. Household and Commercial Property were our most impacted books and one loss added 2.3 points to the Commercial Lines combined ratio. The large loss ratio of 8.9% was 2 points above the five year average and the increase was mainly in Household and Commercial Property.

The attritional loss ratio of 56.2% improved by 2 points in H1 2019 and was better across all major lines of business. Pleasingly, Personal Auto improved by 1.5 points as rate and claims initiatives started to take effect. We expect to continue to apply rate in H2, subject to regulatory approval.

H1 was a busy period from a technology perspective. Guidewire Claims is now full deployed across the business and our new Claims Portal is live for Personal Broker, with Johnson expected to follow in Q3. Radar Live is fully deployed in all major lines and is improving the speed and efficacy of our non-regulatory rate filings.

Written controllable expenses of £147m were 2%[3] lower than H1 last year, with 4% cost reductions absorbing 2% inflation. Savings in staff costs were partly offset by higher software amortisation charges and IT costs reflecting capability investments. The earned controllable expense ratio of 17.6% was 1.4 points lower than H1 last year and was better than our plans. This ratio is likely to increase in H2 as certain timing differences unwind. Productivity improved with a 10% increase in written premiums per FTE in June 2019 compared to June 2018.

[1] At constant FX and excluding changes in reinsurance, refer to pages 30 to 38 for further information
[2] Source: Catastrophe Indices and Quantification Inc.; [3] At constant FX

REGIONAL REVIEW – UK & INTERNATIONAL

Management basis

	Net written premiums			Underwriting result		
	H1 2019 Ex. exits £m	H1 2019 Total £m	H1 2018 Total £m	*H1 2019 Ex. exits £m*	H1 2019 Total £m	H1 2018 Total £m
Household	*273*	273	313			
Personal Motor	*93*	93	113			
Pet	*122*	122	130			
Total UK Personal	***488***	**488**	**556**	***8***	**2**	**(11)**
Policy count change ex. exits	*(3)*					
Property	*268*	276	288			
Liability	*154*	156	147			
Commercial Motor	*89*	88	91			
Marine & Other	*137*	140	197			
Total UK Commercial	***648***	**660**	**723**	***34***	**12**	**50**
Volume change ex. exits	*-*					
Total UK	***1,136***	**1,148**	**1,279**	***42***	**14**	**39**
Ireland	*160*	160	151	*26*	26	19
Middle East	*103*	103	102	*18*	18	14
Total UK & International	***1,399***	**1,411**	**1,532**	***86***	**58**	**72**
Investment result				*69*	69	72
UK & International operating result				***155***	**127**	**144**

Operating ratios (%)	**Claims**		**Commission**		**Expenses**		**Combined**	
	H1 2019	H1 2018	**H1 2019**	H1 2018	**H1 2019**	H1 2018	**H1 2019**	H1 2018
Total UK Personal	**60.2**	64.1	**20.9**	19.7	**18.6**	18.1	**99.7**	101.9
UK Personal ex. exits							*98.7*	
Total UK Commercial	**66.3**	62.3	**19.2**	20.1	**12.7**	10.8	**98.2**	93.2
UK Commercial ex. exits							*94.6*	
Total UK	**63.6**	63.1	**19.9**	19.9	**15.4**	14.0	**98.9**	97.0
UK ex. exits							*96.5*	
Ireland	57.3	63.3	11.9	11.5	14.1	12.5	83.3	87.3
Middle East	43.7	47.0	17.2	17.7	20.8	20.2	81.7	84.9
Total UK & International	**61.6**	**62.1**	**18.9**	**19.0**	**15.6**	**14.2**	**96.1**	**95.3**
UK & International ex. exits	*59.9*		*18.6*		*15.5*		*94.0*	

Earned controllable expense ratio	22.8	21.5	*5 year average*
Claims ratio:			
Weather loss ratio	*2.3*	*4.8*	*4.6*
Large loss ratio	*10.6*	*11.3*	*12.8*
Current year attritional loss ratio	*48.5*	*49.3*	
Prior year effect on loss ratio	*0.2*	*(3.3)*	

UK & INTERNATIONAL

The UK & International region delivered an operating profit of £155m for the period (£127m including exits) and combined ratio was 94.0% (96.1% including exits).

UK

The UK reported an underwriting profit of £42m in the period and a combined ratio of 96.5%, excluding exit portfolios. This was driven by better than plan current year results offset by lower prior year development. Including exits, COR was 98.9%.

Net written premiums of £1,148m were down 10% as reported. Exits accounted for c.6 points of the reduction. Personal Lines premiums decreased by 12% in the period; Household was down 13% with the sale of Oak Home accounting for c.4 points of the reduction. Importantly, we have continued to achieve good rate increase through our Household book. Motor and Pet premiums also decreased. While retention improved, new business was down as we held our discipline on rate. Commercial Lines premiums were down 8%[1] excluding reinsurance changes, but up c.2%[1] excluding exits. Rate was positive in all major lines of business; for example, Commercial Property achieved rate of 6% and Marine achieved nearly 10%. Pricing and underwriting action taken in the period impacted retention and new business.

Weather was relatively benign in the period. The large loss ratio of 12.3% was a little better than last year and our plans. The attritional loss ratio of 47.2% was 1.3[1] points better than last year. Improvements in Household and Pet were partly offset by increases in Marine and Motor. In particular, Household was 5 points better than H1 last year as strong rate earned through. Prior year development cost £29m or 1.4% on the combined ratio (H1 2018: 3.0% benefit) as strengthening was required on the 2018 accident year. The expense ratio increased by just over 1 point as expected, savings of 1% gross of inflation were offset by the impact of contracting premiums.

Ireland and the Middle East

Ireland reported another excellent performance, generating an underwriting profit of £26m (H1 2018: £19m) on a combined ratio of 83.3% (H1 2018: 87.3%). Net written premiums increased by 7%[2] helped by strong new business in Personal Motor. Benign weather helped to reduce the combined ratio, compared to a poor weather experience in H1 last year.

The Middle East delivered an underwriting profit of £18m (H1 2018: £14m) and another record combined ratio of 81.7% (H1 2018: 84.9%). Net written premiums decreased by 6%[2] largely as a result of lower volumes in Commercial Lines and rating pressure in Personal Lines. More benign weather and a lower attritional loss ratio (down 1.6 points) helped deliver the result.

Exit portfolios

In 2018, we announced portfolio exits and changes in underwriting appetite for our London Market business. Additional exits included two UK generalist MGA schemes and certain European branch business. This was in response to challenging market conditions as well as our own strategic reassessment. The total net written premium we targeted for exit was c.£250m against a 2017 baseline, of which substantially all has been implemented.

The underwriting loss from these portfolios was £28m for the period. Net written premiums were £12m. Net earned premiums were higher at £57m reflecting the ongoing run-off of exposures. A further c.£30m of exited premiums are expected to be earned out in H2, with this reducing significantly to c.£10m in 2020.

[1] *Excluding changes in reinsurance, refer to pages 30 to 38 for further information*
[2] *At constant FX*

INVESTMENT PERFORMANCE

Management basis

Investment result	H1 2019 £m	H1 2018 £m	Change %
Bonds	113	121	(7)
Equities	18	18	-
Cash and cash equivalents	4	4	-
Property	9	10	(10)
Other	10	7	43
Investment income	**154**	**160**	**(4)**
Investment expenses	(7)	(7)	-
Unwind of discount	(16)	(17)	-
Investment result	**131**	**136**	**(4)**

Balance sheet unrealised gains (pre-tax)	30 June 2019 (£m)	31 Dec 2018 (£m)	Change %
Bonds	445	272	64
Equities	(14)	(22)	36
Other	-	-	-
Total	**431**	**250**	**72**

Investment portfolio	Value 31 Dec 2018	Foreign exchange	Mark to market	Other movements	Transfer from assets held for sale	Value 30 June 2019
	£m	£m	£m	£m	£m	**£m**
Government bonds	3,965	15	59	(365)	-	3,674
Non-Government bonds	6,505	(33)	97	325	-	6,894
Cash	788	10	-	20	-	818
Equities	205	(3)	15	-	-	217
Property	310	-	(5)	(1)	-	304
Preference shares & CIVs	534	-	-	(24)	-	510
Other	249	4	1	41	-	295
Total	**12,556**	**(7)**	**167**	**(4)**	**-**	**12,712**
Split by currency:						
Sterling	3,114					3,135
Danish Krone	1,148					1,202
Swedish Krona	2,465					2,544
Canadian Dollar	2,928					3,001
Euro	1,423					1,477
Other	1,478					1,353
Total	**12,556**					**12,712**

Credit quality – bond portfolio	Non-government		Government	
	30 June 2019 %	31 Dec 2018 %	**30 June 2019 %**	31 Dec 2018 %
AAA	45	43	63	66
AA	14	15	32	30
A	28	27	5	4
BBB	11	13	-	-
< BBB	2	2	-	-
Non-rated	-	-	-	-
Total	**100**	**100**	**100**	**100**

INVESTMENT PERFORMANCE

Investment income of £154m (H1 2018: £160m) was offset by investment expenses of £7m (H1 2018: £7m) and the liability discount unwind of £16m (H1 2018: £17m). Investment income was down on the same period last year reflecting the impact of reinvestment at lower yields which was partially offset by enhanced income from actions taken on the portfolios to increase exposure to less liquid credit investments.

The average book yield for H1 2019 on the total portfolio was 2.4% (H1 2018: 2.5%), with an average yield on the bond portfolios of 2.2% (H1 2018: 2.3%). Reinvestment rates in the Group's major bond portfolios were approximately 1.3% (H1 2018: 1.5%).

At 30 June 2019, the average duration of the Group's bond portfolios of 3.9 years was slightly higher than at year-end (31 December 2018: 3.8 years).

The investment portfolio increased by 1% during the period to £12.7bn.

At 30 June 2019, high quality widely diversified fixed income securities represented 83% of the portfolio (31 December 2018: 83%). Equities (largely REITs[1]) represented 2% (31 December 2018: 2%) and cash was 6% of the total portfolio (31 December 2018: 6%).

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.

Based on current forward bond yields and foreign exchange rates, it is estimated that investment income will be lower than our previous guidance at c.£285-295m for 2019, c.£255-275m for 2020 and c.£240-260m for 2021. The discount unwind is expected to be in the region of c.£30-35m per annum and investment expenses are expected to be c.£13m per annum.

Unrealised bond gains and pull-to-par

At 30 June 2019, balance sheet unrealised gains of £431m (pre-tax) had increased by £181m, principally driven by positive mark-to-market on bond holdings due to declining government bond yields and tightening credit spreads.

This higher opening balance, together with flattening yield curves, has meant that the predicted period of time for the AFS gain to unwind has increased since year-end. If yield curves were to stay as they are, it is now estimated that the gains would take around 7 to 8 years to fully unwind, with around 50% within the next 3 years (AFS unwind is estimated to be c.£40m post tax for H2 2019 and c.£70m for 2020, impacting capital generation by those amounts).

[1] *Real Estate Investment Trusts*

APPENDIX I

Further information

CAPITAL

Solvency II sensitivities

Coverage ratio at 30 June 2019	**167%**	
Sensitivities (change in coverage ratio):	Including pensions[1]	Excluding pensions
Interest rates: +1% non-parallel[2] shift	+10%	+8%
Interest rates: -1% non-parallel[2] 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%[3] parallel shift	-1%	-1%
Credit spreads: -0.25% parallel shift	-8%	+1%

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 2019 £bn
Shareholders' funds (including preference shares)	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	(0.5)
Basic Own Funds	**3.4**
Tiering & availability restrictions	(0.4)
Dividends	(0.1)
Eligible Own Funds	**2.9**

[1] The impact of pensions depends significantly on the opening position of the schemes and market conditions. As such, the sensitivities shown are point-in-time estimates that will vary and should not be extrapolated

[2] 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

[3] The asymmetry in credit spread sensitivities reflects the fact that upside pension sensitivities are restricted to the surplus cap.

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 2019 to 30 June 2019:

	UK £m	non-UK £m	Group £m
Net pension fund surplus/ (deficit) at 1 January 2019	**232**	**(50)**	**182**
Actuarial losses[1]	(111)	(10)	(121)
Deficit funding	86	2	88
Tax movements	5	3	8
Other movements[2]	12	(5)	7
Net pension fund surplus/ (deficit) at 30 June 2019	**224**	**(60)**	**164**

At an aggregate level, the pension fund surplus under IAS 19 fell slightly during H1 2019 from a £182m surplus at 1 January to a surplus of £164m at 30 June (net of tax).

Overall, strong asset returns and deficit funding contributions were broadly offset by tightened credit spreads. Asset values increased over the period due to strong equity returns and higher bond prices; however, this was offset by an increase in liabilities driven by lower discount rates. In particular, the schemes remain exposed to movements in AA credit spreads (as these drive the discount rate under IAS 19), which narrowed considerably over the half year.

1 *Actuarial gains/ (losses) are gross of tax and include pension investment expenses, variance against expected returns, change in actuarial assumptions and experience losses*

2 *Other movements are gross of tax and include regular contributions, service/ administration costs, expected returns, interest costs and settlement gains/ (losses)*

REINSURANCE

On 1 January 2019, the Group Volatility Cover (GVC) entered the second year of the three year agreement that commenced on 1 January 2018.

The key terms of the GVC are as follows:

- Cover protects all 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 (50% AA- or better, 41% A- or better, 9% collateralised).

Alongside the GVC and our significant underwriting actions, we purchased some new reinsurance covers in 2019 to provide additional protection for our short tail lines of business.

Firstly, we reduced several of our retentions, details below:

- Our maximum Property risk retention was reduced to £20m from a 2018 maximum of £50m
- Our non-core Catastrophe retentions were reduced to a maximum of £25m from a 2018 maximum of £50m. This reduced maximum retention applies for all territories, excluding Europe and Canada
- We recover from the new protection if we do not recover the same loss from the GVC.

Secondly, we purchased new aggregate covers for the UK, Scandinavia and Canada for losses below £10m. These covers provide protection for our short tail lines of business including Property, Marine and Construction & Engineering. Further details below:

- UK: Aggregate cover protects large losses between £3m and £10m. Cover attaches when the total of the losses in this band exceeds £58m. Limit of cover is £30m
- Scandinavia: Aggregate cover protects large losses between DKK 20m and DKK 100m and Catastrophe losses between DKK 50m and DKK 100m. Cover attaches when the total of the losses in these bands exceeds DKK 130m. Limit of cover is DKK 180m
- Canada: Aggregate cover protects large losses between C$2m and C$10m and catastrophe losses between C$5m and C$17.5m. Large loss and Catastrophe sections operate independently; cover attaches when large losses exceed C$50m or Catastrophe losses exceed C$25m. Limit of cover is C$65m which is shared across the two sections of cover.

There were no other material changes to our reinsurance retentions. Our main Catastrophe retentions remain at £75m for the UK and Europe combined, £50m for Europe excluding the UK and $75m for Canada. Our UK and Ireland Motor retentions remain at the 2018 level of £1m and €1m respectively.

SEGMENTAL INCOME STATEMENT

Management basis – 6 months ended 30 June 2018

	Scandinavia £m	Canada £m	UK & International £m	Central functions £m	**Group HY18 £m**
Net written premiums	**1,057**	**729**	**1,532**	**(99)**	**3,219**
Net earned premiums	896	771	1,548	(3)	3,212
Net incurred claims	(626)	(553)	(962)	(7)	(2,148)
Commissions	(30)	(103)	(294)	4	(423)
Operating expenses	(128)	(119)	(220)	(3)	(470)
Underwriting result □	**112**	**(4)**	**72**	**(9)**	**171**
Investment income	49	32	79	-	160
Investment expenses	(2)	(1)	(4)	-	(7)
Unwind of discount	(12)	(2)	(3)	-	(17)
Investment result □	**35**	**29**	**72**	**-**	**136**
Central expenses	-	-	-	(3)	(3)
Operating result □	**147**	**25**	**144**	**(12)**	**304**
Interest					(13)
Other non-operating charges					5
Profit before tax					**296**
Tax					(51)
Profit after tax					**245**
Non-controlling interest					(10)
Other equity costs[1]					(12)
Net attributable profit ◊					**223**
Loss ratio (%)	*69.8*	*71.7*	62.1		66.9
Weather loss ratio	*0.5*	*10.0*	4.8		4.9
Large loss ratio	*8.0*	*6.9*	11.3		9.7
Current year attritional loss ratio ◊	*63.0*	*58.2*	49.3		55.3
Prior year effect on loss ratio	*(1.7)*	*(3.4)*	(3.3)		(3.0)
Commission ratio (%)	*3.5*	*13.3*	19.0		13.2
Expense ratio (%)	*14.3*	*15.5*	14.2		14.6
Combined ratio (%)◊	***87.6***	***100.5***	**95.3**		**94.7**
Controllable expense ratio (%)[2] ◊	22.3	19.0	21.5		21.2

Notes:

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

[1] *Preference dividends of £5m and coupons of £7m paid on Restricted Tier 1 securities*
[2] *On an earned basis*

COMBINED RATIO DETAIL

Group

£m unless stated		Current year		Prior year		H1 2019 total	*H1 2019 Group ex. exits*	Current year	Prior year	H1 2018 total
Net written premiums	1	**3,229**	7	**25**	13	**3,254**	***3,242***	**3,190**	**29**	**3,219**
Net earned premiums	2	3,193	8	16	14	3,209	*3,152*	3,195	17	3,212
Net incurred claims	3	(2,171)	9	11	15	(2,160)	*(2,101)*	(2,233)	85	(2,148)
Commissions	4	(408)	10	(6)	16	(414)	*(398)*	(413)	(10)	(423)
Operating expenses	5	(480)	11	(2)	17	(482)	*(472)*	(470)	-	(470)
Underwriting result ◊	6	**134**	12	**19**	18	**153**	***181***	**79**	**92**	**171**
CY attritional claims	19	(1,752)					*(1,723)*	(1,768)		
Weather claims	20	(103)					*(95)*	(155)		
Large losses	21	(316)					*(301)*	(310)		
CY net incurred claims	22	(2,171)					*(2,119)*	(2,233)		
Loss ratio (%)				=15 / 14	23	67.3	*66.6*			*66.9*
Weather loss ratio				=20 / 2	24	*3.2*	*3.0*			*4.9*
Large loss ratio				=21 / 2	25	*9.9*	*9.6*			*9.7*
Current year attritional loss ratio ◊				=19 / 2	26	*54.9*	*54.9*			*55.3*
Prior year effect on loss ratio				=23 - 24 - 25 - 26	27	*(0.7)*	*(0.9)*			*(3.0)*
Commission ratio (%)				=16 / 14	28	12.9	*12.7*			13.2
Expense ratio (%)				=17 / 14	29	15.0	*15.0*			14.6
Combined ratio (%)◊				=23 + 28 + 29	30	**95.2**	***94.3***			**94.7**

Scandinavia

£m unless stated	Current year	Prior year	H1 2019 total	Current year	Prior year	H1 2018 total
Net written premiums	**1,044**	**(5)**	**1,039**	**1,051**	**6**	**1,057**
Net earned premiums	883	(4)	879	890	6	896
Net incurred claims	(647)	15	(632)	(637)	11	(626)
Commissions	(27)	-	(27)	(30)	-	(30)
Operating expenses	(122)	(2)	(124)	(128)	-	(128)
Underwriting result	**87**	**9**	**96**	**95**	**17**	**112**
CY attritional claims	(564)			(561)		
Weather claims	(8)			(5)		
Large losses	(75)			(71)		
Net incurred claims	(647)			(637)		
Loss ratio (%)			71.9			69.8
Weather loss ratio			*0.9*			*0.5*
Large loss ratio			*8.5*			*8.0*
Current year attritional loss ratio			*63.8*			*63.0*
Prior year effect on loss ratio			*(1.3)*			*(1.7)*
Commission ratio (%)			3.1			3.5
Expense ratio (%)			14.1			14.3
Combined ratio (%)			**89.1**			**87.6**

COMBINED RATIO DETAIL

Canada

£m unless stated	Current Year	Prior year	**H1 2019 total**	Current year	Prior year	**H1 2018 total**
Net written premiums	**768**	**-**	**768**	**729**	**-**	**729**
Net earned premiums	835	-	835	771	-	771
Net incurred claims	(604)	13	(591)	(578)	25	(553)
Commissions	(103)	-	(103)	(103)	-	(103)
Operating expenses	(122)	-	(122)	(119)	-	(119)
Underwriting result	**6**	**13**	**19**	**(29)**	**25**	**(4)**
CY attritional claims	(469)			(448)		
Weather claims	(60)			(77)		
Large losses	(75)			(53)		
Net incurred claims	(604)			(578)		
Loss ratio (%)			70.8			71.7
Weather loss ratio			*7.2*			*10.0*
Large loss ratio			*8.9*			*6.9*
Current year attritional loss ratio			*56.2*			*58.2*
Prior year effect on loss ratio			*(1.5)*			*(3.4)*
Commission ratio (%)			12.3			13.3
Expense ratio (%)			14.7			15.5
Combined ratio (%)			**97.8**			**100.5**

UK&I

£m unless stated	Current year	Prior year	**H1 2019 total**	***H1 2019 ex. exits***	Current year	Prior year	**H1 2018 total**
Net written premiums	**1,382**	**29**	**1,411**	***1,399***	**1,508**	**24**	**1,532**
Net earned premiums	1,480	19	1,499	*1,442*	1,537	11	1,548
Net incurred claims	(908)	(16)	(924)	*(865)*	(1,006)	44	(962)
Commissions	(278)	(6)	(284)	*(268)*	(284)	(10)	(294)
Operating expenses	(233)	-	(233)	*(223)*	(220)	-	(220)
Underwriting result	**61**	**(3)**	**58**	***86***	**27**	**45**	**72**
CY attritional claims	(719)			*(690)*	(758)		
Weather claims	(34)			*(26)*	(74)		
Large losses	(155)			*(140)*	(174)		
CY net incurred claims	(908)			*(856)*	(1,006)		
Loss ratio (%)			61.6	*59.9*			62.1
Weather loss ratio			*2.3*	*1.8*			*4.8*
Large loss ratio			*10.6*	*9.9*			*11.3*
Current year attritional loss ratio			*48.5*	*48.4*			*49.3*
Prior year effect on loss ratio			*0.2*	*(0.2)*			*(3.3)*
Commission ratio (%)			18.9	*18.6*			19.0
Expense ratio (%)			15.6	*15.5*			14.2
Combined ratio (%)			**96.1**	***94.0***			**95.3**

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 useful to enhance the understanding of its performance and allow meaningful comparisons between periods and business segments.

The APMs reported are monitored consistently across the Group to manage performance on a monthly basis. They are reviewed across various functions and levels and undergo rigorous internal quality assurance. Occasionally management may also report additional or adjusted APMs when circumstance requires to further enhance understanding. In 2019 alternative performance measures have been included to show the financial results after the impact of the significant portfolio exits undertaken in the UK business and new reinsurance programmes. 2018 comparatives have not been provided given that the UK business was not managed on this basis during 2018.

APMs are identifiable within Group tables by the symbol ◊, and are defined in the below jargon buster. Further definition, commentary and outlook of those APMs considered important in measuring the delivery of the Group's strategic priorities can be found on pages 22 and 23 of the Annual Report and Accounts 2018. Detailed reconciliations of APMs to their nearest IFRS Income Statement equivalents and adjusted APMs can be found after the below jargon buster. APMs used to determine management and executive remuneration are identified below with ◊*.

JARGON BUSTER

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.	◊	1	R
Available for Sale (AFS)	A class of financial asset that is neither held for trading nor held to maturity.			
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.	◊	1	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	◊*	1	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	
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	
Current Year Underwriting Result	The profit or loss earned from business for which insurance cover has been provided during the current financial period.	◊	1	Q

Term	Definition	APM	Reconciliation	
Ex. Exits	Excluding exits refers to financial results adjusted for the impact of London Market portfolio exits and other UK business lapses announced, targeted at reducing unprofitable business and risk exposures		7	
Expense Ratio	Underwriting and policy expenses expressed as a percentage of net earned premium.	◊	1	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.			
Group Volatility Cover (GVC)	Reinsurance purchased by the Group to protect against large losses. Individual losses are covered in full when they exceed a certain amount and the aggregate of such losses over the financial year exceed an agreed limit.			
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.			
Interest Costs	Interest costs represent the cost of Group debt excluding any debt buy back costs.	◊	1	O
Investment Result	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.	◊	1	AA
Large Losses	Single claim or all claims arising from a single loss event with a net cost of £0.5m or higher.			
Large Loss Ratio	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.	◊	1	T
Managing General Agent (MGA)	A specialised type of insurance agent or broker that has been granted underwriting authority by an insurer and can negotiate contracts on behalf of the insurer.			
Net Asset Value (NAV) per Share	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.	◊	3	E
Net Earned Premium (NEP)	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.			
Net Incurred Claims (NIC)	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.			
Net Written Premium (NWP)	Premium written or processed in the period, irrespective of whether it has been paid, less the amount shared with reinsurers.			

<table>
<tr><th>Term</th><th colspan="2">Definition</th><th>APM</th><th colspan="2">Reconciliation</th></tr>
<tr><td rowspan="7">Non-Operating Charges</td><td colspan="2">Non-operating charges represent items that are excluded to arrive at operating profit and underlying profit measures.</td><td>◊</td><td>1</td><td>AD</td></tr>
<tr><td>Item</td><td>Reason for classification</td><td rowspan="6">◊</td><td rowspan="6">1</td><td rowspan="6">AD</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>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>Gains and losses arising from the disposal of businesses and impairment of goodwill</td><td>To allow assessment of the performance of ongoing business activities</td></tr>
<tr><td>Economic assumption changes</td><td>To allow assessment of performance excluding impact of a change in economic assumptions</td></tr>
<tr><td>Operating Profit</td><td colspan="2">Operating profit is profit before tax less non-operating charges.</td><td>◊</td><td>1</td><td>AC</td></tr>
<tr><td>Payout Ratio</td><td colspan="2">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 colspan="2">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 colspan="2">Updates to premium, claims, commission and expense estimates relating to prior years.</td><td>◊</td><td>1</td><td>P</td></tr>
<tr><td>Property and Casualty (P&C)
(Non-Life Insurance or General Insurance)</td><td colspan="2">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.</td><td></td><td></td><td></td></tr>
<tr><td>Prudential Regulation Authority (PRA)</td><td colspan="2">The regulatory authority with responsibility for the prudential regulation and supervision of the UK financial services industry.</td><td></td><td></td><td></td></tr>
<tr><td>Pull to Par</td><td colspan="2">The movement of a bond's price toward its face value as it approaches its maturity date.</td><td></td><td></td><td></td></tr>
<tr><td>Rate</td><td colspan="2">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.</td><td></td><td></td><td></td></tr>
<tr><td>Reinsurance</td><td colspan="2">The practice whereby part or all of the risk accepted is transferred to another insurer (the reinsurer).</td><td></td><td></td><td></td></tr>
<tr><td>Reported Exchange (RFX)</td><td colspan="2">Prior period comparative translated at exchange rates applicable at that time.</td><td></td><td></td><td></td></tr>
<tr><td>Return on Equity</td><td colspan="2">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).</td><td>◊</td><td>2</td><td>F</td></tr>
</table>

Term	Definition	APM	Reconciliation	
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
Underwriting Result	A measure of underwriting performance calculated as net earned premium less net claims and underwriting and policy acquisition costs.	◊	1	Z
Underlying Profit before Tax	This provides a key measure of shareholder value and one that informs overall valuation in the insurance sector calculated as operating profit less interest costs.	◊	6	B
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 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 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 Return on Equity	Underlying profit after tax expressed in relation to opening shareholders' funds excluding preference share capital.	◊	2	G
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
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 as a percentage of earned premium.	◊	1	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.			

ALTERNATIVE PERFORMANCE MEASURES RECONCILIATIONS

1. IFRS reconciliation to management P&L
For the 6 months ended 30 June 2019

£'m	IFRS		Underwriting result	Investment result	Central costs	Operating result	Non-operating charges	Profit before tax
			Management					
Income								
Gross written premiums	3,905		3,905					
Less: reinsurance premiums	(651)		(651)					
Net written premiums	3,254		3,254					
Change in the gross provision for unearned premiums	(203)		(203)					
Less: Change in provision for unearned reinsurance premiums	158		158					
Change in provision for unearned premiums	(45)		(45)					
Net earned premiums, analysed as	3,209	A	3,209					
Current year		B	3,193					
Prior year		C	16					
			3,209					
Investment income	154	D		154				
Realised gains on investments	8						8	
Gains/ (losses) on forex derivatives	1						1	
Unrealised gains/ (losses)	(13)						(13)	
Net investment return	150							
Other insurance income	71	E	71					
Foreign exchange gain	3						3	
Other operating income	74							
Total income	3,433							
Expenses								
Gross claims incurred	(2,458)		(2,458)					
Less: claims recoveries from reinsurers	298		298					
Net claims, analysed as:	(2,160)	F	(2,160)					
Attritional		G	(1,752)					
Weather		H	(103)					
Large		I	(316)					
Prior year		J	11					
			(2,160)					
Earned CY commission	(408)	K	(408)					
Earned PY commission	(6)	L	(6)					
Earned CY operating expenses	(551)	M	(551)					
Earned PY operating expenses	(2)	N	(2)					
Underwriting and policy acquisition costs	(967)		(967)					
Unwind of discount	(31)			(16)			(15)	
Investment expenses	(7)			(7)				
Central expenses	(5)				(5)			
Amortisation of intangible assets	(6)						(6)	
Pension net interest and administration costs	2						2	
Other operating expenses	(16)							
	(3,174)							
Finance costs	(16)	O					(16)	
Acquisitions and disposals	(17)						(17)	
Net share of profit after tax of associates	1				1			
Profit before tax	227		153	131	(4)	280	(53)	227
Income tax expense	(44)		**Z**	**AA**	**AB**	**AC**	**AD**	
Profit for the year	183							
	C+J+L+N	P	19	PY Underwriting				
	Z - P	Q	134	CY Underwriting				
			153					

Attritional loss ratio	G/B	R	54.9%
Weather loss ratio	H/B	S	3.2%
Large loss ratio	I/B	T	9.9%
Prior year effect on loss ratio	V-R-S-T	U	(0.7%)
Loss ratio	F/A	V	67.3%
Commission ratio	(K+L)/A	W	12.9%
Expense ratio	(E+M+N)/A	X	15.0%
Combined operating ratio	V+W+X	Y	95.2%

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)							
Finance costs	(13)	O					(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%

2. Metric calculations

			6 months 30 June 2019 £m	6 months 30 June 2018 £m
		Profit after tax	183	245
		Less: Non-controlling interest	(13)	(10)
Note 8		Less: Coupon on 2017 issued restricted tier 1 instrument	(7)	(7)
Note 8		Less: Preference dividend	(5)	(5)
	A	**Profit attributable to ordinary shareholders**	**158**	**223**
APM Rec 1		Add: Non-operating charges	53	8
APM Rec 1		Less: Interest costs	(16)	(13)
APM Rec 6		Less: Underlying tax differential	(3)	(3)
	B	**Underlying profit after tax attributable to ordinary shareholders**	**192**	**215**
		Opening shareholders' funds	**3,786**	**3,653**
		Less: Preference share capital	(125)	(125)
	C	**Opening ordinary shareholders' funds**	**3,661**	**3,528**
Note 9		Less: Opening goodwill and intangibles	(794)	(763)
	D	**Opening tangible ordinary shareholders' funds**	**2,867**	**2,765**
	E	**Weighted average no. share issue during the period (un-diluted)**	**1,030**	**1,025**
		Return on equity (annualised)		
(2xA)/C	**F**	Reported	**8.6%**	**12.7%**
(2xB)/C	**G**	Underlying	**10.5%**	**12.2%**
		Return on tangible equity (annualised)		
(2xA)/D	**H**	Reported	**11.0%**	**16.2%**
(2xB)/D	**I**	Underlying	**13.4%**	**15.6%**
APM Rec 7		Underlying ex. exits	**15.0%**	
		Earnings per share		
A/E	**J**	Basic earnings per share	**15.3p**	**21.8p**
B/E	**K**	Underlying earnings per share	**18.6p**	**21.0p**
APM Rec 7		Underlying earnings per share ex. exits	**20.9p**	

3. Balance sheet reconciliations

			30 June 2019 £m	31 Dec 2018 £m
	A	Closing shareholders' funds	**3,871**	**3,786**
		Less: Preference share capital	(125)	(125)
	B	**Ordinary shareholders funds**	**3,746**	**3,661**
Note 9		Less: Closing goodwill and intangibles	(825)	(794)
	C	**Tangible net asset value**	**2,921**	**2,867**
Note 12	**D**	**Shares in issue at the period end**	**1,031**	**1,027**
B/D	**E**	**Net asset value per share**	**363**	**357**
C/D	**F**	**Tangible net asset value per share**	**283**	**279**

4. Net written premium movement and constant exchange

			6 months 30 June 2019 £m	6 months 30 June 2018 £m
	A	**Net written premiums**	**3,254**	**3,219**
		Year-on-year movement	35	(230)
		Comprised of:		
		Volume change including portfolio actions and standard reinsurance	(227)	(119)
		Rate increases	158	123
	B	Additional reinsurance changes	109	(178)
	C	**Movement at constant exchange**	**40**	**(174)**
	D	Foreign exchange	(5)	(56)
		Total movement	**35**	**(230)**
C/(2018A-D)	**E**	**% movement at constant exchange**	**1%**	**(5)%**
(C-B)/(2018A-D)	**F**	**% movement at constant exchange less reinsurance**	**(2)%**	**0%**

5. Controllable expenses

			6 months 30 June 2019 £m	6 months 30 June 2018 £m
		Underwriting and policy admin costs	**(967)**	**(965)**
APM Rec 1		Less: Commission	414	423
		Less: Non controllable premium related costs e.g. levies	86	83
		Add: Claims expenses within net claims	(192)	(202)
		Add: Other	(23)	(25)
	A	**Written controllable expense base**	**(682)**	**(686)**
	B	Less: Controllable deferred acquisition costs	(2)	6
A+B	**C**	**Earned controllable expense base**	**(684)**	**(680)**
APM Rec 1	**D**	Add: Investment expenses	(7)	(7)
APM Rec 1	**E**	Add: Central costs	(5)	(4)
A+D+E	**F**	**Total written controllable expense base**	**(694)**	**(697)**
C+D+E	**G**	**Total earned controllable expense base**	**(696)**	**(691)**
	H	Net earned premiums	3,209	3,212
C/H		**Earned controllable expense ratio**	**21.3%**	**21.2%**
G/H		**Total earned controllable expense ratio**	**21.7%**	**21.5%**

6. Underlying tax rate

			6 months 30 June 2019 %	6 months 30 June 2018 %
		Effective tax rate (ETR)	**20**	**17**
		Less tax effect of:		
		Unrecognised tax losses	(1)	1
		Underlying versus IFRS regional profit mix	(1)	0
		Other	0	1
	A	**Underlying tax rate**	**18**	**19**
			£m	**£m**
APM Rec 1		Operating profit	280	304
APM Rec 1		Less: Interest costs	(16)	(13)
	B	**Underlying profit before tax**	**264**	**291**
AxB	**C**	**Underlying tax**	**(47)**	**(54)**
	D	Tax	(44)	(51)
C-D	**E**	**Underlying tax differential**	**(3)**	**(3)**

7. Adjusted APMs

Management report adjusted APMs when circumstance requires to further enhance understanding of reported results and of future performance potential. Adjusted profitability metrics provided show:

- The results for our ongoing business given the portfolio exits undertaken in the UK business
- The impact of the new 2019 regional reinsurance programmes
- The impact of the 2018 three year Group Volatility Cover ('GVC') purchase.

Impact of UK exits

The UK, UK & International and Group results for the 6 months ended 30 June 2019 have been presented excluding the impact of the strategic portfolio exits, primarily including London Market portfolios and a number of UK MGA schemes.

			UK 30 June 2019	UK & International 30 June 2019	Group 30 June 2019
Reported					
	A	Net earned premium	1,242	1,499	3,209
	B	Underwriting result	14	58	153
(B/A)-1		COR	98.9%	96.1%	95.2%
	C	Operating result	76	127	280
	D	Underlying profit before tax			264
	E	Underlying profit after tax			192
		Underlying earnings per share			18.6p
		Underlying return on tangible equity			13.4%
	F	Weighted average shares			1,030
	G	Opening tangible ordinary shareholders' funds			2,867
UK exits					
	H	Exited net earned premium	57	57	57
	J	Underwriting impact	(28)	(28)	(28)
	K	Tax impact thereon			5
Excluding exits					
A-H	**L**	Net earned premium	1,185	1,442	3,152
B-J	**M**	**Underwriting result**	**42**	**86**	**181**
(M/L)-1		**COR**	**96.5%**	**94.0%**	**94.3%**
C-J		**Operating result**	**104**	**155**	**308**
D-J		**Underlying profit before tax**			**292**
(E-J-K)/F		**Underlying earnings per share**			**20.9p**
((E-J-K)x2)/G		**Underlying return on tangible equity**			**15.0%**

Impact of reinsurance adjustments

In 2018, the Group purchased a three year Group Volatility Cover ('GVC') and, in 2019, the Group purchased new reinsurance covers to provide additional protection for short tail lines, as detailed on page 25 of Appendix I. 2018 NWP and attritional loss ratio comparatives have been restated accordingly to allow direct comparison, as detailed by region below (adjustments also applied at Personal and Commercial level where applicable).

			Scandinavia	Canada	UK&I	Group Re	Group
	A	2018 net written premium	1,057	729	1,532	(99)	3,219
	B	Foreign exchange	(29)	14	9	-	(6)
	C	Add: 2019 new treaty purchase	(11)	(2)	(12)	(4)	(29)
	D	Less: 2018 GVC purchase	-	-	-	138	138
A:D	**E**	**2018 net written premium at constant exchange restated**	**1,017**	**741**	**1,529**	**35**	**3,322**
	F	2019 net written premium	1,039	768	1,411	36	3,254
F/E-1		**Net written premium movement restated**	**2%**	**4%**	**(8)%**		**(2)%**
	A	2018 CY net earned premium	890	771	1,537	(3)	3,195
	B	2019 new treaty purchase	(5)	(1)	(6)	(2)	(14)
	C	Foreign exchange	(25)	15	8	-	(2)
A:C	**D**	**2018 net earned premium at constant exchange restated**	**860**	**785**	**1,539**	**(5)**	**3,179**
	E	2018 attritional claims	(561)	(448)	(759)	-	(1,768)
	F	Foreign exchange	16	(9)	(4)	-	3
E+F	**G**	2018 attritional claims at constant exchange	(545)	(457)	(763)	-	(1,765)
G/D	**H**	**2018 attritional loss ratio restated (%)**	**63.4**	**58.2**	**49.5**		**55.5**
	J	2019 attritional loss ratio (%)	63.8	56.2	48.5		54.9
H-J		**Attritional movement restated (%)**	**(0.4)**	**2.0**	**1.0**		**0.6**

APPENDIX III

Other information

REPORTING AND DIVIDEND TIMETABLE

Reporting:

Q3 2019 trading update	7 November 2019

Dividend:

Interim ordinary dividend for the 6 months ended 30 June 2019:

Announcement date	1 August 2019
Ex-dividend date	5 September 2019
Record date	6 September 2019
Dividend payment date	11 October 2019

2nd preference dividend:

Announcement date	1 August 2019
Ex-dividend date	15 August 2019
Record date	16 August 2019
Dividend payment date	1 October 2019

Note: The interim ordinary dividend is conditional upon the directors being satisfied, in their absolute discretion, that the payment 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.

OTHER INFORMATION

LEI number: 549300HOGQ7E0TY86138

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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 08:30am on 1 August 2019. 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 announcement 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 announcement shall be construed as a profit forecast.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Table of contents

CONDENSED CONSOLIDATED INCOME STATEMENT
STATUTORY BASIS
for the 6 month period ended 30 June 2019

	Note	**(Reviewed) 6 months 30 June 2019 £m**	(Reviewed) 6 months 30 June 2018 £m
Income			
Gross written premiums		**3,905**	3,950
Less: reinsurance premiums		**(651)**	(731)
Net written premiums	**6**	**3,254**	3,219
Change in the gross provision for unearned premiums		**(203)**	(242)
Less: change in provision for unearned reinsurance premiums		**158**	235
Change in provision for net unearned premiums		**(45)**	(7)
Net earned premiums		**3,209**	3,212
Net investment return		**150**	169
Other operating income		**74**	78
Total income		**3,433**	3,459
Expenses			
Gross claims incurred		**(2,458)**	(2,365)
Less: claims recoveries from reinsurers		**298**	217
Net claims		**(2,160)**	(2,148)
Underwriting and policy acquisition costs		**(967)**	(965)
Unwind of discount		**(31)**	(17)
Other operating expenses and impairments		**(16)**	(23)
		(3,174)	(3,153)
Finance costs		**(16)**	(13)
(Loss)/profit on disposal of business	**5**	**(17)**	2
Net share of profit after tax of associates		**1**	1
Profit before tax	**6**	**227**	296
Income tax expense		**(44)**	(51)
Profit for the period		**183**	245
Attributable to:			
Equity holders of the Parent Company		**170**	235
Non-controlling interests		**13**	10
		183	245
Earnings per share on profit attributable to the ordinary shareholders of the Parent Company			
Basic	**7**	**15.3p**	21.8p
Diluted	**7**	**15.3p**	21.6p
Ordinary dividends paid and proposed			
Final paid in respect of prior year	**8**	**13.7p**	13.0p
Interim proposed/paid in respect of current year	**8**	**7.5p**	7.3p

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 2019

	(Reviewed) 6 months 30 June 2019 £m	(Reviewed) 6 months 30 June 2018 £m
Profit for the period	**183**	245
Items that may be reclassified to the income statement:		
Exchange gains/(losses) net of tax on translation of foreign operations	**12**	(33)
Fair value gains/(losses) on available for sale financial assets net of tax	**157**	(49)
	169	(82)
Items that will not be reclassified to the income statement:		
Pension – remeasurement of defined benefit asset/liability net of tax and tax credit for scheme contributions	**(109)**	164
Total other comprehensive income for the period	**60**	82
Total comprehensive income for the period	**243**	327
Attributable to:		
Equity holders of the Parent Company	**228**	314
Non-controlling interests	**15**	13
	243	327

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 2019

(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 2019	**1,027**	**1,087**	**(1)**	**125**	**152**	**389**	**36**	**971**	**3,786**	**297**	**168**	**4,251**
Total comprehensive income for the period												
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**170**	**170**	**-**	**13**	**183**
Other comprehensive income/(expense) for the period	**-**	**-**	**-**	**-**	**152**	**-**	**15**	**(109)**	**58**	**-**	**2**	**60**
	-	**-**	**-**	**-**	**152**	**-**	**15**	**61**	**228**	**-**	**15**	**243**
Transactions with owners of the Group												
Contribution and distribution												
Dividends (note 8)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(153)**	**(153)**	**-**	**(12)**	**(165)**
Shares issued for cash	**1**	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**-**	**-**	**4**
Share based payments	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**6**	**-**	**-**	**6**
Transfers	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**
	4	**3**	**1**	**-**	**-**	**-**	**-**	**(151)**	**(143)**	**-**	**(12)**	**(155)**
Balance at 30 June 2019	**1,031**	**1,090**	**-**	**125**	**304**	**389**	**51**	**881**	**3,871**	**297**	**171**	**4,339**
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												
Contribution and distribution												
Dividends (note 8)	-	-	-	-	-	-	-	(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

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 2019

	Note	(Reviewed) 30 June 2019 £m	(Audited) 31 December 2018 £m
Assets			
Goodwill and other intangible assets	**9**	**825**	792
Property and equipment	**2**	**329**	90
Investment property		**304**	310
Investments in associates		**14**	13
Financial assets	**10**	**11,590**	11,458
Total investments		**11,908**	11,781
Reinsurers' share of insurance contract liabilities	**14**	**2,361**	2,271
Insurance and reinsurance debtors		**3,060**	2,954
Deferred tax assets		**231**	234
Current tax assets		**79**	71
Other debtors and other assets		**683**	673
Other assets		**993**	978
Cash and cash equivalents	**11**	**818**	788
		20,294	19,654
Assets of operations classified as held for sale	**5**	**623**	639
Total assets		**20,917**	20,293
Equity and liabilities			
Equity			
Shareholders' equity		**3,871**	3,786
Tier 1 notes		**297**	297
Non-controlling interests		**171**	168
Total equity		**4,339**	4,251
Liabilities			
Loan capital	**13**	**402**	441
Insurance contract liabilities	**14**	**12,836**	12,712
Insurance and reinsurance liabilities		**1,004**	928
Borrowings		**188**	119
Deferred tax liabilities		**103**	79
Current tax liabilities		**10**	14
Provisions		**164**	169
Other liabilities		**1,248**	944
Provisions and other liabilities		**1,525**	1,206
		15,955	15,406
Liabilities of operations classified as held for sale	**5**	**623**	636
Total liabilities		**16,578**	16,042
Total equity and liabilities		**20,917**	20,293

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

The financial statements were approved on 31 July 2019 by the Board of Directors and are signed on its behalf by:

Charlotte Jones
Group Chief Financial Officer

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
STATUTORY BASIS

for the 6 month period ended 30 June 2019

	Note	(Reviewed) 6 months 30 June 2019 £m	(Reviewed) 6 months 30 June 2018 £m
Cash flows from operating activities			
Cash generated from operating activities	**18**	**209**	131
Tax paid		**(44)**	(54)
Net cash flows from operating activities		**165**	77
Cash flows from investing activities			
Proceeds from sales or maturities of:			
Financial assets		**1,495**	1,167
Sale of subsidiaries (net of cash disposed of)		**2**	11
Purchase of:			
Financial assets		**(1,409)**	(1,373)
Property and equipment		**(5)**	(12)
Intangible assets		**(66)**	(59)
Purchase of subsidiaries (net of cash disposed of)		**-**	(17)
Net cash flows from investing activities		**17**	(283)
Cash flows from financing activities			
Proceeds from issue of share capital		**4**	5
Dividends paid to ordinary shareholders		**(141)**	(133)
Coupon payment on Tier 1 notes		**(7)**	(7)
Dividends paid to preference shareholders		**(5)**	(5)
Dividends paid to non-controlling interests		**(12)**	(11)
Redemption of Long Term Borrowings		**(39)**	-
Payment of Lease Liabilities		**(21)**	-
Movement in other borrowings		**68**	93
Interest paid		**(8)**	(5)
Net cash flows from financing activities		**(161)**	(63)
Net increase/(decrease) in cash and cash equivalents		**21**	(269)
Cash and cash equivalents at beginning of the period		**781**	1,049
Effect of exchange rate changes on cash and cash equivalents		**10**	(13)
Cash and cash equivalents at end of the period	**11**	**812**	767

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 Guidance 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 Consolidated 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 2018 (see note 4 and Appendix A), modified for the adoption of IFRS 16 as detailed below.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

IFRS 16 'Leases'

IFRS 16 replaced the existing standard IAS 17 'Leases' with effect from 1 January 2019. Its objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represent lease transactions.

Transition

The Group elected to use the standard's modified retrospective approach resulting in a nil impact on opening equity. The right of use asset on transition is recognised at a value equal to the lease liability before adjustment for any prepaid or accrued rent payments recognised immediately prior to transition using a discount rate at the date of the initial application. This has been applied using the exemption not to represent the prior reporting period.

The Group elected to use the following practical expedients on transition:

- Use of single discount rates to reflecting similar lease terms and economic environments
- As an alternative to performing an impairment review, right of use assets have been adjusted by the value of provision for onerous leases recognised in the Condensed Consolidated Statement of Financial Position immediately before the date of initial application
- Recognition exemptions for lease contracts that at the transition date have a remaining lease term of 12 months or less
- Exclusion of initial direct costs from the measurement of the right of use asset
- The use of hindsight in determining the lease term for contracts containing options to extend or terminate the lease

Recognition and measurement

The Group recognises a lease liability and right of use asset for all lease obligations as a lessee, except for the following recognition exemptions that RSA have elected to use: lease contracts that at the commencement date have a lease term of 12 months or less and that do not contain a purchase option; lease contracts for which the underlying asset is of low value; and lease contracts in relation to intangibles which will be expensed on a straight line basis over the life of the contract.

The lease liability is recognised at the inception of a lease as the present value of the fixed and certain variable lease payments, plus any guaranteed residual values, any termination penalties if the lease term assumes termination options will be exercised and the purchase option value if it is reasonably certain that it will be exercised.

Interest is accrued on the lease liability based on the discount rate at commencement of the lease and is accounted for in finance costs and subsequent payments are deducted from the lease liability.

The right of use asset is initially measured as the value of the lease liability, adjusted for any indirect costs incurred to obtain the lease, restoration provisions and any lease payments made before the commencement of the lease.

Subsequently the right of use asset will be measured consistent with RSA policy depending on the underlying nature of the asset.

The right of use asset will be depreciated over the life of the contract on a straight line basis.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CONTINUED)

Where RSA act as a lessor the lease will be classified as a finance lease if it transfers substantially all the risk and rewards incidental to ownership of the underlying asset, or otherwise as an operating lease.

Nature and effect of adoption of IFRS 16

On adoption the Group recognised lease liabilities in relation to leases which had been previously classified as operating leases under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rates applied at that time was 2.7%.

A reconciliation to the operating commitments disclosed at 31 December is as follows:

	£m
Operating lease commitments disclosed as at 31 December 2018	**311**
Discounted using the lessee's incremental borrowing rate at the initial application	**276**
Less: short term leases	**(5)**
Less: low value leases	**(18)**
Add: adjustments as a result of a different treatment of an extension/termination option	**48**
Less: contract elements reassessed as service agreements, VAT and Other	**(29)**
Lease liability recognised at 1 January 2019	**272**

The effect of the adoption of IFRS 16 is as follows:

Impact on the Condensed Consolidated Statement of Financial Position (increase/(decrease))

	30 June 2019	1 January 2019
	£m	£m
Assets		
Property and equipment	**240**	238
Other assets	**14**	14
Total assets	**254**	252
Equity		
Shareholders' equity	**(1)**	-
Total equity	**(1)**	-
Liabilities		
Other liabilities	**(255)**	(252)
Total liabilities	**(255)**	(252)

The right of use asset relates primarily to properties. Other liabilities at 1 January includes lease liabilities upon transition of £272m less £20m of opening other liabilities re-presented against the right of use asset.

Impact on the Condensed Consolidated Income Statement (increase/(decrease))

	30 June 2019
	£m
Expenses	
Underwriting and policy acquisition costs	**2**
Finance costs	**(3)**
Profit before tax	**(1)**
Income tax expense	**-**
Profit for the period	**(1)**
Attributable to:	
Equity holders of the Parent Company	**(1)**
	(1)

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CONTINUED)

Impact on the Condensed Consolidated Statement of Cash Flows (increase/(decrease))

	30 June 2019
	£m
Net cash flows from operating activities	26
Net cash flows from financing activities	(28)

There is no material impact on the Condensed Consolidated Statement of Other Comprehensive Income or on basic and diluted EPS.

IAS 19 'Employee Benefits'

An amendment to IAS 19: Plan Amendment, Curtailment or Settlement issued by the IASB on 7 February 2018 was endorsed by the European Union on 13 March 2019 and became effective from 1 January 2019. This requires a net defined benefit asset or liability to be remeasured using the current assumptions and fair value of plan assets at the time of the amendment. Current service cost and net interest for the remainder of the period are remeasured using the same assumptions and the same fair value of plan assets.

No such event occurred during the 6 month period ended 30 June 2019.

IFRIC 23 'Uncertainty over tax income treatment'

IFRIC 23 'Uncertainty over tax income treatment' specifies how to reflect the effect of uncertainty in accounting for income taxes where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a tax treatment.

This interpretation has not had a material impact on the Group's consolidated financial statements.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 17 'Insurance Contracts'

The International Accounting Standards Board (IASB) issued IFRS 17 'Insurance Contracts' in May 2017 to replace IFRS 4 'Insurance Contracts' for annual reporting periods beginning, at the latest, on or after 1 January 2021. It has subsequently published an Exposure Draft (ED) proposing targeted amendments in response to concerns and challenges raised by stakeholders, including a proposal to defer the implementation of IFRS 17 by one year and to extend the exemption from applying IFRS 9 'Financial Instruments' for the same period.

It is expected that the deferral proposals will be approved and incorporated into an amended IFRS 17 standard due to be issued during 2020 resulting in both IFRS 17 and IFRS 9 becoming effective from 1 January 2022.

Draft legislation has been laid before Parliament to ensure that IFRS as endorsed by the EU at the date of the UK leaving the EU will be adopted for use in the UK as well as providing the Secretary of State with the power to adopt and endorse IFRS for use in the UK. It is expected that this power will be delegated to a UK IFRS Endorsement Board. In the event that IFRS 17 has not been endorsed by the EU by the time the UK leaves the EU, including any transitional period or arrangements that may be agreed, then the UK IFRS Endorsement Board will have responsibility for its endorsement. This is being monitored closely.

The impact of other proposals contained within the recent IFRS 17 ED are still being considered but are not expected to significantly impact the programme of implementation previously reported. Detailed build and testing of systems and processes is in progress and remains on track to substantially complete in 2020. Parallel run testing of reporting is scheduled to take place in 2020 and 2021 to assure reporting compliance by 1 January 2022. Contingency planning has been considered in the event that the endorsement process adds any further delay to implementation after 2022.

IFRS 9 'Financial Instruments'

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. As described above the Group has elected to implement IFRS 9 'Financial Instruments' alongside IFRS 17. Further information can be found in note 10.

Other pronouncements

There are a number of amendments to IFRS that have been issued by the IASB that become mandatory during 2019 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 2018.

Details of the principal risks and uncertainties can be found in the Annual Report and Accounts 2018; 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 AND PROFIT/(LOSS) ON DISPOSAL OF BUSINESS

	30 June 2019	31 December 2018		
	UK Legacy	UK Legacy	Noble	Total
	£m	£m	£m	£m
Assets classified as held for sale				
Goodwill	**-**	-	2	2
Reinsurers' share of insurance contract liabilities	**584**	604	-	604
Insurance and reinsurance debtors	**22**	13	-	13
Other debtors and other assets	**13**	15	-	15
Cash and cash equivalents	**4**	4	1	5
Assets of operations classified as held for sale	**623**	636	3	639
Liabilities directly associated with assets classified as held for sale				
Insurance contract liabilities	**584**	604	-	604
Insurance and reinsurance liabilities	**3**	3	-	3
Provisions and other liabilities	**36**	29	-	29
Liabilities of operations classified as held for sale	**623**	636	-	636
Net assets of operations classified as held for sale	**-**	-	3	3

On 7 February 2017, the Group's UK Legacy liabilities were disposed of to Enstar Group Limited. The transaction initially took the form of a reinsurance agreement, effective from 31 December 2016, which substantially effected economic transfer. The legal transfer of the business was completed on 1 July 2019 and therefore this will be accounted for in the second half of the year ending 31 December 2019. The Group's UK Legacy business was managed as part of the UK operations. It is not presented as a discontinued operation as it is neither a separate geographic area nor a major line of business.

The UK Noble Marine entities were disposed of in February 2019.

(Loss)/profit on disposal of business

In the six months to 30 June 2019 the loss of £17m relates to the disposal of the UK Legacy business, consisting of a £15m additional contribution to Enstar Group Limited and £2m costs of disposal.

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 Royal and Sun Alliance (Ireland) Limited.

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

6. 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 2018. 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 are considered to be the chief operating decision maker 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) and 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. Further information on APMs can be found on pages 30 to 38.

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

Segment revenue and results

Period ended 30 June 2019

	Scandinavia	Canada	UK & International	Central Functions	Total Group
	£m	£m	£m	£m	£m
Net written premiums	**1,039**	**768**	**1,411**	**36**	**3,254**
Underwriting result	**96**	**19**	**58**	**(20)**	**153**
Investment result	**31**	**31**	**69**	**-**	**131**
Central costs and other activities	**-**	**-**	**-**	**(4)**	**(4)**
Operating result (management basis)	**127**	**50**	**127**	**(24)**	**280**
Realised gains					**8**
Unrealised losses and foreign exchange					**(9)**
Interest costs					**(16)**
Amortisation of intangible assets					**(6)**
Pension net interest and administration costs					**2**
Economic assumption changes[1]					**(15)**
Net losses related to business disposals					**(17)**
Profit before tax					**227**
Tax on operations					**(44)**
Profit after tax					**183**
Combined operating ratio (%)	**89.1%**	**97.8%**	**96.1%**		**95.2%**

[1] Changes in economic assumptions represents a reduction in the discount rate on long-term insurance liabilities in Denmark. This is reported within unwind of discount in the Condensed Consolidated Income Statement.

6. OPERATING SEGMENTS (CONTINUED)

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%

7. 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 1,029,839,011 (30 June 2018: 1,025,335,973) and 1,031,676,076 (30 June 2018: 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.

8. DISTRIBUTIONS PAID AND DECLARED

	30 June 2019	30 June 2018	**30 June 2019**	30 June 2018
	p	p	**£m**	£m
Ordinary dividend:				
Final paid in respect of prior year	**13.7**	13.0	**141**	133
Preference dividend			**5**	5
Tier 1 notes coupon payment			**7**	7
			153	145

Subsequent to 30 June 2019, the directors declared an interim dividend of **7.5p** (30 June 2018: 7.3p) per ordinary share amounting to a total of **£77m** (2018: £75m). The proposed dividend will be paid on 11 October 2019 and accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2019.

NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

9. GOODWILL AND INTANGIBLE ASSETS

	30 June 2019 £m	31 December 2018 £m
Goodwill	**352**	349
Externally acquired software	**3**	2
Internally generated software	**407**	385
Customer related intangibles	**63**	58
Total goodwill and other intangible assets	**825**	794
Less: Goodwill classified as held for sale	**-**	2
Total goodwill and other intangible assets net of held for sale	**825**	792

Customer related intangibles includes customer lists, renewal rights and acquired brands.

No impairment charges have been recognised in the period.

	30 June 2019 £m	30 June 2018 £m
Other intangible asset impairments	**-**	2

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

10. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS

Financial assets

	30 June 2019 £m	31 December 2018 £m
Equity securities	**727**	739
Debt securities	**10,568**	10,470
Financial assets measured at fair value	**11,295**	11,209
Loans and receivables	**295**	249
Total financial assets	**11,590**	11,458

IFRS 9 'Financial Instruments'

The Group qualifies for temporary exemption from applying IFRS 9 'Financial Instruments' on the grounds that it has not previously applied any version of IFRS 9 and its activities are predominantly connected with insurance, with the carrying amount of its liabilities within the scope of IFRS 4 and debt instruments included within regulatory capital being greater than 90% of the total carrying amount of all its liabilities at 31 December 2015 and with no subsequent change in its activities.

The fair value at 30 June 2019 and change during the period of financial assets that are held to collect cash flows on specified dates that are solely for payment of principle and interest (SPPI) and are not held for trading as defined under IFRS 9, nor are managed or evaluated on a fair value basis, is set out below, together with the same information for other financial assets:

As at 30 June 2019

	SPPI financial assets £m	Other financial assets £m	Total £m
Available for sale equity securities	**-**	**727**	**727**
Available for sale debt securities	**10,211**	**338**	**10,549**
Debt securities at FVTPL	**-**	**19**	**19**
Loans and receivables	**295**	**-**	**295**
Derivative assets held for trading	**-**	**47**	**47**
Total	**10,506**	**1,131**	**11,637**

10. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS (CONTINUED)

As at 31 December 2018

	SPPI financial assets	Other financial assets	Total
	£m	£m	£m
Available for sale equity securities	-	739	739
Available for sale debt securities	10,266	185	10,451
Debt securities at FVTPL	-	19	19
Loans and receivables	249	-	249
Derivative assets held for trading	-	45	45
Total	10,515	988	11,503

The fair value gains/(losses) of SPPI financial assets and other financial assets during the period are **£175m** and **£13m** respectively.

Companies within the Group that are applying IFRS 9 and disclose relevant information in their own published financial statements in addition to that already included in these Condensed Consolidated Financial Statements are indicated in Appendix B of the Annual Report and Accounts 2018.

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 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Group occupied property - land and buildings	**-**	**-**	**19**	**19**
Investment property	**-**	**-**	**304**	**304**
Available for sale financial assets:				
Equity securities	**395**	**-**	**332**	**727**
Debt securities	**3,984**	**6,168**	**397**	**10,549**
Financial assets at fair value through the income statement:				
Debt securities	**-**	**-**	**19**	**19**
	4,379	**6,168**	**1,071**	**11,618**
Derivative assets:				
At fair value through the income statement	**-**	**47**	**-**	**47**
Designated as hedging instruments	**-**	**3**	**-**	**3**
Total assets measured at fair value	**4,379**	**6,218**	**1,071**	**11,668**
Derivative liabilities:				
At fair value through the income statement	**-**	**52**	**-**	**52**
Designated as hedging instruments	**-**	**59**	**-**	**59**
Total liabilities measured at fair value	**-**	**111**	**-**	**111**
Loan capital	**-**	**449**	**-**	**449**
Total liabilities not measured at fair value	**-**	**449**	**-**	**449**

10. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS (CONTINUED)

	Fair value hierarchy 31 December 2018			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Group occupied property - land and buildings	-	-	19	19
Investment property	-	-	310	310
Available for sale financial assets:				
Equity securities	384	-	355	739
Debt securities	3,798	6,243	410	10,451
Financial assets at fair value through the income statement:				
Debt securities	-	-	19	19
	4,182	6,243	1,113	11,538
Derivative assets:				
At fair value through the income statement	-	45	-	45
Designated as hedging instruments	-	22	-	22
Total assets measured at fair value	4,182	6,310	1,113	11,605
Derivative liabilities:				
At fair value through the income statement	-	42	-	42
Designated as hedging instruments	-	68	-	68
Total liabilities measured at fair value	-	110	-	110
Loan capital	-	460	-	460
Total liabilities not measured at fair value	-	460	-	460

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 their market value at the reporting date.

Group occupied property and investment property

Group occupied properties are valued annually 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.

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).

10. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS (CONTINUED)

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, judgement 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.

10. 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	Debt securities	Total
	£m	£m	£m	£m
Level 3 financial assets at 1 January 2018	350	327	18	695
Total gains recognised in:				
Income statement	2	-	-	2
Other comprehensive income	1	11	-	12
Purchases	152	90	1	243
Disposals	(151)	(18)	-	(169)
Exchange adjustment	1	-	-	1
Level 3 financial assets at 1 January 2019	**355**	**410**	**19**	**784**
Total gains/(losses) recognised in:				
Income statement	**2**	**3**	**-**	**5**
Other comprehensive income	**(1)**	**(5)**	**-**	**(6)**
Purchases	**13**	**85**	**-**	**98**
Disposals	**(40)**	**(93)**	**-**	**(133)**
Exchange adjustment	**3**	**(3)**	**-**	**-**
Level 3 financial assets at 30 June 2019	**332**	**397**	**19**	**748**

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 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 2019		31 December 2018	
Available for sale financial assets and property	Main assumptions	Current fair value	Decrease in fair value	Current fair value	Decrease in fair value
		£m	£m	£m	£m
Group occupied property - land and buildings[1]	Property valuation	**19**	**(3)**	19	(3)
Investment properties[1]	Cash flows; discount rate	**304**	**(49)**	310	(51)
Level 3 available for sale financial assets:					
Equity securities[2]	Cash flows; discount rate	**332**	**(9)**	355	(10)
Debt securities[2]	Cash flows; discount rate	**397**	**(10)**	410	(10)
Total		**1,052**	**(71)**	1,094	(74)

[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.

11. CASH AND CASH EQUIVALENTS

	30 June 2019 £m	31 December 2018 £m	30 June 2018 £m
Cash and cash equivalents and bank overdrafts (as reported within the Condensed Consolidated Statement of Cash Flows)	**812**	781	767
Add: Bank overdrafts reported in Borrowings	**10**	12	11
Total cash and cash equivalents	**822**	793	778
Less: Assets classified as held for sale	**4**	5	4
Total cash and cash equivalents net of held for sale (as reported within the Condensed Consolidated Statement of Financial Position)	**818**	788	774

12. SHARE CAPITAL

The issued share capital at 30 June 2019 consists of 1,031,444,477 ordinary shares of £1.00 each and 125,000,000 of preference shares of £1.00 each (31 December 2018: 1,026,937,928 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.

13. LOAN CAPITAL

	30 June 2019 £m	31 December 2018 £m
Subordinated guaranteed US$ bonds	**6**	6
Guaranteed subordinated step-up notes due 2039	**-**	39
Guaranteed subordinated notes due 2045	**396**	396
Total loan capital	**402**	441

The subordinated guaranteed US$ bonds were issued in 1999 and have a nominal value of $9m and a redemption date of 15 October 2029. The rate of interest payable on the bonds is 8.95%.

The dated guaranteed subordinated step-up notes were issued on 20 May 2009 with a redemption date of 20 May 2039 and at a fixed rate of 9.375%. On 20 May 2019 the Group exercised its right to call the bonds and accordingly redeemed the outstanding £39m nominal value of these step-up notes.

The dated guaranteed subordinated notes were issued on 10 October 2014 at a fixed rate of 5.125%. The nominal £400m bonds have a redemption date of 10 October 2045. The Group has the right to repay the notes on specific dates from 10 October 2025. If the bonds are not repaid on that date, the applicable rate of interest would be reset at a rate of 3.852% plus the appropriate benchmark gilt for a further five year period.

The bonds and the notes are contractually subordinated to all other creditors of the Group such that in the event of a winding up or of bankruptcy, they are able to be repaid only after the claims of all other creditors have been met.

There have been no defaults on any bonds or notes during the year. The Group has the option to defer interest payments on the bonds and notes, but has to date not exercised this right.

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 113 of the Annual Report and Accounts 2018.

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

As at 30 June 2019

	Gross £m	RI £m	Net £m
Provision for unearned premiums	**3,443**	**(902)**	**2,541**
Provision for losses and loss adjustment expenses	**9,977**	**(2,043)**	**7,934**
Total insurance contract liabilities	**13,420**	**(2,945)**	**10,475**
Less: Held for sale provisions for losses and loss adjustment expenses	**584**	**(584)**	**-**
Provision for unearned premiums	**3,443**	**(902)**	**2,541**
Provision for losses and loss adjustment expenses net of held for sale	**9,393**	**(1,459)**	**7,934**
Total insurance contract liabilities net of held for sale	**12,836**	**(2,361)**	**10,475**

As at 31 December 2018

	Gross £m	RI £m	Net £m
Provision for unearned premiums	3,244	(739)	2,505
Provision for losses and loss adjustment expenses	10,072	(2,136)	7,936
Total insurance contract liabilities	13,316	(2,875)	10,441
Less: Held for sale provisions for losses and loss adjustment expenses	604	(604)	-
Provision for unearned premiums	3,244	(739)	2,505
Provision for losses and loss adjustment expenses net of held for sale	9,468	(1,532)	7,936
Total insurance contract liabilities net of held for sale	12,712	(2,271)	10,441

15. RETIREMENT BENEFIT OBLIGATIONS

Defined benefit pension schemes and other post-retirement benefits

The amounts recognised in the consolidated statement of financial position are as follows:

	30 June 2019			31 December 2018		
	UK	Other	Total	UK	Other	Total
	£m	£m	£m	£m	£m	£m
Present value of funded obligations	(8,204)	(450)	(8,654)	(7,474)	(401)	(7,875)
Present value of unfunded obligations	(6)	(105)	(111)	(7)	(92)	(99)
Fair value of plan assets	8,558	472	9,030	7,841	424	8,265
Other net surplus remeasurements	(124)	-	(124)	(129)	-	(129)
Net IAS19 surplus/(deficits) in the schemes	**224**	**(83)**	**141**	231	(69)	162

Movement during the period:

	30 June 2019			
	Present value of obligations	Fair value of plan assets	Other net surplus remeasurements	Net surplus / (deficit)
	£m	£m	£m	£m
At 1 January	(7,974)	8,265	(129)	162
Current service costs	(3)	-	-	(3)
Interest (expense) / income	(113)	118	-	5
Administration costs	-	(3)	-	(3)
Total (expenses) / income recognised in income statement	(116)	115	-	(1)
Return on scheme assets less amounts in interest income	-	715	-	715
Effect of changes in financial assumptions	(781)	-	-	(781)
Effect of changes in demographic assumptions	(26)	-	-	(26)
Experience gains and losses	(25)	-	-	(25)
Investment expenses	-	(4)	-	(4)
Other net surplus remeasurements	-	-	5	5
Remeasurements recognised in other comprehensive income	(832)	711	5	(116)
Employer contribution	-	99	-	99
Benefit payments	177	(177)	-	-
Exchange adjustment	(20)	17	-	(3)
At 30 June	(8,765)	9,030	(124)	141
Deferred tax				23
IAS 19 net surplus net of deferred tax				164

15. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

	31 December 2018			
	Present value of obligations	Fair value of plan assets	Other net surplus remeasurements	Net surplus / (deficit)
	£m	£m	£m	£m
At 1 January	(8,878)	8,799	(62)	(141)
Current service costs	(6)	-	-	(6)
Past service costs	(1)	-	-	(1)
Interest (expense) / income	(218)	217	-	(1)
Administration costs	-	(7)	-	(7)
Gains on settlements/curtailments	2	-	-	2
Total (expenses) / income recognised in income statement	(223)	210	-	(13)
Return on scheme assets less amounts in interest income	-	(409)	-	(409)
Effect of changes in financial assumptions	515	-	-	515
Effect of changes in demographic assumptions	119	-	-	119
Experience gains and losses	25	-	-	25
Investment expenses	-	(6)	-	(6)
Other net surplus remeasurements	-	-	(67)	(67)
Remeasurements recognised in other comprehensive income	659	(415)	(67)	177
Employer contribution	-	137	-	137
Benefit payments	458	(458)	-	-
Exchange adjustment	10	(8)	-	2
At 31 December	(7,974)	8,265	(129)	162
Deferred tax				20
IAS 19 net surplus net of deferred tax				182

16. RELATED PARTY TRANSACTIONS

During the first half of 2019, 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 131 of the Annual Report and Accounts for the year ended 31 December 2018.

17. RESULTS FOR THE YEAR 2018

The statutory accounts of RSA Insurance Group plc for the year ended 31 December 2018 have been delivered to the Registrar of Companies. The independent auditor's report on the Group accounts for the year ended 31 December 2018 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 2019	30 June 2018
	£m	£m
Cash flows from operating activities		
Profit for the year before tax	**227**	296
Adjustments for non-cash movements in net profit for the year		
Amortisation of available for sale assets	**21**	22
Depreciation	**29**	9
Amortisation and impairment of intangible assets	**44**	46
Fair value (gains) on disposal of financial assets	**(3)**	(11)
Impairment charge on available for sale financial assets	**-**	3
Share of (profit) of associates	**(1)**	(1)
Loss/(profit) on disposal of business	**17**	(2)
Other non-cash movements	**30**	17
Changes in operating assets/liabilities		
Loss and loss adjustment expenses	**3**	(41)
Unearned premiums	**28**	(31)
Movement in working capital	**(106)**	(115)
Reclassification of investment income and interest paid	**(142)**	(159)
Pension deficit funding	**(88)**	(65)
Cash generated from investment of insurance assets		
Dividend income	**18**	18
Interest and other investment income	**132**	145
Cash flows from operating activities	**209**	131

APPENDIX A: EXCHANGE RATES

Local currency/£	**6 months 30 June 2019**		6 months 30 June 2018		12 months 31 December 2018	
	Average	**Closing**	Average	Closing	Average	Closing
Canadian Dollar	1.72	1.66	1.76	1.74	1.73	1.74
Danish Krone	8.55	8.34	8.47	8.43	8.42	8.31
Swedish Krona	12.05	11.81	11.55	11.81	11.60	11.29
Euro	1.15	1.12	1.14	1.13	1.13	1.11

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 profit or loss of the Group.

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

a) DTR 4.2.7R of the Disclosure Guidance 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

b) DTR 4.2.8R of the Disclosure Guidance 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	Charlotte Jones Group Chief Financial Officer
31 July 2019	31 July 2019

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 2019 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 2019 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.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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
31 July 2019