2014 INTERIM RESULTS

RSA Insurance Group plc

2014 Interim Results

7 August 2014

Good progress on our Action Plan: Strategy reset ahead of schedule; Balance sheet health much improved; Foundations being laid for future performance

Tangible equity up 82% since start of 2014 to £3.1bn pro-forma for announced disposals

Group returned to profit (£69m pre-tax); underlying trends in line with our expectations

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Stephen Hester, RSA Group Chief Executive, commented:

"RSA's Action Plan is going well. Since announcing it five months ago, we have made strong progress improving strategic focus and capital health. Good work is also underway on cost, portfolio actions and the management line-up to drive future performance.

"While first half profits are modest, they reflect further balance sheet and reserve clean-up as well as above normal weather costs. Underlying business trends, together with the actions outlined, are supportive of achieving the medium-term customer, capital and shareholder targets we have set.

"RSA is again a strong international general insurer. We intend to build a track record of delivery, and increasingly of excellence."

Trading results

- Capital metrics at 30 June 2014 (pro-forma for announced disposals): IGD surplus c.£1.7bn with coverage of 2.2 times; ECA surplus c.£1.3bn with coverage of 1.5 times.
- Tangible equity £2.6bn (31 December 2013: £1.7bn); £3.1bn pro-forma for announced disposals.
- Net written premiums of £3.9bn down 9%[1] (down 3% underlying) reflecting our portfolio action plan and a more disciplined underwriting approach.
- Foreign exchange movements, notably the strengthening of Sterling during the first half, drove reported premiums down 16%.
- Headline underwriting profit £2m after absorbing losses in Ireland and charges elsewhere for prior year reserve additions.

- Current year underwriting profit of £87m excluding Ireland (H1 2013: £80m excluding Ireland); underlying current year loss ratio of 58.5% excluding Ireland, 1.2pts better than prior year (H1 2013: 59.7%).
- Underlying current year profit trends broadly in line with our expectations including aggregate weather and large loss performance at a Group level. Good results in Scandinavia; Weather impacts in the UK, Ireland, and Canada; Latin America impacted by Chile earthquake, as previously reported.
- Ireland underwriting loss of £64m as clean-up continues. Our goal is to return Ireland to profitability in 2015.
- Prior year loss of £21m excluding Ireland (H1 2013: £98m profit ex Ireland, included margin release ex Ireland of £42m). Various clean-up adjustments including reserve additions in the UK and Scandinavia.
- Net gains of £142m includes only £17m from announced disposals (Latvia) with the balance expected in H2 2014 or early 2015. Gains offset by £133m 'one-off' charges including £57m write down of Ireland goodwill and intangibles.
- Pre-tax profit was £69m (£45m from continuing operations).

Strategic update

- Good progress on our Action Plan as we tighten strategic focus, build capital strength, and put in place the foundations to improve business performance.
- Agreed disposals of Baltics, Poland, Noraxis and China operations with total proceeds of £591m.
- Rights issue proceeds and disposal gains substantially rebuilding tangible equity. Pension plans now moved into IAS 19 surplus of £50m.
- Tangible equity to premiums ratio of 33%[2] (31 December 2013: 19%). Expect to advance to a healthy level within our target range of 35-45% over the next 18-30 months.
- Focused on laying the foundations for future business performance. Also engaged in further and more detailed and ambitious strategic challenge of the business.
- Existing plans include target gross annualised cost reductions in excess of £180m (excluding disposals).
- Targeting dividend restart with 2014 full year results.

[1] *at constant exchange rates*

[2] *30 June 2014 TNAV:NWP ratio calculated using two times H1 2014 NWP*

MANAGEMENT REPORT – KEY FINANCIAL PERFORMANCE DATA

Management basis

Net Written Premiums	H1 2014 £m Personal	H1 2014 £m Commercial	H1 2014 £m Total	H2 2013 £m Total	H1 2013[1] £m Total
Scandinavia	537	522	1,059	745	1,118
Canada	484	243	727	889	866
UK & Western Europe	758	834	1,592	1,643	1,946
Emerging Markets	282	325	607	717	686
Group Re (excl. ADC)	-	12	12	18	36
Group ADC	-	-	(67)	-	-
Total net written premiums	**2,061**	**1,936**	**3,930**	**4,012**	**4,652**

Underwriting performance	Combined operating ratio (%) **H1 2014**	Combined operating ratio (%) H1 2013	**H1 2014 £m**	H2 2013 £m	H1 2013[1] £m
Scandinavia	86.7	87.7	105	127	98
Canada	98.6	98.7	12	(5)	15
UK & Western Europe	107.6	95.4	(86)	(276)	50
Emerging Markets	105.9	97.8	(23)	34	12
Group Re	-	-	(6)	(11)	13
Total underwriting performance	**100.8**	**94.2**	**2**	**(131)**	**188**
Investment result			166	173	192
Insurance result			168	42	380
Operating result			**141**	**6**	**343**
Profit / (Loss) before tax			**69**	**(494)**	**250**
Profit / (Loss) after tax			**6**	**(528)**	**190**
Earnings per share – basic (pence)			(0.2)		22.2
Earnings per share – diluted (pence)			(0.2)		22.1
Return on tangible equity (%)			(0.1)		16.9
Underlying return on tangible equity (%)			3.6		17.0

	30 June 2014 £m	31 Dec 2013[1] £m
Net asset value	3,726	2,893
Tangible net asset value	2,620	1,665
Net asset value per share (pence)	356	335
Tangible net asset value per share (pence)	259	202
IGD surplus (£bn)	1.3	0.2
IGD coverage ratio (times)	1.9	1.1
ECA surplus (S&P 'A' curve calibration) (£bn)	1.1	0.7
ECA coverage ratio (times)	1.4	1.3

Notes

[1] *Per share amounts restated to reflect the impact of the bonus shares creation following the completion of the rights issue and share consolidation.*

CHIEF EXECUTIVE'S STATEMENT

RSA made pleasing progress during the first half of 2014 in addressing the challenges that had accumulated over some years and culminated in the Group's Irish write-downs. We remain confident that the Action Plan laid out in February can be successfully accomplished; indeed progress is ahead of our expectations so far. As so often in restructuring situations, the 'clean-up' costs are proving higher than initially expected, but these are outweighed by gains on disposals which are well ahead of plan. We are grateful to our customers, business partners and especially our shareholders for their support at the start of this year.

Our Action Plan has three parts - making RSA 'Focused, Stronger, Better'.

1. RSA's strategy 'reset' is ahead of schedule, focusing the Group principally on its businesses in Scandinavia, Canada, UK & Ireland and Latin America. Disposals of our businesses in the Baltics, Poland, Noraxis in Canada, and China have all been agreed. The businesses are going to good new owners and at attractive values for our shareholders. Further disposals are targeted over the next 12-18 months to complete the process.

2. Our capital and balance sheet health has been decisively restored, along with new management disciplines to sustain the position. The rights issue and disposal gains are substantially rebuilding tangible equity, up 82% in H1 (pro-forma for announced disposals). Our credit rating is restored to A 'stable' (S&P) and the business is now trading more normally after an uncertain start to the year.

   We have some continuing balance sheet clean-up work to do to ensure the quality of what we present. The largest items were booked as at end 2013 and announced in February. We said then that there might be more to come. In this half year we have booked Irish goodwill and intangible write-downs and taken a range of other reserve actions against prior year emergence. We target completing this process during the remainder of 2014 which should also see some healthy gains realised as disposals complete.

   Our commitment to transparent disclosure continues. Our reserve margin is unchanged during the year at 5% of our actuarial indication. We also provide significantly increased financial analysis in our first half reporting.

   Our target of building net tangible assets to 35-45% of our premium income remains. We expect to advance to a healthy level within that range over the next 18-30 months. This will be through disposals, retained earnings, net of any further clean-up costs, restructuring charges to fund cost savings and after reinstating dividend payments. We see this as being an appropriate position relative to other internationally operating peers, with proper buffers in excess of a range of regulatory and rating agency indicators. This judgement will be updated once the new Solvency II capital regime is more settled.

   Our dividend policy is unchanged. We expect to restart dividends with our full year results and to build to a target payout level of 40-50% of net profits over the medium term.

3. The bulk of our efforts are now turning to improving and then sustaining business performance. 2014 is very much a foundation year. We put a three year Plan in place in February which we are working to. However, we are also engaged in a more detailed and ambitious strategic challenge of the business in our largest markets which we hope will result in further actions to underpin the quality and ambition of this Plan.

   Fundamental to our ability to improve is the human dimension; ensuring our people share the new Vision and Roadmap; and assembling a management team that can improve upon what we have done before. Good progress is being made in this. We have appointed new Chief Executives of our businesses in UK, Ireland and Scandinavia and a newly created Chief Operating Officer role at Group. Inevitably though, it will be 2015 before we can fire on all cylinders in management terms.

The operating plan is all about being better. In fact, aiming at being amongst the best at what we do. This is a multi-faceted task. We start with two priorities, costs and revenues. To be competitive for customers, to invest in better capabilities and to properly deliver for shareholders we need to reduce costs. We are targeting in excess of £180m gross annualised cost reductions over the next 3 years (excluding disposals). Our ambition is to raise these targets over time dependent on progress. There will be restructuring charges to effect these changes. At the same time we are developing many initiatives to invest in our business to improve customer service and efficiency. Our technology needs to move forward as does the sophisticated use of data to make the best underwriting decisions.

Determined action to improve the sustainability of our insurance portfolio and its expected loss ratios is another major feature of our work. In the current year this means re-pricing or trimming business we cannot make sense of. Overall premium income is reduced as a result. From this new sounder base we expect to grow again but with better underlying loss ratios. Pleasingly, our business retention levels remain stable and healthy in the areas we target, a testimony to the enduring competitive strength of our business.

So there is much to do. There will be setbacks and the performance standards we aspire to will take some years to achieve. But a good start has been made. We are determined to deliver an RSA admired amongst international general insurers for both customer appeal and shareholder delivery. And to do this with transparent and conservative risk and financial management.

Stephen Hester

Group Chief Executive

6 August 2014

MANAGEMENT REPORT

INCOME STATEMENT

Management basis - 6 months ended 30 June 2014

	Scand -inavia £m	Canada £m	UK & Western Europe £m	Emerging Markets £m	Central functions £m	**Group H1 2014 £m**	Group H2 2013 £m	Group H1 2013 £m
Net Written Premiums	1,059	727	1,592	607	(55)	3,930	4,012	4,652
Net Earned Premiums	890	766	1,721	624	11	4,012	4,296	4,298
Net Incurred Claims[1]	(615)	(542)	(1,239)	(389)	(15)	(2,800)	(3,139)	(2,831)
Commissions	(39)	(102)	(332)	(128)	(2)	(603)	(628)	(631)
Operating expenses	(146)	(101)	(234)	(137)	1	(617)	(665)	(685)
DAC	15	(9)	(2)	7	(1)	10	5	37
Underwriting result	**105**	**12**	**(86)**	**(23)**	**(6)**	**2**	**(131)**	**188**
Investment income	49	33	115	23	3	223	237	256
Investment expenses	(5)	(2)	(5)	(3)	-	(15)	(17)	(14)
Unwind of discount	(19)	(1)	(14)	(7)	(1)	(42)	(47)	(50)
Investment result	**25**	**30**	**96**	**13**	**2**	**166**	**173**	**192**
Insurance result	**130**	**42**	**10**	**(10)**	**(4)**	**168**	**42**	**380**
Central expenses	-	-	-	-	(27)	(27)	(36)	(37)
Operating result	**130**	**42**	**10**	**(10)**	**(31)**	**141**	**6**	**343**
Net gains/losses/exchange						142	15	18
Interest						(58)	(58)	(59)
Recurring non-operating costs[2]						(23)	(29)	(29)
One-off non-operating costs[3]						(133)	(428)	(23)
Profit before tax						**69**	**(494)**	**250**
Tax						(63)	(34)	(60)
Profit after tax						**6**	**(528)**	**190**
% Loss ratio	69.2	70.8	72.0	62.3	-	69.8	73.1	65.9
% Commission ratio	3.7	14.0	20.9	21.1	-	15.3	15.6	13.6
% Expense ratio	13.8	13.8	14.7	22.5	-	15.7	16.6	14.7
% Combined ratio	**86.7**	**98.6**	**107.6**	**105.9**	**-**	**100.8**	**105.3**	**94.2**
Of which:								
Current year (CY) loss ratio	*69.1*	*73.3*	*69.3*	*63.1*	-	*69.3*	*69.2*	*71.9*
CY underlying loss ratio[4]	*66.1*	*62.8*	*54.9*	*58.3*	-	*59.5*	*59.8*	*60.3*
Prior year loss ratio	*0.1*	*(2.5)*	*2.7*	*(0.8)*	-	*0.5*	*(3.3)*	*1.2*
Reported ROTE						**(0.1)**		**16.9**
Underlying ROTE						**3.6**		**17.0**
Notes:								
[1] Of which: claims handling costs						*239*	*249*	*235*
[2] Amortisation						*(18)*	*(21)*	*(21)*
[2] Total pension costs						*(5)*	*(8)*	*(8)*
[3] Solvency II costs						*(14)*	*(10)*	*(10)*
[3] Reorganisation costs						*(117)*	*(352)*	*(4)*
[3] Transaction costs						*(2)*	*(3)*	*(9)*
[3] Economic assumption changes						*-*	*(63)*	*-*

[4] Current year underlying loss ratio excludes weather and large losses.

Market conditions

Insurance market conditions during the first half remained highly competitive, although varying by region and business segment.

Conditions in Scandinavia have been relatively stable. In Canada there have been increased competitive pressures on rate especially in Commercial lines, although Personal Household rate has responded well to last year's weather events. In the UK pricing pressures are elevated across both Commercial and Personal lines. In Ireland we have been increasing prices significantly ahead of the market across much of our book as we continue to remediate the business.

Retention trends remain stable with overall retention across the Group of around 80%.

Foreign exchange movements, notably the strengthening of Sterling during the first half of 2014, have impacted reported results, with premiums down 9% on a constant exchange rate basis (3% underlying), but down 16% at reported exchange rates.

RSA's strategy is to compete strongly to retain and attract business in profitable areas and to apply increased pricing and capital return discipline where required. We are prepared to reduce business volumes if necessary as a consequence.

Premiums

First half 2014 net written premiums were down 9% from H1 2013 at constant exchange rates and down 3% on an underlying basis, with the key movements being:

Volume reductions including portfolio actions	(5)%
Rate increases	2%
Underlying H1 2014 movement at constant FX	**(3)%**
Group Adverse Development cover	(2)%
Changes to Motability contract	(4)%
Total H1 2014 movement at constant FX	**(9)%**

Regional highlights (at constant FX) include:

- UK & Western Europe underlying premiums were down 9% (down 18% including Motability). This region is where the most significant of our portfolio actions are taking place. We have taken particular action in UK Personal Motor, including the exit of certain broker relationships and the exit of our eChoice offering, to ensure we remain focused on achieving our target returns. This is reflected in a 39% reduction in premiums during H1 2014.
- Premiums in Scandinavia were up 2%, in line with our expectations
- Canadian premiums were down 2% driven by a 5% reduction in Commercial premiums due to the underwriting actions we have been taking on the portfolio.
- Latin American premiums grew 10% at constant exchange during the first half.

Underwriting result

2014 is a foundation year from which our Action Plan can deliver future improvements. Whilst headline underwriting profit in H1 2014 was just £2m with a combined ratio of 100.8%, at an underlying level profitability is broadly in line with our expectations.

Current year profit of £52m (H1 2013: £94m):

- Excluding Ireland, current year profits were £87m (H1 2013: £80m).
- As previously flagged, the flooding and storms in the UK and Ireland, and the severe winter weather in Canada significantly impacted results during the first half. Total weather costs for H1 2014 were £156m representing a weather loss ratio of 3.9% (H1 2013: £93m or 2.2%; five year average: 3.0%).
- The large loss ratio of 5.9% (H1 2013: 7.2%) was better than expectations reflecting relatively benign experience in Scandinavia and the UK, partly offset by Latin America which was impacted by the earthquake in Chile.
- Excluding Ireland the underlying current year loss ratio was 58.5% which represents an improvement of 1.2 points over H1 2013.

Prior year loss of £50m includes the following specific items:

- Ireland prior year underwriting loss of £29m.
- UK reserve additions of £30m in respect of noise induced hearing loss (NIHL) claims and Professional Indemnity.
- Further claims of £10m for December 2013 UK weather.
- £18m prior year loss in UK Marine driven by premium adjustments.
- Swedish annuity reserve additions of £19m ahead of an upcoming market review of longevity assumptions.
- Excluding the above items, there was positive prior year development from across the Group, and in particular from UK Commercial Motor and Property, Danish Workers Compensation, and Swedish Personal Accident.

Investment result

The investment result, which now includes investment expenses (previously reported below the insurance result), was £166m (H1 2013: £192m).

Investment income of £223m (H1 2013: £256m) was offset by investment expenses of £15m (H1 2013: £14m) and the liability discount unwind of £42m (H1 2013: £50m). Investment income of £223m is in line with our expectations but down 13% on prior year, primarily reflecting the continued impact of the low bond yield environment.

Average book yield across the whole portfolio fell from 3.6% to 3.2% year on year.

Central expenses and non-operating items

Central expenses of £27m are down 27% mainly reflecting the cessation of start-up cost accounting in Central & Eastern Europe (these costs, £6m in H1 2013, are now reflected in the underwriting result of the relevant businesses).

Net gains of £142m include:

- £61m of gains in respect of the sale of equities mainly in January;
- £29m relating to the sale and leaseback of our Swedish head office; and
- £28m of disposal gains of which £17m is attributable to the sale of our business in Latvia with the balance relating to some portfolio disposals in our core businesses. The balance of gains relating to other announced disposals is expected in H2 2014 or early 2015.

One-off non-operating costs of £133m include:

- Reorganisation costs of £117m which includes £66m of goodwill and intangible write downs (of which £57m relates to Ireland with the balance relating to software write downs in the UK and Scandinavia), and £38m of redundancy costs in respect of headcount reductions across all regions; and
- Solvency II implementation costs of £14m (H1 2013: £10m).

Tax

The Group has recognised a tax charge of £63m despite a modest level of profit before tax for the period. This is principally due to losses arising in territories where a tax benefit was either not recognised (UK and Ireland), not available or accrued at a lower rate. In addition, profits have arisen in territories that have a higher tax rate than the UK. Our UK and Irish balance sheet deferred tax asset is now £166m (H1 2013: £246m) with a further £125m (H1 2013: £10m) of unrecognised asset available for future use, excluding unrecognised assets on capital losses.

Dividend

No ordinary interim dividend has been declared. The Board is currently targeting restarting dividend payments with the 2014 full year results.

BALANCE SHEET

Movement in Net Assets

	Shareholders' funds £m	Non controlling interests £m	Loan capital £m	Equity plus loan capital £m	TNAV £m
Balance at 1 January 2014	2,893	121	1,309	**4,323**	**1,665**
Profit/(loss) after tax	4	2	-	**6**	**128**
Exchange gains/(losses) net of tax	(109)	(2)	-	**(111)**	**(70)**
Fair value gains/(losses) net of tax	95	-	-	**95**	**95**
Pension fund gains net of tax	96	-	-	**96**	**96**
Amortisation of loan capital	-	-	(6)	**(6)**	**-**
Share issue	749	-	-	**749**	**749**
Changes in shareholders' interests in subsidiaries	2	(2)	-	**-**	**2**
Share based payments	1	-	-	**1**	**1**
Prior year final dividend	-	(5)	-	**(5)**	**-**
Preference dividend	(5)	-	-	**(5)**	**(5)**
Goodwill and intangible additions	-	-	-	**-**	**(41)**
Balance at 30 June 2014	**3,726**	**114**	**1,303**	**5,143**	**2,620**
Per share (pence)					
At 1 January 2014[1]	335				202
At 30 June 2014	**356**				**259**

[1] *Restated to include the bonus element of the subsequent rights issue in accordance with IAS 33, and the impact of the share consolidation.*

Net assets have increased by 19% to £5,143m during the first half of 2014. The most significant driver of this is the proceeds from the rights issue (£747m). There were also £95m of fair value gains on available for sale assets and an improvement in the net pension position under IAS 19. Foreign exchange movements on the retranslation of the balance sheets of non-sterling denominated operations gave rise to foreign exchange losses of £111m. Tangible net assets have increased by 57% during the first half with the rights issue proceeds and tangible profits driving the movement.

Our review and clean-up of the balance sheet has continued during the first half of 2014. This has led to some actions on goodwill and intangible assets, and on reserving.

Goodwill and intangible assets were written down by a total of £66m. This comprises £57m in respect of Ireland of which £45m relates to goodwill and £12m relates to software and customer lists. There was £6m of software write-down in the UK, and a £3m write-down in Scandinavia.

We have developed a more granular segmentation of the portfolio in Canada for reserving purposes. This has led to a reallocation of reserves to better reflect the risk profile of the book, and a £19m release of margin in Canada.

Reserve additions were made in the UK in respect of Professional Indemnity and Noise Induced Hearing Loss claims. We have also increased Swedish annuity reserves. In Ireland, the first half underwriting loss of £64m includes reserve additions in the prior year. Further detail is available in the regional commentaries. Reserve margin at a total Group level remained unchanged at 5%.

CAPITAL POSITION

		Requirement £bn	Surplus £bn	Coverage (times)
Insurance Groups Directive	**30 June 2014**	**1.5**	**1.3**	**1.9**
	30 June 2014 (plus announced disposals)	1.5	1.7	2.2
	31 December 2013	1.5	0.2	1.1
Economic Capital[1] (S&P 'A' curve)	**30 June 2014**	**2.7**	**1.1**	**1.4**
	30 June 2014 (plus announced disposals)	2.9	1.3	1.5
	31 December 2013	2.4	0.7	1.3

[1] *The economic capital position at 30 June 2014 is estimated, pending the outcome of the next full economic capital model run in Q3.*

Preliminary reconciliation of IFRS capital to IGD and ECA capital

	IGD £bn	ECA £bn
Total IFRS equity plus loan capital at 30 June 2014	5.1	5.1
Adjust for:		
Non-controlling interests	(0.1)	-
Goodwill and intangibles	(1.0)	(1.0)
Deferred tax	(0.3)	(0.2)
Discounting	(0.5)	-
Claims equalisation reserve	(0.3)	-
IAS 19 pension accounting	(0.1)	(0.1)
Total available capital at 30 June 2014	**2.8**	**3.8**

At 30 June 2014 the Group's IGD surplus was £1.3bn giving coverage of 1.9 times the capital requirement. The £1.1bn increase in the surplus since the beginning of 2014 mainly reflects the impact of the rights issue proceeds received (£747m) and the reversal of a hybrid debt restriction (£253m) which took effect at the end of 2013 limiting the amount of loan capital that could be counted as capital resources.

The Group's estimated economic capital surplus at 30 June 2014 was £1.1bn giving coverage of 1.4 times the requirement. The movement in the surplus since the beginning of the year mainly reflects the impact of the rights issue proceeds and capital generated, partly offset by the impact of lower yields, pension contributions and assumption changes. RSA's measure of economic capital is based upon using the S&P A rated default curve to determine the appropriate confidence interval. The model allows for 3 years of business and the ultimate run-off and closure of the business. The capital available and requirement is expressed as being the amount in excess of the IFRS booked technical provisions (including discount and margin).

Allowing for the anticipated capital benefit arising from business disposals announced but not completed at 30 June, the IGD surplus would have been £1.7bn with coverage of 2.2 times, and the estimated economic capital surplus would have been £1.3bn with coverage of 1.5 times.

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 2014 to 30 June 2014.

	UK £m	Other £m	Group £m
Pension fund surplus/(deficit) at 1 January 2014	**(58)**	**(67)**	**(125)**
Actuarial gains/(losses)[1]	126	(15)	111
Deficit funding	51	-	51
Other movements[2]	9	4	13
Pension fund surplus/(deficit) at 30 June 2014	**128**	**(78)**	**50**

[1] *Actuarial gains/(losses) include pension investment expenses, variance against expected returns, change in actuarial assumptions and experience losses. The re-measurement of net defined benefit pension surplus, net of tax of £96m disclosed in the condensed consolidated statement of comprehensive income in the interim financial statements includes other tax charges of £15m.*

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

The IAS 19 pension position has improved during the first half of 2014 from a deficit of £125m to a surplus of £50m. The UK pension position has improved by £186m during the year to a surplus of £128m. The movement in the period is driven by greater than expected return on assets of £248m and contributions of £70m, net of changes to actuarial assumptions (£109m), experience losses of £13m and service costs of £10m.

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

GROUP OUTLOOK

Our guidance of up to a 10% reduction in premiums during 2014 is unchanged. However, given the strengthening of Sterling during the first half, the reduction on a reported exchange rate basis is likely to be greater. Also, given a fuller period effect of the announced disposals, written premiums are likely to fall further, but more modestly, in 2015.

We expect underwriting profits to improve in the second half of 2014 driven by further improvements in the current year underlying loss ratio together with the benefit of the cost saving actions we have taken during the first half. We expect there to be a positive prior year result in normal years. There will be gains from the announced disposals as some of these complete during the second half. It is likely that there will be further charges as we complete our restructuring work.

Our medium targets remain unchanged: return on tangible equity of 12-15%; tangible equity to be 35-45% of net written premiums; dividend payout ratio of 40-50% over time.

BUSINESS REVIEW – INVESTMENT RESULT

Management basis

Investment result	**H1 2014 £m**	H1 2013 £m	Change %
Bonds	177	194	(9)
Equities	14	27	(48)
Cash and cash equivalents	16	7	129
Property	5	14	(64)
Other	11	14	(21)
Investment income	**223**	**256**	**(13)**
Investment expenses	(15)	(14)	(7)
Unwind of discount	(42)	(50)	16
Investment result	**166**	**192**	**(14)**
Attributed to:			
Scandinavia	25	39	(36)
Canada	30	33	(9)
UK & Western Europe	96	102	(6)
Emerging Markets	13	19	(32)
Central functions	2	(1)	-

Realised and unrealised gains			
Realised gains	124	22	464
Unrealised gains / (losses), impairments and foreign exchange	18	(4)	-
Total	**142**	**18**	**689**

Balance sheet unrealised gains	**30 June 2014 (£m)**	31 Dec 2013 (£m)	Change %
Bonds	449	299	50
Equities	40	86	(53)
Other	6	7	(14)
Total	**495**	**392**	**26**

Investment portfolio	Value 31 Dec 2013 £m	Foreign exchange £m	Mark to market £m	Other movements £m	Transfer to assets held for sale £m	**Value 30 Jun 2014 £m**
Government bonds	4,168	(143)	54	343	(164)	4,258
Non-Government bonds	7,083	(228)	80	1,044	(54)	7,925
Cash	1,162	(49)	-	2	(38)	1,077
Equities	582	(14)	16	(449)	(1)	134
Property	331	(2)	13	(18)	-	324
Prefs & CIVs	280	(6)	(4)	17	-	287
Other	146	(4)	(1)	(32)	-	109
Total	**13,752**	**(446)**	**158**	**907**	**(257)**	**14,114**
Split by currency:						
Sterling	3,493					4,027
Danish Krone	1,302					1,207
Swedish Krona	2,287					2,391
Canadian Dollar	2,947					3,039
Euro	1,763					1,631
Other	1,960					1,819
Total	**13,752**					**14,114**

Investment income of £223m (H1 2013: £256m) was offset by investment expenses of £15m (H1 2013: £14m) and the liability discount unwind of £42m (H1 2013: £50m). Investment income of £223m is in line with our expectations but down 13% on prior year, primarily reflecting the continued impact of the low bond yield environment.

The average book yield on the total portfolio was 3.2% (H1 2013: 3.6%), with average yield on the bond portfolios of 3.0% (H1 2013: 3.4%). Reinvestment rates in the Group's bond portfolios at 30 June 2014 were approximately 120bps lower than the existing average yield.

Average duration is unchanged at 3.8 years (31 December 2013: 3.8 years).

The investment portfolio grew 3% during the first half to £14.1bn. The movement was driven by the rights issue proceeds, other net cash inflows, and positive mark-to-market movements, partly offset by foreign exchange losses and transfers into assets held for sale relating to the announced disposals of our Lithuania, Estonia, Poland, China and Noraxis businesses.

At 30 June 2014, high quality widely diversified fixed income securities represented 86% of the portfolio (31 December 2013: 82%). As reported at our Preliminary Results announcement on 27 February, we reduced our exposure to equities during the first quarter with equities now representing 1% of the total portfolio (31 December 2013: 4%). We also agreed the sale and leaseback of our Swedish head office. These proceeds together with the rights issue proceeds have been invested into high quality fixed income assets. Cash accounts for 8% of the total portfolio (31 December 2013: 8%).

The quality of the bond portfolio remains very high with 98% investment grade and 68% rated AA or above. We remain well diversified by sector and geography.

Balance sheet unrealised gains of £495m (pre-tax) increased by £103m during the first half (31 December 2013: £392m); an increase in bond unrealised gains driven by lower yields was partly offset by a reduction in unrealised equity gains as we crystalised these by reducing our exposure to equities during the first quarter.

Credit quality – bond portfolio	**Non-government**		**Government**	
	30 June 2014 %	31 Dec 2013 %	**30 June 2014 %**	31 Dec 2013 %
AAA	33	34	78	74
AA	23	24	13	14
A	35	33	2	2
BBB	7	7	6	9
< BBB	1	1	1	1
Non rated	1	1	-	-
Total	**100**	**100**	**100**	**100**

REGIONAL REVIEW – SCANDINAVIA

Management basis

	Net written premiums H1 2014 £m	Net written premiums H1 2013 £m	Change Constant FX (%)	Underwriting result H1 2014 £m	Underwriting result H1 2013 £m
Split by country					
Sweden	529	573	-	73	62
Denmark	422	435	-	33	31
Norway	108	110	13	(1)	5
Total Scandinavia	**1,059**	**1,118**	**2**	**105**	**98**
Split by class					
Personal					
Household	166	172	3	8	11
Motor	208	232	(3)	17	57
Personal Accident & Other	163	159	10	50	55
Total Scandinavia Personal	**537**	**563**	**3**	**75**	**123**
Commercial					
Property	193	198	4	27	(37)
Liability	96	92	10	6	8
Motor	132	144	(1)	(1)	(2)
Marine & Other	101	121	(11)	(2)	6
Total Scandinavia Commercial	**522**	**555**	**-**	**30**	**(25)**
Total Scandinavia	**1,059**	**1,118**	**2**	**105**	**98**
Investment result				25	39
Scandinavia insurance result				**130**	**137**

Operating Ratios (%)	Claims H1 2014	Claims H1 2013	Commission H1 2014	Commission H1 2013	Op Expenses H1 2014	Op Expenses H1 2013	Combined H1 2014	Combined H1 2013
Personal								
Household							95.5	92.3
Motor							89.7	71.1
Personal Accident & Other							66.7	63.6
Total Scandinavia Personal	**68.2**	**60.5**	**3.8**	**3.0**	**12.4**	**11.8**	**84.4**	**75.3**
Commercial								
Property							80.2	119.6
Liability							84.1	81.6
Motor							98.5	99.1
Marine & Other							99.4	89.9
Total Scandinavia Commercial	**70.3**	**84.9**	**3.7**	**3.0**	**15.2**	**14.4**	**89.2**	**102.3**
Total Scandinavia	**69.2**	**71.6**	**3.7**	**3.0**	**13.8**	**13.1**	**86.7**	**87.7**
Of which:								
Weather	*0.2*	*-*						
Large losses	*2.8*	*9.5*						
Current year underlying	*66.1*	*67.7*						
Prior year	*0.1*	*(5.6)*						

Rate increases[1] (%)	Jun 14 v Jun 13	Mar 14 v Mar 13	Dec 13 v Dec 12	Sep 13 v Sep 12
Personal Household	**4**	4	5	6
Personal Motor	**3**	1	1	2
Commercial Property	**3**	5	4	4
Commercial Liability	**5**	5	4	5
Commercial Motor	**5**	8	7	5

[1] *Rating increases reflect rate movements achieved for risks renewing in the month versus comparable risks renewing in the same month the previous year*

SCANDINAVIA – STRONG PERFORMANCE; COR OF 86.7%

Our Scandinavian business continued to perform strongly. Underwriting profits in the first half were £105m (H1 2013: £98m) and the combined ratio was 86.7% (H1 2013: 87.7%).

Net written premiums of £1,059m were up 2% at constant exchange (H1 2013: £1,118m as reported; £1,043m at constant exchange).

Personal grew 3% to £537m. Household growth of 3% was by good rate increases across all countries whilst Motor was down 3% mainly reflecting disciplined risk selection and targeted rate increases in Denmark. Personal Accident was up 10%, although on an underlying basis excluding the impact of the transfer of the Care portfolio from Commercial, growth was 6%.

In Commercial, premiums of £522m were flat. Property growth of 4% was driven by rate increases in Sweden and volume growth in Denmark and Norway. Liability grew 10% due to a small number of large new contracts in Denmark and rate increases in Sweden. Marine & Other contraction of 11% was 5% on an underlying basis excluding the impact of the Care transfer to Personal Accident.

The Scandinavian underwriting result was a profit of £105m (H1 2013: £98m) with a current year profit of £112m and a prior year loss of £7m. After including investment returns of £25m (H1 2013: £39m), the insurance result was £130m (H1 2013: £137m).

In Personal, underwriting profits were £75m with a combined ratio of 84.4%. This mainly reflects a strong performance in Swedish Personal Accident where we have seen favourable average claims cost trends. Personal Motor profitability was lower than H1 2013 reflecting an increase to prior year Swedish Motor annuity reserves of £19m in anticipation of an upcoming market review of longevity assumptions. Scandinavia Commercial made an underwriting profit of £30m with a combined ratio of 89.2% (H1 2013: 102.3%) with lower levels of large losses and good underlying performances in Danish Property, Swedish Motor and Swedish Liability.

The combined ratio in H1 2014 was 86.7% (H1 2013: 87.7%). Weather and large loss experience was relatively benign. The weather ratio of 0.2% compares to a five year average for our Scandinavian business of 1.6%, whilst large losses of 2.8% compare to a long term average of 5.6%. The underlying current year loss ratio was 1.6 points better than H1 2013, and there was strong contribution from both Sweden and Denmark. Expenses are in line with our expectations, and so far in 2014 we have delivered a headcount reduction of around 3%.

Scandinavia – Outlook

We expect the Scandinavian P&C markets to grow in line with local GDP growth, and we expect to perform broadly in line with the market. Our focus is on sustaining strong personal lines results in Sweden and improving commercial lines profitability; further cost improvements in Denmark; and focusing on profitable growth in Norway.

REGIONAL REVIEW – CANADA

Management basis

	Net written premiums H1 2014 £m	Net written premiums H1 2013 £m	Change Constant FX (%)	Underwriting result H1 2014 £m	Underwriting result H1 2013 £m
Personal					
Household	185	200	8	(9)	17
Motor	299	368	(5)	10	30
Total Canada Personal	**484**	**568**	**(1)**	**1**	**47**
Commercial					
Property	107	131	(4)	(9)	(51)
Liability	63	79	(7)	(14)	8
Motor	48	59	(6)	27	8
Marine & Other	25	29	-	7	3
Total Canada Commercial	**243**	**298**	**(5)**	**11**	**(32)**
Total Canada	**727**	**866**	**(2)**	**12**	**15**
Investment result				30	33
Canada insurance result				**42**	**48**

Operating Ratios (%)	Claims H1 2014	Claims H1 2013	Commission H1 2014	Commission H1 2013	Op Expense H1 2014	Op Expense H1 2013	Combined H1 2014	Combined H1 2013
Personal								
Household							106.0	94.5
Motor							96.7	92.1
Total Canada Personal	**74.8**	**67.2**	**11.6**	**11.8**	**13.6**	**13.8**	**100.0**	**92.8**
Commercial								
Property							108.4	139.3
Liability							121.5	89.6
Motor							42.9	84.0
Marine & Other							71.3	90.4
Total Canada Commercial	**61.8**	**77.1**	**18.9**	**19.8**	**14.2**	**14.0**	**94.9**	**110.9**
Total Canada	**70.8**	**70.4**	**14.0**	**14.5**	**13.8**	**13.8**	**98.6**	**98.7**
Of which:								
Weather	*6.1*	*6.0*						
Large losses	*4.4*	*2.7*						
Current year underlying	*62.8*	*63.9*						
Prior year	*(2.5)*	*(2.2)*						

Rate increases[1] (%)	**Jun 14 v Jun 13**	Mar 14 v Mar 13	Dec 13 v Dec 12	Sep 13 v Sep 12
Personal Household	**10**	9	8	7
Personal Motor	**(2)**	1	1	-
Commercial Property	**5**	4	4	5
Commercial Liability	**3**	3	3	2
Commercial Motor	**1**	1	-	2

[1] *Rating increases reflect rate movements achieved for risks renewing in the month versus comparable risks renewing in the same month the previous year*

CANADA – UNDERLYING PERFORMANCE STRONG DESPITE ADVERSE WINTER WEATHER

After a record year for weather events in Canada in 2013, adverse weather conditions continued into the first quarter of 2014. As a result, H1 2014 has been challenging for our Canadian business, however, we delivered an underwriting profit of £12m and a combined ratio of 98.6%. The underlying performance of our Canadian business remains strong.

Net written premiums in Canada were down 2% on a constant exchange rate basis to £727m (H1 2013: £866m as reported; £743m at constant exchange) with 4% volume reductions partly offset by 2% rate growth.

Personal premiums were down 1% with a reduction of 5% in Motor partly offset by growth of 8% in Household. Household premiums included rate increases of 8% driven by both our Johnson and Broker businesses whilst volumes were flat. In Motor, premium reductions were due to the exit of unprofitable brokers and lower new business in Ontario in our Johnson business as we reshape portions of the affinity portfolio.

In Commercial lines, premiums were down 5% to £243m driven mainly by the management actions we have been taking on the portfolio, particularly where we have been re-underwriting or exiting poorer performing accounts. Property reductions of 4% are mainly due to underwriting actions in Quebec, whilst Liability contraction of 7% follows the exit of unprofitable programs and market leading rating action.

Underwriting profit was £12m (H1 2013: £15m) with a current year loss of £4m and a prior year profit of £16m. The combined ratio was 98.6% (H1 2013: 98.7%). After including investment returns of £30m (H1 2013: £33m), the insurance result was £42m (H1 2013: £48m). Ongoing balance sheet work across the Group has included a more granular segmentation of the portfolio in Canada for reserving purposes. This has led to a reallocation of reserves to better reflect the risk profile of the book, and a £19m release of margin.

Profitability was significantly impacted by extreme winter conditions resulting in a weather loss ratio of 6.1% in the first half which compares to a five year average for our Canadian business of 4.3%. Personal Household and Motor were both affected by the weather, with Motor experiencing elevated claims frequency as a result of severe driving conditions in the first quarter.

In Commercial, the reallocation of reserves has resulted in an increase in Liability reserves and a release in Motor, impacting their respective results. Property profitability remains under pressure given a highly competitive market, with adverse weather and large loss experience during the first half. At a total Canadian level, the large loss ratio was 4.4% in H1 2014 compared to a five year average of 3.0% and an H1 2013 ratio of 2.7%.

Canada – Outlook

H1 2014 has been a challenging period for us in Canada. However, we anticipate the business returning to more normal performance patterns, subject to volatile items such as weather trends.

REGIONAL REVIEW – UK

Management basis

	Net written premiums		Change	Underwriting result	
	H1 2014	H1 2013	**Constant**	**H1 2014**	H1 2013
	£m	£m	**FX (%)**	**£m**	£m
UK Personal					
Household	336	334	1	19	47
Motor	132	215	(39)	(1)	(2)
Pet	130	104	25	(2)	3
Total UK Personal	**598**	**653**	**(8)**	**16**	**48**
UK Commercial					
Property	312	350	(10)	(30)	7
Liability	166	156	6	(31)	(9)
Motor	106	310	(66)	13	(7)
Marine & Other	158	176	(10)	8	6
Total UK Commercial	**742**	**992**	**(25)**	**(40)**	**(3)**
Total UK	**1,340**	**1,645**	**(18)**	**(24)**	**45**
Investment result				77	87
UK insurance result				**53**	**132**

Operating Ratios (%)	Claims		Commission		Op Expenses		Combined	
	H1 2014	H1 2013	**H1 2014**	H1 2013	**H1 2014**	H1 2013	**H1 2014**	H1 2013
UK Personal								
Household							94.6	86.7
Motor							101.5	101.2
Pet							101.5	98.1
Total UK Personal	**60.0**	**55.5**	**22.9**	**22.1**	**15.1**	**15.4**	**98.0**	**93.0**
UK Commercial								
Property							106.1	92.2
Liability							121.2	102.8
Motor							115.5	101.0
Marine & Other							92.7	90.4
Total UK Commercial	**73.9**	**68.9**	**21.4**	**15.0**	**14.4**	**12.7**	**109.7**	**96.6**
Total UK	**67.7**	**63.1**	**22.1**	**17.8**	**14.7**	**13.8**	**104.5**	**94.7**
Of which:								
Weather	*6.0*	*1.9*						
Large losses	*8.5*	*11.0*						
Current year underlying	*51.7*	*53.7*						
Prior year	*1.5*	*(3.5)*						

UK rate increases[1] (%)	**Jun 14 v Jun 13**	Mar 14 v Mar 13	Dec 13 v Dec 12	Sep 13 v Sep 12
Personal Household	**-**	1	-	-
Personal Motor	**5**	3	2	(2)
Commercial Property	**5**	2	1	3
Commercial Liability	**2**	5	4	3
Commercial Motor	**4**	4	2	4

[1] *Rating increases reflect rate movements achieved for risks renewing in the month versus comparable risks renewing in the same month the previous year*

UK – UNDERLYING CURRENT YEAR IMPROVEMENT; ADVERSE PRIOR YEAR RESERVE MOVEMENTS

In the UK we have made progress with targeted management action on pricing and underwriting that included both planned exits and focused growth. Adverse weather in the first quarter together with reserve additions in Commercial have affected profitability. However, expenses are coming down and headcount reductions are being made with a reduction of over 100 staff during H1 2014.

In UK Personal, premiums were down 8% to £598m. Household premiums were up 1% despite competitive market conditions and a softening rating environment. Motor premiums were down 39% as a result of our portfolio actions. During the first half we have consolidated our direct Motor offering to MORE TH>N exiting our eChoice offering; significantly reduced the number of Personal Motor broker partners we do business with; and exited our arrangement with Ford. We have also maintained pricing discipline in a very soft pricing environment. Pet premiums were up 25% although, excluding the impact of prior period pipeline premium adjustment made in H1 2013, premium increases were 9% mainly driven by rate increases.

In UK Commercial, premiums were down 25% to £742m driven primarily by a reduction in Motability premiums as a result of our restructured arrangements which took effect from 1 October 2013. Underlying premiums excluding Motability were down 9% as we have continued to price and underwrite for profit in a competitive market environment which has resulted in lower new business.

The UK underwriting result was a loss of £24m (H1 2013: £45m profit). The current year profit of £15m comprises £12m from Personal and £3m from Commercial, whilst the prior year loss of £39m includes a loss of £43m in Commercial and a profit of £4m in Personal.

In UK Personal the underwriting profit of £16m includes £19m from Household which was impacted by adverse weather in the first quarter and a £1m loss in Motor in a highly competitive market. Pet profitability was disappointing due to higher than anticipated claims inflation, for which we have already implemented rating action to address.

The UK Commercial underwriting loss of £40m is driven by continued adverse development of the prior year Professional Indemnity book (£20m), especially the 2008-11 underwriting years, together with reserve additions in respect of Noise Induced Hearing Loss (NIHL) claims (£10m) where claims frequencies continue to fall but slower than anticipated. Our Property book suffered a loss of £30m driven by a single large claim at Glasgow School of Arts together with weather losses of £31m following storms in January/February and also in June in Europe. Marine continued with a strong underwriting result of £8m and COR of 92.7%, whilst Commercial Motor produced a COR excluding Motability of 97.0% as the improved performance continued. Rate remained positive as we continued to price for profit.

The UK combined ratio was 104.5% and included a claims ratio of 67.7% (H1 2013: 63.1%). The weather ratio of 6.0% was 4.1 points higher than H1 2013 and 2.7 points higher than the five year average for the UK business. The large loss ratio of 8.5% was 2.5 points lower than H1 2013 and 3.0 points lower than the five year average. The current year underlying loss ratio shows a 2.0 point improvement over the same period last year to 51.7%.

UK – Outlook

In the UK we will continue on our path to restoring the business to good levels of profitability which will include completing the announced exits and portfolio remediation, as well as an ongoing focus on reducing our costs.

REGIONAL REVIEW – IRELAND AND ITALY

Management basis

	Net written premiums		Change	Underwriting result	
	H1 2014 £m	H1 2013 £m	**Constant FX (%)**	**H1 2014 £m**	H1 2013 £m
Ireland	**161**	**197**	**(16)**	**(64)**	**10**
Italy	**91**	**104**	**(10)**	**2**	**(5)**

Operating Ratios (%)	Claims		Commission		Op Expenses		Combined	
	H1 2014	H1 2013	**H1 2014**	H1 2013	**H1 2014**	H1 2013	**H1 2014**	H1 2013
Ireland	**110.2**	**69.1**	**13.1**	**13.0**	**15.2**	**12.7**	**138.5**	**94.8**
Of which:								
Weather	*8.6*	*2.8*						
Large losses	*3.2*	*1.8*						
Current year underlying	*77.5*	*62.0*						
Prior year	*20.9*	*2.5*						
Italy	**66.5**	**73.9**	**16.8**	**16.9**	**14.6**	**14.4**	**97.9**	**105.2**

Ireland rate increases[1] (%)	**Jun 14 v Jun 13**	Mar 14 v Mar 13	Dec 13 v Dec 12	Sep 13 v Sep 12
Personal Household	**-**	(3)	2	2
Personal Motor	**15**	12	13	13
Commercial Property	**5**	(1)	(3)	-
Commercial Liability	**10**	19	18	6
Commercial Motor	**2**	5	2	3

[1] *Rating increases reflect rate movements achieved for risks renewing in the month versus comparable risks renewing in the same month the previous year*

IRELAND AND ITALY – ONGOING REMEDIATION IN IRELAND; GOOD PROGRESS IN ITALY

Ireland

In Ireland, it has been a difficult first half. The underwriting loss was £64m and includes a current year loss of £35m which reflects:

- £15m of expected underwriting loss for the first half, mainly in recognition of the ongoing impact of the issues identified in 2013, in particular inadequate pricing on pre-remediation business that is continuing to come through in earned premiums;
- Around £13m of adverse current year claims experience, related to actuarial 'true ups' post the 2013 reserving resets. Both of the above factors are being addressed through assertive rating and underwriting action; and
- The impact of adverse weather in the first quarter which was £7m higher than the five year average. The weather ratio in H1 2014 was 8.6% compared to the five year average of 5.8%.

The prior year loss of £29m represents:

- £12m of further adverse prior year reserve development with around half related to the remediation of a specific delegated authority scheme;
- £10m of reserve margin build; and
- £7m provisioning for reinsurance retentions.

Our remediation work is ongoing, and we remain confident that the actions we are taking will restore the business to profitability.

We have made good progress in filling critical management vacancies. In March we announced the appointment of a new Chief Executive in Ireland who started in June, and we are advancing well in respect of other senior positions.

On pricing we have applied strong rate increases during 2014 in key lines requiring remediation, with year-on-year rate increases of c.20% in Motor and c.15% in Liability. As a result of this focus, premiums in the first half were down 16%.

We have conducted a further review of all portfolios since June and are targeting the implementation of refreshed portfolio action plans during the third quarter.

As previously indicated, we have undertaken an impairment review of the carrying value of Irish goodwill and intangible assets. In the H1 2014 accounts we have written down £45m relating to goodwill and £12m relating software and customer lists. This leaves £59m of goodwill and intangible assets in the Irish business.

We expect further but lower underwriting losses in the second half of 2014. Our goal is to return the business to profitability in 2015.

Italy

In Italy the underwriting profit of £2m reflects the excellent progress that has been made in remediating the business. First half premiums of £91m were down 10% driven by the further exit of underperforming distribution relationships in Personal Motor and Personal Accident.

REGIONAL REVIEW – EMERGING MARKETS

Management basis

	Net written premiums		Change	Underwriting result	
	H1 2014 £m	H1 2013 £m	**Constant FX (%)**	**H1 2014 £m**	H1 2013 £m
Latin America	331	399	10	(27)	3
CEEME	205	209	4	(2)	6
Asia	71	78	-	6	3
Total Emerging Markets	**607**	**686**	**7**	**(23)**	**12**
Investment result				13	19
EM insurance result				**(10)**	**31**
Memo:					
Middle East	75	81	(1)		
India associate[1]	64	81	(6)		
Thailand associate[1]	84	90	11		

[1] 100% of the premiums of our associates in India and Thailand

Operating Ratios (%)	Claims		Commission		Op Expenses		Combined	
	H1 2014	H1 2013	**H1 2014**	H1 2013	**H1 2014**	H1 2013	**H1 2014**	H1 2013
Latin America							110.6	99.0
CEEME							101.0	96.4
Asia							98.4	96.6
Total Emerging Markets	**62.3**	**57.1**	**21.1**	**18.9**	**22.5**	**21.8**	**105.9**	**97.8**
Of which:								
Weather	*-*	*0.3*						
Large losses	*4.8*	*2.5*						
Current year underlying	*58.3*	*55.8*						
Prior year	*(0.8)*	*(1.5)*						

EMERGING MARKETS – CONTINUED GROWTH IN LATIN AMERICA

Emerging Markets premiums were up 7% at constant exchange to £607m.

Latin American premiums were up 10% driven mainly by Argentina and Brazil with good growth also in Uruguay. The underwriting loss of £27m includes £14m in respect of the Chile earthquake in April (a further £5m is included in the Group Re result bringing the total event cost to £19m) and several other large losses.

During the first half we have taken action to restructure our businesses in Brazil and Colombia. In Brazil, we have announced the exit of Risk Managed Property, Construction & Engineering and Liability. We will retain focus on Marine and Commercial Motor as well as two emerging segments: Affinity and SME. In Colombia, we have announced the exit of Personal and Commercial Motor, and intend to pursue profitable growth in non-Motor Commercial lines and affinity schemes.

In Latin America, the markets we operate in continue to be attractive though competitive, driven by low insurance penetration and a growing middle class across the region.

Central & Eastern Europe and the Middle East (CEEME) saw premium growth of 4% driven by rate increases (3%) and volume growth (1%). The underwriting loss of £2m was impacted by residual 'start-up' costs being reallocated into the underwriting result together with adverse large loss experience. Growth in Asia was flat with an underwriting profit of £6m.

In total, Emerging Markets delivered an underwriting loss of £23m with a current year loss of £26m and a prior year profit of £3m. After an investment result of £13m (H1 2013: £19m) Emerging Markets generated an insurance result of £10m loss.

Emerging Markets – Outlook

Despite both political and economic headwinds in some of our emerging market countries, insurance penetration is still improving and we expect to achieve mid-high single digit organic growth.

During the first half we announced the sale of our businesses in Lithuania, Latvia, Estonia, Poland and China. The disposal of our Latvia business completed on 30 June, with the remaining announced disposals expected to complete during the second half or early in 2015. We are continuing to evaluate further disposals some of which may be agreed during the second half of 2014.

RATIOS, DEFINITIONS AND OTHER INFORMATION

Combined operating ratio (COR)

The Group's COR is calculated as follows:

COR = loss ratio + commission ratio + expense ratio

Where:

Loss ratio = net incurred claims / net earned premiums

Commission ratio = commissions / net written premiums

Expense ratio = operating expenses / net written premiums

Underlying return on tangible equity

Underlying return on tangible equity was 3.6% (H1 2013: 17.0%). It is calculated as the profit after tax attributable to ordinary shareholders, excluding acquisitions, disposals, reorganisation costs, pension net interest costs and net unrealised investment gains or losses, impairments and foreign exchange expressed in relation to opening shareholders' funds attributable to ordinary shareholders less goodwill and intangible assets.

Net asset value and tangible net asset value per share

Net asset value per share data at 30 June 2014 was based on total shareholders' funds of £3,726m, adjusted by £125m for preference shares.

Earnings per share

The earnings per share is calculated by reference to the result attributable to the ordinary shareholders of the Parent Company and the weighted average number of shares in issue during the period. These were 859,495,718 on both a basic and diluted basis (excluding those held in ESOP and SIP trusts). The number of shares in issue at 30 June 2014 was 1,012,856,836 (excluding those held in ESOP and SIP trusts).

Related party transactions

In the first half of 2014, there have been no related party transactions that have materially affected the financial position of the Group.

Changes to management basis reporting

Investment expenses have been reclassified from Other Activities into the Investment Result. The Investment Result now includes investment income, investment expenses, and the discount unwind. Other Activities has been renamed to Central Expenses.

Below the Operating Result, amortisation and pension costs have been grouped into 'recurring non-operating costs' whilst Solvency II costs, reorganisation costs, transaction costs, and economic assumption changes have been grouped into 'one-off non-operating costs'.

Economic assumption changes is a new line item in management basis reporting and captures the discount rate changes (£63m cost) made at 31 December 2013 which were previously reported within the discount unwind.

European Specialty Lines (ESL) previously reported within Western Europe, has been reclassified into UK Commercial in order to better reflect the way in which the ESL businesses are managed.

Net earned premiums by class

Management basis

	H1 2014	H1 2013	Change as reported	Change at constant fx
	£m	£m	%	%
Scandinavia Personal				
Household	153	158	(3)	4
Motor	181	204	(11)	(4)
Personal Accident & Other	152	153	(1)	7
Total	**486**	**515**	**(6)**	**2**
Scandinavia Commercial				
Property	158	164	(4)	2
Liability	66	64	3	10
Motor	105	115	(9)	(2)
Marine & Other	75	90	(17)	(11)
Total	**404**	**433**	**(7)**	**-**
Total Scandinavia	**890**	**948**	**(6)**	**1**
Canada Personal				
Household	213	221	(4)	13
Motor	313	374	(16)	(2)
Total	**526**	**595**	**(12)**	**3**
Canada Commercial				
Property	107	129	(17)	(3)
Liability	60	76	(21)	(8)
Motor	47	53	(11)	2
Marine & Other	26	29	(10)	4
Total	**240**	**287**	**(16)**	**(2)**
Total Canada	**766**	**882**	**(13)**	**1**
UK Personal				
Household	348	333	5	5
Motor	168	205	(18)	(18)
Pet	125	104	20	20
Total	**641**	**642**	**-**	**-**
UK Commercial				
Property	273	298	(8)	(8)
Liability	149	144	3	3
Motor	252	272	(7)	(7)
Marine	129	132	(2)	(2)
Total	**803**	**846**	**(5)**	**(5)**
Total UK	**1,444**	**1,488**	**(3)**	**(3)**
Ireland	175	184	(5)	(2)
Italy	102	114	(11)	(7)
Total UK & WE	**1,721**	**1,786**	**(4)**	**(3)**
Emerging Markets				
Latin America	351	402	(13)	15
CEE&ME	195	189	3	10
Asia	78	70	11	22
Total Emerging Markets	**624**	**661**	**(6)**	**14**
Group Re	11	21	(48)	(48)
Total Group	**4,012**	**4,298**	**(7)**	**1**

Reconciliation between management basis underwriting result and statutory reporting

Management basis			Discontinued operations	Add back other income	Statutory basis	
Net written premiums	3,930		(121)		3,809	Net written premiums
Net earned premiums	4,012		(119)		3,893	Net earned premiums
Net incurred claims	(2,800)		68		(2,732)	Net claims and benefits
Commissions	(603)	(1,210)	47	(65)	(1,228)	Underwriting and policy acquisition costs
Operating expenses	(617)					
DAC	10					
Underwriting result	**2**					

Reporting and Dividend Timetable

13 August 2014	Ex dividend date for the second preference dividend for 2014
15 August 2014	Record date for the second preference dividend for 2014
6 November 2014	Q3 2014 interim management statement
1 October 2014	Payment date for the second preference dividend for 2014

SUMMARY CONSOLIDATED INCOME STATEMENT

MANAGEMENT BASIS

	6 Months 2014 £m	6 Months 2013[4] £m	12 Months 2013[4] £m
Net written premiums	**3,930**	**4,652**	**8,664**
Net earned premiums	**4,012**	**4,298**	**8,594**
Net incurred claims[1]	(2,800)	(2,831)	(5,970)
Commissions	(603)	(631)	(1,259)
Operating expenses	(617)	(685)	(1,350)
Change in deferred acquisition costs (DAC)	10	37	42
Underwriting result	**2**	**188**	**57**
Investment income	223	256	493
Investment expenses	(15)	(14)	(31)
Unwind of discount	(42)	(50)	(97)
Investment result	**166**	**192**	**365**
Insurance result	**168**	**380**	**422**
Central expenses	(27)	(37)	(73)
Operating result	**141**	**343**	**349**
Net gains	142	18	32
Interest	(58)	(59)	(117)
Recurring non-operating costs[2]	(23)	(29)	(57)
One-off non-operating costs[3]	(133)	(23)	(451)
Profit before tax	**69**	**250**	**(244)**
Tax	(63)	(60)	(94)
Profit after tax	**6**	**190**	**(338)**
Earnings per share on profit attributable to the ordinary shareholders of the Parent Company:			
Basic	(0.2)	22.2	(43.7)
Diluted	(0.2)	22.1	(43.7)
[1] Of which: claims handling costs	*239*	*235*	*484*
[2] Amortisation	*(18)*	*(21)*	*(42)*
[2] Total pension costs	*(5)*	*(8)*	*(15)*
[3] Solvency II costs	*(14)*	*(10)*	*(20)*
[3] Reorganisation costs	*(117)*	*(4)*	*(356)*
[3] Transaction costs	*(2)*	*(9)*	*(12)*
[3] Economic assumption changes	*-*	*-*	*(63)*

[4] Per share amounts restated to reflect the impact of the bonus shares creation following the completion of the rights issue and share consolidation.

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MANAGEMENT BASIS

	30 June 2014 £m	30 June 2013 £m	31 December 2013 £m
Assets		*Restated*[1]	
Goodwill and other intangible assets	855	1,519	1,103
Property and equipment	150	269	160
Associated undertakings	40	45	44
Investments			
Investment property	*324*	*340*	*331*
Equity securities	*421*	*929*	*862*
Debt and fixed income securities	*12,183*	*11,617*	*11,251*
Other	*109*	*137*	*146*
Total investments	13,037	13,023	12,590
Reinsurers' share of insurance contract liabilities	1,983	2,165	2,026
Insurance and reinsurance debtors	3,461	3,861	3,593
Other debtors and other assets	1,157	1,306	1,149
Cash and cash equivalents	1,077	1,250	1,162
Assets associated with continuing operations	**21,760**	**23,438**	**21,827**
Assets held for sale	543	1	103
Total assets	**22,303**	**23,439**	**21,930**
Equity and liabilities			
Equity and loan capital			
Shareholders' funds	3,726	3,798	2,893
Non-controlling interests	114	131	121
Total equity	**3,840**	**3,929**	**3,014**
Loan capital	1,303	1,311	1,309
Total equity and loan capital	**5,143**	**5,240**	**4,323**
Liabilities (excluding loan capital)			
Insurance contract liabilities	14,343	15,662	15,001
Insurance and reinsurance liabilities	785	596	643
Borrowings	299	300	301
Provisions and other liabilities	1,437	1,641	1,662
Liabilities associated with continuing operations	**16,864**	**18,199**	**17,607**
Liabilities held for sale	296	-	-
Total liabilities (excluding loan capital)	**17,160**	**18,199**	**17,607**
Total equity, loan capital and liabilities	**22,303**	**23,439**	**21,930**

[1] *Restated for the adoption of IFRS 13 ' Fair Value Measurement' at 31 December 2013.*

SUMMARY CASH FLOW FOR CONTINUING OPERATIONS

MANAGEMENT BASIS

	6 months 2014 £m	6 months 2013 £m
Operating cash flow	335	392
Tax paid	(56)	(100)
Interest paid	(78)	(76)
Pension deficit funding	(65)	(66)
Cash generation	**136**	**150**
Group dividends	(5)	(95)
Dividend to non-controlling interests	(5)	(7)
Issue of share capital	749	4
Net movement of debt	(7)	3
Corporate activity	36	(30)
Cash movement	**904**	**25**
Represented by:		
Increase/(decrease) in cash and cash equivalents	2	(111)
Purchase/(sale) of other investments	902	136
Cash movement	**904**	**25**

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Further information

A live webcast of the analyst presentation, including the question and answer session, will be broadcast on the website at 10:00am today and is available via a listen only conference call by dialling +44 (0) 20 3427 1918. Participants should use access code 2239199. Scanning the QR code opposite will download details of the conference call to a smart phone. A webcast of the call will be available via the company website (www.rsagroup.com).

Important disclaimer

This press release and the associated conference call may contain 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. Generally, words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "aim", "outlook", "believe", "plan", "seek", "continue" or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance. By their nature, all forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control, including amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation or regulations in the jurisdictions in which the Group and its affiliates operate. As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Group's forward-looking statements. Forward-looking statements in this press release are current only as of the date on which such statements are made. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Nothing in this press release shall be construed as a profit forecast.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INCOME STATEMENT

STATUTORY BASIS

	Notes	**6 Months 2014 (unaudited) £m**	6 Months 2013 (unaudited) £m Restated	12 Months 2013 (unaudited) £m Restated
Income				
Gross written premiums		**4,627**	5,074	9,554
Less: reinsurance premiums		**(818)**	(546)	(1,142)
Net written premiums	2	**3,809**	4,528	8,412
Change in the gross provision for unearned premiums		**(137)**	(372)	(141)
Less: change in provision for unearned premiums, reinsurers' share		**221**	25	81
Change in provision for unearned premiums		**84**	(347)	(60)
Net earned premiums		**3,893**	4,181	8,352
Net investment return		**337**	270	514
Other operating income		**70**	77	137
Total income		**4,300**	4,528	9,003
Expenses				
Gross claims incurred		**(2,865)**	(3,178)	(6,511)
Less: claims recoveries from reinsurers		**133**	415	675
Net claims and benefits		**(2,732)**	(2,763)	(5,836)
Underwriting and policy acquisition costs		**(1,228)**	(1,305)	(2,605)
Unwind of discount		**(42)**	(50)	(159)
Other operating expenses		**(194)**	(106)	(468)
Total expenses		**(4,196)**	(4,224)	(9,068)
Finance costs		**(59)**	(63)	(125)
Net share of loss of associates after tax		**-**	(1)	(2)
Profit/(loss) before tax		**45**	240	(192)
Income tax expense		**(62)**	(60)	(93)
(Loss)/Profit for the period from continuing operations		**(17)**	180	(285)
Discontinued operations				
Profit/(Loss) for the period from discontinued operations	3	**23**	10	(53)
Profit/(Loss) for the period		**6**	**190**	**(338)**
Attributable to:				
Equity holders of the Parent Company		**4**	185	(347)
Non-controlling interests		**2**	5	9
		6	190	(338)

Earnings per share on profit/(loss) attributable to the ordinary shareholders of the Parent Company:

Basic			Restated	Restated
From continuing operations	5	**(2.8)p**	21.0p	(37.2)p
From discontinued operations	5	**2.6p**	1.2p	(6.5)p
		(0.2)p	22.2p	(43.7)p
Diluted				
From continuing operations	5	**(2.8)p**	20.9p	(37.2)p
From discontinued operations	5	**2.6p**	1.2p	(6.5)p
		(0.2)p	22.1p	(43.7)p

The attached notes are an integral part of these condensed consolidated financial statements. For dividend information refer to note 8.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATUTORY BASIS

	Notes	**6 Months 2014 (unaudited) £m**	6 Months 2013 (unaudited) £m Restated	12 Months 2013 (unaudited) £m Restated
Profit for the period		**6**	190	(338)
Other comprehensive income:				
Items that may be reclassified to the income statement:				
Exchange (losses)/gains, net of tax		**(111)**	68	(130)
Share of associates' other comprehensive income		**(3)**	-	(2)
Fair value gains/(losses) on available for sale financial assets, net of tax		**98**	(188)	(257)
		(16)	(120)	(389)
Items that will not be reclassified to the income statement:				
Remeasurement of net defined benefit pension surplus/deficit, net of tax		**96**	68	17
Movement in property revaluation surplus, net of tax		**-**	-	2
		96	68	19
Total other comprehensive income/(expense) for the period		**80**	(52)	(370)
Total comprehensive income/(expense) for the period		**86**	138	(708)
Total comprehensive income/(expense) attributable to equity holders of the Parent Company:				
From continuing operations		64	117	(655)
From discontinued operations		22	11	(58)
		86	128	(713)
Attributable to:				
Equity holders of the Parent Company		**86**	128	(713)
Non-controlling interests		**-**	10	5
Total comprehensive income/(expense) for the period		**86**	**138**	**(708)**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

STATUTORY BASIS

	Notes	Shareholders' equity (unaudited) £m	Non-controlling interests (unaudited) £m	Total equity (unaudited) £m
Balance at 1 January 2014		**2,893**	**121**	**3,014**
Total comprehensive income for the period		**86**	**-**	**86**
Share issue including scrip	7	**749**	**-**	**749**
Changes in shareholders' interests in subsidiaries		**2**	**(2)**	**-**
Share based payments		**1**	**-**	**1**
Prior year final dividend	8	**-**	**(5)**	**(5)**
Preference dividend	8	**(5)**	**-**	**(5)**
Balance at 30 June 2014		**3,726**	**114**	**3,840**
Balance at 1 January 2013		**3,750**	**129**	**3,879**
Total comprehensive income for the period (restated)		128	10	138
Share issue including scrip		54	-	54
Changes in shareholders' interests in subsidiaries		(1)	(1)	(2)
Share based payments		12	-	12
Prior year final dividend	8	(140)	(7)	(147)
Preference dividend	8	(5)	-	(5)
Balance at 30 June 2013 (restated)		**3,798**	**131**	**3,929**

The attached notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

STATUTORY BASIS

	Notes	**30 June 2014 (unaudited) £m**	30 June 2013 (unaudited) £m Restated	31 December 2013 (audited) £m
Assets				
Goodwill and other intangible assets	**4**	**855**	1,519	1,103
Property and equipment	**10**	**150**	269	160
Investment property		**324**	340	331
Investment in associates		**40**	45	44
Financial assets	**11**	**12,713**	12,683	12,259
Total investments		**13,077**	13,068	12,634
Reinsurers' share of insurance contract liabilities		**1,983**	2,165	2,026
Insurance and reinsurance debtors		**3,461**	3,861	3,593
Current tax assets		**48**	94	60
Deferred tax assets		**253**	284	302
Other debtors and other assets		**856**	928	787
		1,157	1,306	1,149
Cash and cash equivalents	**13**	**1,077**	1,250	1,162
		21,760	23,438	21,827
Assets held for sale and of disposal groups	**3**	**543**	1	103
Total assets		**22,303**	23,439	21,930
Equity and liabilities				
Equity				
Shareholders' equity		**3,726**	3,798	2,893
Non-controlling interests		**114**	131	121
Total equity		**3,840**	3,929	3,014
Liabilities				
Loan capital	**11**	**1,303**	1,311	1,309
Insurance contract liabilities		**14,343**	15,662	15,001
Insurance and reinsurance liabilities		**785**	596	643
Borrowings		**299**	300	301
Current tax liabilities		**71**	46	57
Deferred tax liabilities		**72**	94	82
Provisions		**277**	411	366
Other liabilities		**1,017**	1,090	1,157
Provisions and other liabilities		**1,437**	1,641	1,662
		18,167	19,510	18,916
Liabilities of disposal groups	**3**	**296**	-	-
Total liabilities		**18,463**	19,510	18,916
Total equity and liabilities		**22,303**	23,439	21,930

These condensed consolidated financial statements have been approved for issue by the Board of Directors on 6 August 2014.

The attached notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

STATUTORY BASIS

	Notes	**6 Months 2014 (unaudited) £m**	6 Months 2013 (unaudited) £m Restated
Cash flows from operations	12	**38**	186
Tax paid		**(55)**	(100)
Investment income		**221**	261
Interest paid		**(76)**	(76)
Dividends received from associates		**2**	-
Pension deficit funding		**(65)**	(66)
Discontinued operations	3	**15**	5
Net cash flows from operating activities		**80**	210
Proceeds from sales or maturities of:			
Financial assets		**2,492**	2,150
Investment property		**96**	2
Property and equipment		**121**	1
Intangible assets		**4**	-
Investments in subsidiaries (net of cash disposed of)		**38**	2
Purchase of:			
Financial assets		**(3,480)**	(2,277)
Investment property		**(19)**	(5)
Property and equipment		**(28)**	(9)
Intangible assets		**(40)**	(65)
Investments in subsidiaries (net of cash acquired)		**-**	(11)
Investments in associates		**-**	(4)
Discontinued operations	3	**6**	(10)
Net cash flows from investing activities		**(810)**	(226)
Proceeds from issue of share capital	7	**749**	4
Dividends paid to ordinary shareholders	8	**-**	(90)
Dividends paid to preference shareholders	8	**(5)**	(5)
Dividends paid to non-controlling interests		**(5)**	(7)
Net movement in other borrowings		**(7)**	3
Discontinued operations	3	-	-
Net cash flows from financing activities		**732**	(95)
Net increase/(decrease) in cash and cash equivalents		**2**	(111)
Cash and cash equivalents at beginning of the year		**1,162**	1,329
Effect of exchange rate changes on cash and cash equivalents		**(49)**	32
Cash and cash equivalents at the end of the period	13	**1,115**	1,250

The attached notes are an integral part of these condensed consolidated financial statements.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Changes in significant accounting policies

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 European Union, and the Disclosure and Transparency Rules of the Financial Conduct Authority.

These condensed consolidated financial statements have been prepared by applying the accounting policies used in the Annual Report and Accounts 2013 (see note 15 below).

The Group has adopted the following new IFRSs that are effective for the first time when preparing the condensed consolidated financial statements:-

- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'

None of these IFRSs has a significant impact on the condensed consolidated financial statements.

The Board have reviewed the Group's ongoing financial commitments for the next twelve months and beyond. The Board's review included consideration of the Group's underwriting plans, strong regulatory capital surplus, diverse insurance risk profile, considerable undrawn financing facilities and highly liquid investment portfolio. As a result of this review, the directors have satisfied themselves that it is appropriate to prepare these financial statements on a going concern basis.

Restatements

As described in Note 3, the Group has reached an agreement to sell its Baltics, Poland and Chinese businesses. Consequently the results of these businesses for the period, as well as those for the comparative periods, have been classified as discontinued operations.

The Group adopted IFRS 13 ' Fair Value Measurement' at 31 December 2013. Certain assets of the Group's UK pension funds, which previously had been measured in accordance with their legal form as insurance contracts, were measured at fair value. The results at 30 June 2013 presented as comparative information have been restated using this basis of measurement. Further information on this change is provided in note 27 of the financial statements in the Annual Report and Accounts 2013. The impact of this change of measurement basis at 30 June 2013 is to increase other debtors and other assets by £139m and to reduce other provisions by £78m and a consequential reduction of the deferred tax asset recognised of £50m. The total comprehensive income attributable to equity holders of the Parent Company during the six months ended 30 June 2013 and the shareholders' equity at 30 June 2013 have each increased by £167m.

The basis of measuring the results of the operating segments at 30 June 2014 has been changed. Further information of the change and the impact on the results previously presented is provided in note 2.

2. Operating segments

The basis of measuring results of the operating segments at 30 June 2014 has changed from the basis used at 31 December 2013 and at 30 June 2013. The change made is to include investment expenses in the investment result instead of in central expenses as previously reported. The effect of this change is to reduce the investment result and central expenses for the six months ended 30 June 2014 by £15m (30 June 2013: £14m).

The information presented includes the results of the Group's discontinued operation. In the condensed consolidated income statement, the results of the discontinued operations have been reported in the line 'Profit/(loss) for the period from discontinued operations' and include the profit on disposal of the Latvian business. The results of each of the discontinued operations on a line by line basis are presented in note 3.

The Group's results are not subject to any significant impact arising from the seasonality of operations, although there is some seasonality in the regions within which the Group operates.

Six months ended 30 June 2014

	Scandi-navia £m	Canada £m	UK & Western Europe £m	Emerging Markets £m	Central Functions £m	Group £m	Less discontinued operations £m	Group per income statement £m
Net written premiums	**1,059**	**727**	**1,592**	**607**	**(55)**	**3,930**	**(121)**	**3,809**
Earned Premiums	**890**	**766**	**1,721**	**624**	**11**	**4,012**	**(119)**	**3,893**
Claims Incurred	**(615)**	**(542)**	**(1,239)**	**(389)**	**(15)**	**(2,800)**	**68**	**(2,732)**
Total Commission	**(39)**	**(102)**	**(332)**	**(128)**	**(2)**	**(603)**	**16**	**(587)**
Total Expenses	**(146)**	**(101)**	**(234)**	**(137)**	**1**	**(617)**	**33**	**(584)**
Movement in DAC	**15**	**(9)**	**(2)**	**7**	**(1)**	**10**	**(2)**	**8**
Underwriting result	**105**	**12**	**(86)**	**(23)**	**(6)**	**2**	**(4)**	**(2)**
Gross Investment Income	**49**	**33**	**115**	**23**	**3**	**223**	**(4)**	**219**
Unwind of Discount	**(19)**	**(1)**	**(14)**	**(7)**	**(1)**	**(42)**	**-**	**(42)**
Investment expenses	**(5)**	**(2)**	**(5)**	**(3)**	**-**	**(15)**	**-**	**(15)**
Investment result	**25**	**30**	**96**	**13**	**2**	**166**	**(4)**	**162**
Insurance result	**130**	**42**	**10**	**(10)**	**(4)**	**168**	**(8)**	**160**
EM Start up costs	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Non insurance activities and associates	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Central expenses	**-**	**-**	**-**	**-**	**(27)**	**(27)**	**-**	**(27)**
Total central activities	**-**	**-**	**-**	**-**	**(27)**	**(27)**	**-**	**(27)**
Operating result (management basis)	**130**	**42**	**10**	**(10)**	**(31)**	**141**	**(8)**	**133**
Net gains/(losses) and exchange						**142**	**(17)**	**125**
Interest costs						**(58)**	**-**	**(58)**
Amortisation of intangible assets						**(18)**	**1**	**(17)**
Pension net interest & administration costs						**(5)**	**-**	**(5)**
Solvency II costs						**(14)**	**-**	**(14)**
Reorganisation costs and impairment of intangible assets						**(117)**	**-**	**(117)**
Other transaction costs						**(2)**	**-**	**(2)**
Profit before tax						**69**	**(24)**	**45**
COR (%)	**86.7**	**98.6**	**107.6**	**105.9**		**100.8**		

Six months ended 30 June 2013 (Restated)

	Scandi -navia £m	Canada £m	UK & Western Europe £m	Emerging Markets £m	Central Functions £m	Group £m	Less discontinued operations £m	Group per income statement £m
Net written premiums	1,118	866	1,946	686	36	4,652	(124)	4,528
Earned Premiums	948	882	1,786	661	21	4,298	(117)	4,181
Claims Incurred	(679)	(620)	(1,150)	(377)	(5)	(2,831)	68	(2,763)
Total Commission	(34)	(126)	(336)	(130)	(5)	(631)	14	(617)
Total Expenses	(146)	(120)	(266)	(150)	(3)	(685)	34	(651)
Movement in DAC	9	(1)	16	8	5	37	(5)	32
Underwriting result	98	15	50	12	13	188	(6)	182
Gross Investment Income	62	36	124	28	6	256	(5)	251
Unwind of Discount	(20)	(1)	(17)	(5)	(7)	(50)	-	(50)
Investment expenses	(3)	(2)	(5)	(4)	-	(14)	-	(14)
Investment result	39	33	102	19	(1)	192	(5)	187
Insurance result	137	48	152	31	12	380	(11)	369
EM Start up costs	-	-	-	-	(8)	(8)	-	(8)
Non insurance activities and associates	-	-	-	-	(1)	(1)	-	(1)
Central expenses	-	-	-	-	(28)	(28)	-	(28)
Total central activities	-	-	-	-	(37)	(37)	-	(37)
Operating result (management basis)	137	48	152	31	(25)	343	(11)	332
Net gains/(losses) and exchange						18	-	18
Interest costs						(59)	-	(59)
Amortisation of intangible assets						(21)	1	(20)
Pension net interest & administration costs						(8)	-	(8)
Solvency II costs						(10)	-	(10)
Reorganisation costs and impairment of intangible assets						(4)	-	(4)
Other transaction costs						(9)	-	(9)
Profit before tax						250	(10)	240
COR (%)	87.7	98.7	95.4	97.8		94.2		

3. Discontinued operations and disposal groups

a) Discontinued operations

During the first half of the year, the Group reached agreements to sell its Baltics (Latvia, Lithuania and Estonia), and Poland operations and its Canadian insurance brokerage business, Noraxis Capital Corporation ('Noraxis'). On 3 July 2014 the Group also announced that an agreement had been reached to sell its China business, Sun Alliance Insurance (China) Limited.

The disposal of the Latvia entity was completed on 30 June 2014 and a gain of £17m has been recognised in the Condensed Consolidated Income Statement. The disposals of Lithuania, Estonia, Poland and China are subject to regulatory approvals and are expected to be completed in the second half of the year. The results of the Baltics, Poland and China operations have been presented as discontinued operations.

The disposal of Noraxis was completed on 2 July 2014. Further details of this disposal are provided in note 14.

Financial information relating to the discontinued operations for the period, together with comparatives, is set out below.

Income statement

	6 months 2014 £m	6 months 2013 £m	12 months 2013 £m
Income			
Gross written premiums	**134**	134	268
Less: reinsurance premiums	**(13)**	(10)	(16)
Net written premiums	**121**	124	252
Change in the gross provision for unearned premiums	**(6)**	(9)	(10)
Less: change in provision for unearned premiums, reinsurers' share	**4**	2	-
Change in provision for unearned premiums	**(2)**	(7)	(10)
Net earned premiums	**119**	117	242
Net investment return	**4**	5	13
Total income	**123**	122	255
Expenses			
Gross claims incurred	**(73)**	(68)	(142)
Less: claims recoveries from reinsurers	**5**	-	8
Net claims and benefits	**(68)**	(68)	(134)
Underwriting and policy acquisition costs	**(47)**	(43)	(96)
Unwind of discount	**-**	-	(1)
Other operating expenses	**(1)**	(1)	(76)
Total expenses	**(116)**	(112)	(307)
Profit/(loss) before tax from discontinued operations	**7**	10	(52)
Income tax expense	**(1)**	-	(1)
Profit/(loss) after tax from discontinued operations	**6**	10	(53)
Post tax profit on disposal of discontinued operations	**17**	-	-
Profit/(loss) from discontinued operations	**23**	10	(53)

b) Disposal group

The assets and liabilities related to the operations in Lithuania and Estonia, Poland, China and Noraxis have been presented as held for sale. There were no impairment charges arising upon classification of the net assets of these operations as held for sale. The assets and liabilities of Noraxis are a disposal group however it is not a discontinued operation at 30 June 2014 as it does not represent a major line of business or separate geographic region to the Group.

The major classes of assets and liabilities of the Lithuania and Estonia, Poland, China and Noraxis disposal groups are as follows:

	30 June 2014				
	Lithuania and Estonia	**Poland**	**China**	**Noraxis**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Assets classified as held for sale:					
Goodwill and intangibles	11	20	-	95	**126**
Property and equipment	9	2	-	3	**14**
Investments	89	87	43	-	**219**
Reinsurers' share of insurance contract liabilities	3	7	14	-	**24**
Insurance and reinsurance debtors	27	11	5	28	**71**
Other debtors and other assets	7	8	2	4	**21**
Cash and cash equivalents	8	3	9	18	**38**
Total assets of the disposal group	**154**	**138**	**73**	**148**	**513**
Liabilities directly associated with assets classified as held for sale:					
Insurance contract liabilities	83	79	22	-	**184**
Insurance and reinsurance liabilities	4	2	3	-	**9**
Provisions and other liabilities	17	5	1	80	**103**
Liabilities of the disposal group	**104**	**86**	**26**	**80**	**296**
Total net assets of the disposal group	**50**	**52**	**47**	**68**	**217**

In addition to the above assets held for sale, there are £30m of assets held for sale in relation to a property acquired in Scandinavia in 2014 to minimise losses following default on a mortgage guarantee loan. The property was immediately transferred to assets held for sale once the acquisition was completed.

Assets held for sale at 31 December 2013 comprised the Group's Swedish headquarters. The property was designated as held for sale following a decision to make the disposal and the sale was considered highly probable. In January 2014 the Group entered into a sale and leaseback agreement for the property and this transaction was completed in March 2014 resulting in a gain of £29m. This gain is recorded in net investment return.

4. Goodwill and other intangible assets

	30 June 2014 £m	30 June 2013 £m	31 December 2013 £m
Goodwill	435	739	589
Intangible assets arising from acquired claims provisions	4	7	6
Software development	302	563	332
Other	114	210	176
Total goodwill and intangible assets	**855**	**1,519**	**1,103**

Other intangible assets include customer lists, renewal rights and acquired brands.

The following impairment charges and write-offs have been recognised in the period for goodwill and other intangibles respectively.

	30 June 2014 £m	30 June 2013 £m	31 December 2013 £m
Goodwill impairment charges	45	-	106
Other intangible asset write-offs	21	-	225
Total impairment charges	**66**	**-**	**331**

There have been indicators of impairment for the Ireland CGU which has led to an impairment test being performed in the period.

When testing for impairment, the recoverable amount of an asset or CGU is determined based on value in use calculations. For CGUs these calculations use cash flow projections based on operating plans approved by management covering a three year period. Cash flows beyond this point are extrapolated using the estimated growth rates that management deems appropriate for the CGU.

A number of other assumptions and estimates are involved in the application of a cash flow model to forecast operating cash flows, premium volumes, expenses and working capital requirements. Forecasts of future cash flows are based on the best estimates of future premiums, operating expenses and taxes using historical trends, general geographical market conditions, industry trends and forecasts and other available information. These assumptions are subject to review by management. The cash flow forecasts are adjusted by appropriate discount rates. Discount rates used are post tax and reflect specific risks relating to the relevant CGUs at the date of evaluation.

A goodwill impairment charge of £45m (30 June 2013: £nil, 31 December 2013: £106m) has been recognised within other operating expenses. The 2014 impairment charge has been recognised solely in respect of the Ireland CGU.

The impairment charge for Ireland reflects the difficult first half experienced in 2014 with underwriting losses of £64m. The key assumptions used in the value in use calculations for this CGU include the discount rate of 10.1% (31 December 2013: 10.1%) and the growth rate of 1.5% (31 December 2013: 1.7%).

As a result of the Group's continued refinement and rationalisation of its IT infrastructure, £18m (30 June 2013: £nil, 31 December 2013: £225m) was written-off from software to other operating expenses in the Condensed Consolidated Income Statement. In addition £3m was written-off from other intangible assets (30 June 2013: £nil, 31 December 2013: £nil).

5. Earnings per share

The earnings per share are calculated by reference to the result attributable to the ordinary shareholders of the Parent Company and the weighted average number of shares in issue during the period. On a basic and diluted basis these were 859,495,718 (excluding those held in ESOP and SIP trusts). The number of shares in issue at 30 June 2014 was 1,012,856,836 (excluding those held in ESOP and SIP trusts).

The number of ordinary shares in issue at 30 June 2013 and 31 December 2013 has been recalculated to recognise the impact of the rights issue in April 2014 and the subsequent share consolidation completed in June 2014. The earnings per share presented at 30 June 2013 and 31 December 2013 have been restated based on the recalculated numbers of ordinary shares in issue and the recalculated number of dilutive potential ordinary shares.

6. Changes in estimates of amounts reported in prior financial years

The 2014 underwriting result on a management basis of £2m, includes the impact of changes in the estimated costs of outstanding claims at 1 January 2014. The analysis of the underwriting result between the result of the current accident year and the result of earlier years is set out on page 8.

The Group pension fund surplus net of tax as at 30 June 2014 is £50m (30 June 2013 (restated): deficit £84m; 31 December 2013: deficit £125m).

7. Ordinary share issues during the period to 30 June

The share capital of the Parent Company is fully paid and consists of two classes: ordinary shares with a nominal value of £1 each and preference shares with a nominal value of £1 each. The issued share capital at 30 June 2014 is:

	30 June 2014 £m	30 June 2013 £m	31 December 2013 £m
1,014,095,579 ordinary shares of £1 each (30 June 2013: 3,658,163,636 of 27.5p each, 31 December 2013: 3,681,798,995 of 27.5p each)	1,014	1,006	1,012
125,000,000 preference shares of £1 each (30 June 2013: 125,000,000 of £1 each, 31 December 2013: 125,000,000 of £1 each)	125	125	125
Total issued share capital	**1,139**	**1,131**	**1,137**

During the six months to 30 June 2014, 6,104,999 ordinary shares of 27.5 pence each and 355,566 ordinary shares of £1 each (30 June 2013: 15,382,020 of 27.5 pence) were issued on the exercise of employee share options and investment plans.

The Parent Company also issued 1,380,976,863 ordinary shares for 56 pence each under a three-for-eight rights issue on 9 April 2014. Total proceeds of the rights issue were £773m (£747m net of expenses). All new shares issued rank pari pasu with those already in issue.

On 9 May 2014 it was resolved at the Group's annual general meeting that the Parent Company's 5,068,926,055 (as recorded at the time of close of business) ordinary shares of 27.5p each would be sub-divided into 5,068,926,055 intermediate ordinary shares of 20p each and 5,068,926,055 deferred shares of 7.5p each. The 5,068,926,055 intermediate ordinary shares of 20p each have been subsequently consolidated into 1,013,785,211 new ordinary shares of £1.00 each. The 1,013,785,211 new ordinary shares of £1.00 each were admitted to the Official List and to trading on the main market of the London Stock Exchange on 12 May 2014. On 27 June 2014 the 5,068,926,055 deferred share of 7.5p each were purchased for total consideration of 1p and were subsequently cancelled. The nominal value of £380m of the deferred shares was transferred to a non-distributable capital redemption reserve.

At 30 June 2014 the Group had 1,014,095,579 shares in issue. The number of ordinary shares in issue, their nominal value and the associated share premium are as follows:

	Number of ordinary shares	Nominal value £m	Share premium £m
At 1 January 2014	3,681,798,995	1,012	704
Issued in respect of employee share options and employee share awards to 30 June	6,460,565	2	-
Issued in respect of three-for-eight rights-issue	1,380,976,863	380	367
Share consolidation and transfer to capital redemption reserve	(4,055,140,844)	(380)	-
At 30 June 2014	**1,014,095,579**	**1,014**	**1,071**

8. Dividends

	30 June 2014		Restated 30 June 2013	
	Per share	**Total**	Per share	Total
	p	**£m**	p	£m
Ordinary dividend				
Final paid in respect of prior year	-	-	17.4	140
Interim proposed/paid in respect of current year	-	-	10.2	85
			27.6	225
Preference dividend		**5**		5
Total dividends		**5**		230

9. Exchange rates

Local currency/£	**6 Months 2014**		6 Months 2013		12 Months 2013	
	Average	**Closing**	Average	Closing	Average	Closing
Canadian Dollar	**1.83**	**1.82**	1.57	1.60	1.61	1.76
Danish Krone	**9.09**	**9.31**	8.77	8.70	8.79	8.97
Swedish Krona	**10.92**	**11.43**	10.04	10.24	10.20	10.64
Euro	**1.22**	**1.25**	1.18	1.17	1.18	1.20

10. Property and equipment

Additions to other property and equipment for the period comprise £22m in relation to the fit out of the Group's new UK premises at 20 Fenchurch Street, London. The amounts capitalised in relation to the fit out are being depreciated over a period of 3 to 10 years.

11. 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 based on the degree to which the fair value is observable. The table does not include items not measured at fair value if the carrying value is a reasonable approximation of fair value.

	Fair value hierarchy 30 June 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Available for sale financial assets:				
Equity securities	**298**	**-**	**82**	**380**
Debt securities	**11,983**	**172**	**2**	**12,157**
Financial assets at fair value through the income statement:				
Equity securities	**1**	**-**	**40**	**41**
Debt securities	**-**	**-**	**26**	**26**
	12,282	**172**	**150**	**12,604**
Derivative assets:				
At fair value through the income statement	**-**	**15**	**-**	**15**
Designated as hedging instruments	**-**	**17**	**-**	**17**
Total assets measured at fair value	**12,282**	**204**	**150**	**12,636**
Derivative liabilities:				
At fair value through the income statement	**-**	**9**	**-**	**9**
Designated as hedging instruments	**-**	**7**	**-**	**7**
Total liabilities measured at fair value	**-**	**16**	**-**	**16**
Loan capital	**-**	**1,468**	**12**	**1,480**
Fair value of liabilities not measured at fair value	-	**1,468**	**12**	**1,480**

	Fair value hierarchy			
	30 June 2013			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Available for sale financial assets:				
Equity securities	834	9	45	888
Debt securities	11,458	108	10	11,576
Financial assets at fair value through the income statement:				
Equity securities	1	-	40	41
Debt securities	-	-	41	41
	12,293	117	136	12,546
Derivative assets:				
At fair value through the income statement	-	24	-	24
Designated as hedging instruments	-	14	-	14
Total assets measured at fair value	12,293	155	136	12,584
Derivative liabilities:				
At fair value through the income statement	-	21	-	21
Designated as hedging instruments	-	6	-	6
Total liabilities measured at fair value	-	27	-	27
Loan capital	-	1,461	19	1,480
Fair value of liabilities not measured at fair value	-	1,461	19	1,480

Total financial assets on the condensed consolidated statement of financial position also includes loans and receivables of £77m (30 June 2013: £99m), the carrying value of which is deemed to be a reasonable approximation of their fair value.

The carrying value of loan capital at 30 June 2014 was £1,303m (30 June 2013: £1,311m). There were £6m of transfers from Level 1 to Level 2 during the year. A reconciliation of Level 3 fair value measurements of financial assets is shown below.

	Available for sale investments		**At fair value through the Income Statement**		
	Equity securities	**Debt securities**	**Equity securities**	**Debt securities**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Level 3 financial assets at 1 January 2014	**63**	**10**	**34**	**27**	**134**
Total gains / (losses) recognised in:					
- income statement	**-**	**-**	**-**	**-**	**-**
- other comprehensive income	**-**	**-**	**-**	**-**	**-**
Purchases	**21**	**-**	**10**	**-**	**31**
Disposals	**-**	**(8)**	**(4)**	**-**	**(12)**
Exchange adjustment	**(2)**	**-**	**-**	**(1)**	**(3)**
Level 3 financial assets at 30 June 2014	**82**	**2**	**40**	**26**	**150**
Level 3 financial assets at 1 January 2013	35	10	33	38	116
Total gains / (losses) recognised in:					
- income statement	-	-	3	-	3
- other comprehensive income	5	-	-	-	5
Purchases	10	-	4	-	14
Disposals	(6)	-	-	-	(6)
Exchange adjustment	1	-	-	3	4
Level 3 financial assets at 30 June 2013	45	10	40	41	136

Total gains and losses for level 3 financial assets in the table above recognised in the income statement are included within the Net investment return in the condensed consolidated income statement.

Total gains and losses for level 3 financial assets in the table above recognised in other comprehensive income are included within Fair Value gains/(losses) on available for sale financial assets, net of tax in the condensed consolidated statement of comprehensive income.

12. Reconciliation of statutory operating cash flow to management basis

	6 months 2014 £m	Restated 6 months 2013 £m
Cash generated from operations	**38**	186
Investment income	**221**	261
Net sale/(purchase) of property and equipment	**93**	(8)
Net purchase of intangibles	**(36)**	(65)
Other items	**6**	16
Discontinued operations	**13**	2
Operating cash flow (management basis)	**335**	392

13. Cash and cash equivalents

	6 months 2014 £m	6 months 2013 £m
Cash and cash equivalents and bank overdrafts (as reported within condensed consolidated statement of cash flows)	**1,115**	1,250
Less: transferred to non-current assets held for sale	**(38)**	-
Total cash and cash equivalents	**1,077**	1,250

14. Events occurring after the reporting date

On 2 July 2014, the Group completed the disposal of Noraxis Capital Corporation in Canada to a subsidiary of Arthur J. Gallagher & Co. for net proceeds of £211m. A gain of approximately £148m (after tax) was recognised upon the sale. The assets and liabilities of Noraxis have been disclosed as held for sale in the condensed consolidated statement of financial position.

On 3 July 2014, the Group reached an agreement, subject to regulatory approvals, to sell Sun Alliance Insurance (China) Limited to Swiss Re Corporate Solutions for £71m. The sale is expected to complete in the fourth quarter of 2014 realising a gain of approximately £26m (after tax) for the Group.

15. Results for 2013

The financial information relating to the year ended 31 December 2013 and included in the condensed consolidated financial statements does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006, but has been abridged (and restated in accordance with note 1) from the statutory accounts. The statutory accounts of RSA Insurance Group plc for the year ended 31 December 2013 have been delivered to the Registrar of Companies. The independent auditor's report on the Group accounts for the year ended 31 December 2013 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.

RESPONSIBILITY STATEMENT

The condensed set of financial statements on pages 34 to 48 has been prepared in accordance with IAS 34 'Interim Financial Reporting,' as adopted by the European Union, and we confirm that to the best of our knowledge:

a) The interim management report on pages 3 to 48 includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year), and

b) The interim management report on pages 3 to 48 includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

Signed on behalf of the Board

Stephen Hester Group Chief Executive	Richard Houghton Group Chief Financial Officer
6 August 2014	6 August 2014

INDEPENDENT REVIEW REPORT TO RSA INSURANCE GROUP PLC

Introduction

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 2014 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 cash flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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 Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("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.

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 IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* 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.

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. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) 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.

Conclusion

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 2014 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Stuart Crisp
for and on behalf of KPMG LLP

Chartered Accountants

15 Canada Square
London
E14 5GL

6 August 2014