

2017 INTERIM RESULTS



RSA Insurance Group plc

2 August 2017

RSA announces strong first half results.

Underlying earnings per share up 31%; Interim dividend up 32%.

Return on Tangible Equity¹ 16.6%.

Stephen Hester, RSA Group Chief Executive, commented:

"RSA did well in the first half. We delivered outperformance, showing record underwriting results, attractive earnings and dividend growth with strong return on capital. Pleasingly, customers are also growing business volumes with us.

Across the Group the focus is on making progress towards our best-in-class ambitions. And while RSA is now measuring against higher performance standards, there is much more that can be done to improve."

Trading results

- Group operating profit £360m up 15% (HI 2016: £312m); Scandinavia £202m; Canada £71m; UK & International £151m².
- Group underwriting profit of £222m, up 28% (HI 2016: £174m).
 - Record Group combined ratio of 93.2% (HI 2016: 94.7%). Scandinavia 81.9%; Canada 94.8%; and UK & International 95.4%².
 - Group attritional loss ratio of 54.9%, 0.3pts better than last year³; weather and large losses 0.2pts worse.
 - Group prior year underwriting profit of £79m (HI 2016: £55m).
- Group premiums of £3.4bn up 11% at reported fx, and up 3% at constant fx. Volumes accounted for 1% and rate increases 2%.
- Investment income of £171m (HI 2016: £187m) down 9% versus the same period last year reflecting the impact of disposals and ongoing reinvestment at lower yields.
- Below the operating result there were lower interest costs following our debt restructuring, with other non-operating items largely as flagged.
- Pre-tax profit of £263m, up 78% (HI 2016: £148m).
- Underlying earnings per share (EPS) 23.3p up 31% (HI 2016: 17.8p). Stated EPS up 133% to 18.4p.
- Interim dividend of 6.6p/ordinary share declared, up 32% (HI 2016: 5.0p).

¹ Underlying measure, please refer to pages 21-23 for further information.

² Excluding Ogden impact.

³ At constant exchange, ex disposals

Capital & balance sheet

- Solvency II coverage ratio of 163% after dividend accrual (31 December 2016: 158%), slightly above 130-160% target range.
- Reserve margin returned to 5.0% target (31 December 2016: 5.5%) after release for Ogden rate change.
- Tangible equity £2.8bn (31 December 2016: £2.9bn), 273p per share.
- Underlying return on opening tangible equity of 16.6% annualised (H1 2016: 12.8%).

Strategic update

- Restructuring now complete. 2017 actions comprised the disposal of UK legacy liabilities (announced in February); the issuance of c.£300m of restricted tier 1 notes in Scandinavia and retirement of c.£600m of existing high coupon debt. These actions reduced risk, improved capital resilience, and lowered interest costs.
- The Group's entire focus is now on the drive for outperformance. In that context, our many performance improvement initiatives continue to deliver progress, targeted at customer service, underwriting capabilities, and costs.
- The improved premium trends we report for the first half reflect the service and capability enhancements we have been implementing. Pleasingly they are reflected in every region.
- Underwriting capabilities continue to be refined across the Group. These include more sophisticated and agile pricing models, underwriter training and heightened discipline, and technology driven insights. Progress on loss ratios can be volatile but is on track overall with a couple of business line exceptions.
- Group written controllable costs for H1 2017 were down 6% year-on-year at constant exchange to £723m (comprising 8% cost reductions, offset by 2% inflation). Group headcount down 8% versus H1 2016. Overall we remain on track to deliver >£400m gross annualised savings by 2018 (c.£330m achieved to date).

Alternative performance measures:

The Group uses alternative performance measures, including certain underlying measures, to help explain business performance and financial position. Where not defined in the body of this announcement, further information is set out in the appendix on pages 21-23.

MANAGEMENT REPORT – KEY FINANCIAL PERFORMANCE DATA

Management basis

£m (unless stated)	HI 2017	HI 2016
Profit and loss		
Group net written premiums	3,449	3,247
<i>Group net written premiums ex disposals</i>		3,121
Underwriting profit	222	174
Combined operating ratio	93.2%	94.7%
Investment result	148	150
Operating result	360	312
Profit before tax	263	148
Underlying profit before tax	327	258
Net attributable profit	188	80
Metrics		
Stated earnings / share (pence)	18.4p	7.9p
Underlying earnings / share (pence)	23.3p	17.8p
Interim dividend / ordinary share (pence)	6.6p	5.0p
Underlying return on tangible equity, annualised (%)	16.6%	12.8%
	30 June 2017	31 Dec 2016
Balance sheet		
Net asset value (£m)	3,651	3,715
Tangible net asset value (£m)	2,790	2,862
Net asset value per share	345p	352p
Tangible net asset value per share	273p	281p
Capital		
Solvency II surplus (£bn)	1.1	1.1
Solvency II coverage ratio	163%	158%

CHIEF EXECUTIVE'S STATEMENT

RSA is pleased to report another half year of outperformance. But we are not relaxing. There is much more we aim to improve - for both customers and shareholders. Competitive markets and our own raised ambitions will demand no less.

Across RSA's markets, conditions are essentially unchanged versus 2016 though with many variations by business line and geography. We are carefully watching inflation trends, notably in the UK. Testing competition and, occasionally, volatile loss trends create underwriting challenges which we must continue to address more crisply as capabilities improve.

RSA's restructuring efforts were completed by the £834m sale of UK legacy liabilities announced in February, and the subsequent repurchase and refinancing of capital instruments. Taken together these actions reduced risk, boosted capital resilience and increased future earnings. They leave us with undiluted focus on the pursuit of high performance in our continuing businesses.

Our best-in-class ambitions are being pursued through companywide efforts to improve customer service and underwriting skills, and to reduce operating costs.

Net written premiums grew 11% in the period, with higher retention and new business adding to pricing and FX gains. Although top line growth is not our highest priority, it is nevertheless pleasing that customers are responding to the improved capabilities we are deploying.

While underwriting results will always be 'noisy' over short periods, we are pleased with continuing progress, and a combined ratio of 93.2% is our best on record. In terms of volatile items, better than planned weather costs were offset by higher than usual large losses. Attritional loss ratio improvement continued with an HI ratio of 54.9% vs 55.2% for HI 2016 at constant FX.

Cost efficiency remains crucial for all businesses in our industry. RSA continues to track ahead of our plans in this regard, with gross cost reductions of 8% (CFX) vs prior year.

The strength of our regional line-up also showed well in the period. Our Scandinavian business contributed a majority of underwriting profits with strong underlying advances and above trend prior year profits. Canada did well also, despite higher large losses. Our Irish business returned to profit. Our UK business had the toughest time with Ogden costs, above plan large losses and challenges in household loss ratios. But, excluding Ogden, results were in-line with our plan even here.

Across RSA improvement programmes are continuing to deliver. Our digital capabilities are improving, with notable advances in digital claims and policy servicing. New, more sophisticated underwriting and pricing models continue to roll out. Cost programmes around automation, site consolidation, lean methodology, outsourcing and zero-based budgeting are all progressing.

Overall, RSA is in good health. We have much to do. We will fall short in areas. But we nevertheless expect to make continued good progress in pursuit of sustained outperformance.

Stephen Hester
Group Chief Executive
1 August 2017

MANAGEMENT REPORT

SEGMENTAL INCOME STATEMENT

Management basis – 6 months ended 30 June 2017

	Scandi navia	Canada	UK & International	Central functions	Group HI 2017	Group ex disposals HI 2016	Group HI 2016
	£m	£m	£m	£m	£m	£m	£m
Net Written Premiums	1,064	728	1,628	29	3,449	3,121	3,247
Net Earned Premiums	896	777	1,586	(8)	3,251	3,083	3,271
Net Incurred Claims	(575)	(511)	(1,014)	(2)	(2,102)	(2,009)	(2,108)
Commissions	(24)	(105)	(312)	-	(441)	(425)	(480)
Operating expenses	(135)	(121)	(228)	(2)	(486)	(470)	(509)
Underwriting result	162	40	32	(12)	222	179	174
Investment income	54	34	83	-	171	161	187
Investment expenses	(2)	(1)	(3)	-	(6)	(5)	(6)
Unwind of discount	(12)	(2)	(3)	-	(17)	(15)	(31)
Investment result	40	31	77	-	148	141	150
Central expenses	-	-	-	(10)	(10)	(12)	(12)
Operating result	202	71	109	(22)	360	308	312
Interest					(30)		(54)
Other non-operating charges					(67)		(110)
Profit before tax					263		148
Tax					(57)		(57)
Profit after tax					206		91
Non-controlling interest					(10)		(6)
Other equity costs ¹					(8)		(5)
Net attributable profit					188		80
Underlying profit before tax					327		258
Loss ratio (%)	64.2	65.8	64.0	-	64.7	65.1	64.5
Weather loss ratio	0.0	2.7	1.1	-	1.2	3.5	3.3
Large loss ratio	5.8	8.2	15.3	-	11.4	8.9	8.4
Current year attritional loss ratio	63.1	57.9	48.9	-	54.9	55.0	54.7
Prior year effect on loss ratio	(4.7)	(3.0)	(1.3)	-	(2.8)	(2.3)	(1.9)
Commission ratio (%)	2.7	13.4	19.6	-	13.6	13.9	14.6
Expense ratio (%)	15.0	15.6	14.4	-	14.9	15.2	15.6
Combined ratio (%)	81.9	94.8	98.0	-	93.2	94.2	94.7

Note:

UK & International comprises the UK (and European branches), Ireland and the Middle East
Please refer to appendix for HI 2016 comparatives

¹ Preference dividends of £5m and coupons of £3m paid on 2017 issued restricted tier 1 securities.

Premiums

First half 2017 Group net written premiums of £3.4bn were up 11% at reported FX and up 3% at constant fx (excluding the impact of disposals).

Foreign exchange provided an 8% benefit to first half premiums. At current exchange rate levels, this benefit will moderate by around half for full year 2017.

	Scandinavia	Canada	UK & Int'l	Central	Total
Net Written Premiums (£m)	1,064	728	1,628	29	3,449
<i>% changes in NWP</i>					
Volume change (including reinsurance effects)	(1)	4	1	-	1
Rate increases	2	1	2	-	2
Foreign exchange	9	15	4	-	8
Total Group H1 2017 movt. (ex disposals)	10	20	7	-	11

We are pleased to report positive topline performance in the first half. Growth of 3% (at constant exchange) included 1% volume growth and 2% rate increases.

We have seen a strengthening of underlying customer activity as capability improvements take effect. Customer retention trends are improving and satisfaction levels remain good. Overall Group retention improved slightly to 81%.

Our goal is to serve customers well but profitably.

Regional trends for H1 2017 include:

- Scandinavian premiums up 10% at reported fx, and up 1% at constant fx, with growth in Sweden and Norway partly offset by reductions in Denmark;
- Canadian premiums up 20%, and up 5% at constant fx with Personal up 5% and Commercial also up 5%, reflecting good growth in the broker channel;
- UK & International premiums were up 7%, and up 3% at constant fx. UK premiums were up 5% (at CFX) with Personal up 12% and Commercial up 1%. Premiums in Ireland were down 8%, whilst Middle East premiums were up 9%.

Underwriting result

Group underwriting profit of £222m was up 28% year-on-year.

£m	Total UW result		Current Year UW		Prior Year UW	
	HI'17	HI'16	HI'17	HI'16	HI'17	HI'16
Scandinavia	162	96	120	94	42	2
Canada	40	37	19	(2)	21	39
UK & International	32	82	22	54	10	28
Of which: UK	17	76	9	41	8	35
Group Re	(12)	(36)	(18)	(26)	6	(10)
Total Group ex. disposals	222	179	143	120	79	59
Disposals	-	(5)	-	(1)	-	(4)
Total Group	222	174	143	119	79	55

Current year profit of £143m (HI 2016: £119m):

- The Group attritional loss ratio was 54.9% which showed a 0.3 point improvement from HI 2016 at constant exchange. Scandinavia was 1.4 points better. Canada was 0.2 points better after adjusting for the c.1 point of benign 'indirect' weather that we flagged in HI 2016. The UK & International was slightly better than a year ago and included good improvements in UK Commercial, Ireland and the Middle East, offset by a higher UK Personal attritional loss ratio driven by Household.
- Total Group weather costs were £38m or 1.2% of net earned premiums (HI 2016: 3.5% ex disposals; five year average: 3.2%), with experience benign in the UK and Scandinavia.
- Total Group large losses were £370m or 11.4% of net earned premiums (HI 2016: 8.9% ex-disposals; five year average: 8.6%). This elevated large loss experience was driven by higher than trend levels in the UK, Ireland and Canada. Our expectation is it will revert to normal patterns, but we are watching trends carefully.

Prior year profit was £79m, with prior year development providing a 2.8 point benefit to the Group combined ratio. This included positive development from each region.

As previously flagged, the Group booked a £42m net charge (after release of FY16 margin build) relating to the change in Ogden discount rate in the UK. £39m related to our UK business and £3m to Ireland.

Our assessment of the margin in reserves for the Group (the difference between our actuarial indication and the booked reserves in the financial statements) is 5% of booked claims reserves per our target. This follows the release of the additional 0.5% that was built at FY16 in anticipation of the Ogden discount rate change.

Underwriting operating expenses

The Group underwriting expense ratio of 14.9% was 0.3 points better than a year ago (HI 2016: 15.2% ex disposals). There were improvements of 0.6 points in Scandinavia and 1.5 points in Canada, whilst the UK reported ratio was 0.4 points higher (though UK total controllable costs and cost ratio improved). We continue to work towards further improvements in the expense ratio in the coming years.

Commissions

The Group commission ratio in H1 2017 of 13.6% compared to 13.9% (ex disposals) in H1 2016. We expect the Group's commission ratio to be broadly similar in the second half of 2017.

Investment result

The investment result was £148m (H1 2016: £150m) with investment income of £171m (H1 2016: £187m), investment expenses of £6m (H1 2016: £6m) and the liability discount unwind of £17m (H1 2016: £31m).

Investment income was down 9% on prior year, primarily reflecting the impact of the disposal of Latin America and the UK Legacy business together with ongoing reinvestment at lower yields. The average book yield across our major bond portfolios was down slightly to 2.4% (H1 2016: 2.6%).

At current market forward rates, we expect investment income of c.£315m for the full year 2017.

Total controllable costs

As at the end of the first half of 2017 our cost reduction programme has delivered total gross annualised cost reductions of around £330m. Overall we remain on track to deliver >£400m gross annualised savings by 2018.

Group written total controllable costs were down 6% (ex disposals) year-on-year at constant exchange to £723m, and comprised 8% cost reductions, offset by 2% inflation.

Scandinavia delivered year-on-year 'real' cost reductions of 7%, with 12% in Canada and 7% in the UK.

Group FTE¹ is down 20% (ex disposals) since the start of 2014 to 13,200 at June 2017, and is down 8% H1 2017 v H1 2016.

Non-operating items

Interest costs:

- Interest costs in H1 2017 were £30m (£33m including the new tier 1 issuance – see below), down from £54m a year ago. The reduction reflects debt restructuring actions over the past 12 months.
- In the first half of 2017 the Group issued c.£300m of restricted tier 1 notes in Scandinavia; and retired c.£600m of existing high coupon debt. These actions supplemented the £200m debt retirement completed in July 2016.
- Coupon costs for the new Scandinavian issuance are reflected at the bottom of the management P&L as 'other equity costs', as per accounting rules. The first half cost was £3m, with an annualised interest cost for this instrument of £14m.

¹ Full time equivalent employees.

Other non-operating charges:

£m	HI 2017	HI 2016
Net gains/losses/exchange	44	(19)
Debt buyback premium	(59)	-
Restructuring costs	(41)	(70)
Amortisation	(8)	(7)
Pension net interest cost	(3)	(2)
Other ¹	-	(12)
Total	(67)	(110)

- Net gains of £44m included a £66m gain relating to the Legacy disposal (mainly mark-to-market of the assets transferred to the buyer) and a £22m charge relating to the commutation of the Group's adverse development reinsurance cover, both as previously flagged at FY 2016.
- There was a charge, as flagged at Q1 2017, of £59m relating to the premium paid on the debt buybacks completed at the end of March.
- Restructuring costs were £41m in the first half and included £20m in respect of redundancy. 2017 is expected to be the last year of our restructuring costs and we continue to anticipate a full year charge of c.£100m.

Tax

The Group has reported a tax charge of £57m for HI 2017, giving an effective tax rate (ETR) of 21.6% (HI 2016: 39%). This charge largely comprises tax payable on Scandinavian and Canadian profits (at local statutory tax rates). We continue to expect the full year 2017 ETR to be in line with statutory tax rates in our local territories.

The Group underlying tax rate in the first half was 22.4% (HI 2016: 24%). Given the scale of unrecognised UK tax assets (which given expected changes in UK legislation are likely to last well over 10 years) this may trend towards 20% over the next few years.

The carrying value of the Group's net deferred tax asset at 30 June 2017 was £206m (of which £202m is in the UK). At current tax rates, a further c.£200m of deferred tax assets remain available for use but not recognised on balance sheet; these are predominantly in the UK and Ireland.

Dividend

We are pleased to declare an interim dividend of 6.6p per ordinary share, up 32% year-on-year (HI 2016: 5.0p).

Our medium term policy of between 40-50% ordinary dividend payouts remains, with additional distributions where justified.

¹ In HI 2016 'other' included Solvency II costs of £6m and a cost of £6m relating to a discount rate change on Danish claims liabilities.

BALANCE SHEET

Movement in Net Assets

	Share- holders' funds ¹ £m	Non controlling interests £m	Tier 1 notes £m	Total equity £m	Loan capital £m	Equity & loan capital £m	TNAV £m
Balance at 1 January 2017	3,715	132	-	3,847	1,068	4,915	2,862
Profit/(loss) after tax	196	10	-	206	-	206	196
Exchange gains/(losses) net of tax	(3)	(6)	-	(9)	-	(9)	(3)
Fair value gains/(losses) net of tax	(144)	-	-	(144)	-	(144)	(144)
Pension fund gains/(losses) net of tax	(5)	-	-	(5)	-	(5)	(5)
Repayment & amortisation of loan capital	-	-	-	-	(627)	(627)	-
Issue of Tier 1 notes	-	-	297	297	-	297	-
Share issue	4	-	-	4	-	4	4
Share based payments	8	-	-	8	-	8	8
Prior year final dividend	(112)	(4)	-	(116)	-	(116)	(112)
Other equity costs ²	(8)	-	-	(8)	-	(8)	(8)
Goodwill and intangible additions	-	-	-	-	-	-	(8)
Balance at 30 June 2017	3,651	132	297	4,080	441	4,521	2,790
Per share (pence)							
At 1 January 2017	352						281
At 30 June 2017	345						273

Tangible net assets³ decreased by 3% to £2.8bn in the first half of 2017. Profits in the period were more than offset by fair value mark-to-market movements (partly reflecting the transfer of Legacy assets for which a corresponding gain was included within profit) and the payment of the 2016 final dividend. IAS 19 pension movements (excluding deficit funding contributions) were largely neutral (see page 25 for further detail).

¹ Ordinary shareholders' funds including preference share capital of £125m.

² Includes preference dividends of £5m and coupons of £3m paid on 2017 issued restricted tier 1 securities.

CAPITAL POSITION

Solvency II position ¹ :	Requirement (SCR) £bn	Eligible Own Funds £bn	Surplus £bn	Coverage %
30 June 2017	1.8	2.9	1.1	163%
31 December 2016	1.8	2.9	1.1	158%

The Solvency II coverage ratio¹ increased to 163% in the first half (31 December 2016: 158%), with the key drivers as follows:

- Underlying capital generation added 14 points of coverage;
- Restructuring costs, net capital investments and other non-operating items reduced the ratio by 3 points;
- Pull-to-par on unrealised bond gains accounted for a 4 point reduction;
- 18 points of benefit from the disposal of UK legacy liabilities, announced in February;
- 10 point reduction due to the debt restructuring actions taken in the first half of 2017;
- Market movements, fx and IAS 19 were a small negative, reflecting the impact of narrower AA corporate bond spreads on IAS 19 pension accounting, offset mainly by a positive impact from equities. There was also a 3 point reduction due to the Ogden rate change;
- 2017 dividend accruals² reduced the coverage ratio by 6 points.

Please refer to Appendix (page 24) for further Solvency II details (including sensitivities).

OUTLOOK

In the second half of 2017, our priorities are unchanged: the drive for further performance gains.

We aim for premium growth, however the priority is to maintain underwriting discipline.

We target a lower attritional loss ratio, and we expect further cost reduction and efficiency gains. Volatile items (weather, large losses and) will remain just that.

In summary, we target attractive full year 2017 performance as we continue to build from the quality performance base now established.

¹ The Solvency II capital position at 30 June 2017 is estimated.

² Reflects 6 months accrual of a 'notional' dividend amount for the year. This 'notional' amount should not be considered in any way to be an indication of actual dividend amounts for 2017.

REGIONAL REVIEW – SCANDINAVIA

Management basis

	Net written premiums		Change (%)		Underwriting result			
	HI 2017 £m	HI 2016 £m	RFX	CFX	HI 2017 £m	HI 2016 £m		
Split by country								
Sweden	563	520	8	1	123	76		
Denmark	409	371	10	-	45	17		
Norway	92	74	24	8	(6)	3		
Total Scandinavia	1,064	965	10	1	162	96		
Split by class								
Household	183	166	10	1	25	19		
Personal Motor	188	176	7	(2)	41	49		
Personal Accident & Other	179	158	13	5	58	7		
Total Scandinavia Personal	550	500	10	1	124	75		
Property	210	183	15	5	23	1		
Liability	99	90	10	(1)	11	10		
Commercial Motor	135	124	9	-	3	7		
Other	70	68	3	(5)	1	3		
Total Scandinavia Commercial	514	465	11	1	38	21		
Total Scandinavia	1,064	965	10	1	162	96		
Investment result					40	35		
Scandinavia operating result					202	131		
Operating Ratios (%)	Claims		Commission		Op Expenses		Combined	
	HI'17	HI'16	HI'17	HI'16	HI'17	HI'16	HI'17	HI'16
Household							85.7	87.4
Personal Motor							75.9	69.5
Personal Accident & Other							64.9	95.6
Total Scandinavia Personal	59.5	68.2	3.0	2.8	13.1	13.0	75.6	84.0
Property							85.7	99.7
Liability							85.5	84.7
Commercial Motor							96.8	93.0
Other							98.2	93.1
Total Scandinavia Commercial	70.2	72.3	2.3	3.0	17.6	19.0	90.1	94.3
Total Scandinavia	64.2	70.0	2.7	2.9	15.0	15.6	81.9	88.5
Of which:			5yr ave					
Weather loss ratio	0.0	0.3		1.0				
Large loss ratio	5.8	5.4		5.5				
Current year attritional loss ratio	63.1	64.5						
Prior year effect on loss ratio	(4.7)	(0.2)						
YTD rate changes ¹ (%)	At June 2017		At Dec 2016					
Personal Household		1		4				
Personal Motor		1		2				
Commercial Property		-		3				
Commercial Liability		2		3				
Commercial Motor		1		3				

¹ Rate changes reflect changes for risks renewing in the year-to-date versus comparable risks renewing in the same period the previous year

SCANDINAVIA

In H1 2017, Scandinavia delivered an excellent underwriting profit of £162m, up 56% (at constant fx) versus a year ago, with both strong current and prior year profitability.

We continue to make good progress with our customer agenda as we aim to deliver an 'effortless' customer experience. Our improvement initiatives continue with the launch of a 'chat bot' service in Sweden and a new customer service portal in Denmark that enhances the customer journey and claims handling process. Our overall retention rate improved slightly to 80%.

Net written premiums of £1,064m were up 10% at reported fx and up 1% at constant fx, driven by Norway and Sweden (H1 2016: £965m as reported). Rates were up 2% whilst volumes were down 1%.

The underwriting result was £162m (H1 2016: £96m as reported; £104m at constant fx) with current year profit of £120m and prior year profit of £42m.

The current year attritional loss ratio of 63.1% was 1.4 points better than H1 2016 reflecting underwriting discipline, ongoing capability improvements and lower claims handling costs. Benign weather experience (0.3 points better than last year) was offset by adverse large loss experience (0.4 points higher than last year). The prior year effect on the loss ratio was unusually positive, producing a benefit of 4.7%. The overall combined ratio was 81.9% (H1 2016: 88.5%).

After including an investment result of £40m (H1 2016: £35m), the total operating profit was £202m, up 54%.

The Scandinavian performance improvement programme has continued to deliver well, with particular focus on operational efficiency, e.g. process redesign, robotics and automation. We've also seen further site consolidation progress and IT cost reduction.

Total written controllable expenses were down 5% year-on-year, with 7% cost reductions offset by 2% inflation. The earned controllable cost ratio of 24.2% showed a 1.2 point reduction year-on-year. Headcount was down 10% in the first half of the year and is now down 18% since the end of 2013.

Scandinavia – Outlook

We continue to expect the Scandinavian P&C markets to grow in line with local GDP growth and we target medium-term growth broadly in line with the market, subject to maintaining underwriting discipline.

Our focus remains on further improving the underlying performance of the business, particularly customer volumes, attritional loss ratios and cost improvements. Our COR ambition for Scandinavia is <85%.

REGIONAL REVIEW – CANADA

Management basis

	Net written premiums		Change (%)		Underwriting result	
	HI 2017 £m	HI 2016 £m	RFX	CFX	HI 2017 £m	HI 2016 £m
Household	201	168	20	6	28	21
Personal Motor	301	252	19	5	4	28
Total Canada Personal	502	420	20	5	32	49
Property	89	73	22	7	(2)	(16)
Liability	51	44	16	2	3	(2)
Commercial Motor	61	51	20	5	4	5
Marine & Other	25	21	19	4	3	1
Total Canada Commercial	226	189	20	5	8	(12)
Total Canada	728	609	20	5	40	37
Investment result					31	32
Canada operating result					71	69

Operating Ratios (%)	Claims		Commission		Op Expense		Combined	
	HI '17	HI '16	HI '17	HI '16	HI '17	HI '16	HI '17	HI '16
Household							88.3	90.1
Personal Motor							98.7	89.1
Total Canada Personal	67.3	61.5	11.2	11.4	15.5	16.6	94.0	89.5
Property							101.3	118.5
Liability							94.6	104.4
Commercial Motor							93.4	88.8
Marine & Other							89.2	95.5
Total Canada Commercial	62.5	69.7	18.4	18.0	15.7	18.2	96.6	105.9
Total Canada	65.8	64.0	13.4	13.4	15.6	17.1	94.8	94.5
Of which:			5yr ave					
Weather loss ratio	2.7	6.6		4.8				
Large loss ratio	8.2	6.3		4.1				
Current year attritional loss ratio	57.9	57.1						
Prior year effect on loss ratio	(3.0)	(6.0)						
YTD rate changes¹ (%)	At June 2017		At Dec 2016					
Personal Household		9		5				
Personal Motor		(2)		(1)				
Commercial Property		1		2				
Commercial Liability		1		2				
Commercial Motor		-		-				

¹ Rate changes reflect changes for risks renewing in the year-to-date versus comparable risks renewing in the same period the previous year

CANADA

Canada delivered a first half underwriting profit of £40m despite higher large losses and lower prior year releases versus a year ago.

We continue to work hard to enhance our customer offering. In Johnson we've made strong progress in digital capabilities, and customer scores have continued to improve and outperform benchmarks. In our broker distributed businesses, faster response times and new digital tools enable brokers to service their clients anywhere, anytime, reducing the time to quote from hours to minutes. Customer retention has improved to 86% (versus 84% a year ago).

Net written premiums of £728m were up 20% at reported fx and up 5% at constant fx (HI 2016: £609m as reported). Growth comprised 2% from increased volumes, 1% from rate increases and 2% from lower reinsurance costs. Growth was particularly good in the broker channel with Personal broker up 12% and Commercial up 5%. Johnson, our Personal direct business, returned to volume growth in the second quarter.

The underwriting profit was £40m (HI 2016: £37m) with current year profit of £19m and prior year profit of £21m.

The current year attritional loss ratio was 57.9%, versus 57.1% a year ago. However, HI 2016 was flattered by c.1pt due to benign indirect weather experience, as previously disclosed: excluding this the attritional loss ratio was c.0.2pts better than a year ago. Favourable weather experience (3.9 points better than last year due to Fort McMurray losses in HI 2016) was partly offset by adverse large loss experience (1.9 points higher). Prior year reserve releases, whilst still positive at 3.0%, were lower than last year (HI 2016: 6.0%). The overall combined ratio was 94.8% (HI 2016: 94.5%).

After including an investment result of £31m (HI 2016: £32m), the total operating profit was £71m, up 3%.

Our business improvement programme in Canada has continued well during the first half of the year, delivering further enhancements to pricing sophistication, process simplification, site consolidation, and the implementation of the Guidewire claims system proceeding as planned.

Total written controllable expenses were down 10% year-on-year, with 12% cost reductions offset by 2% inflation. The earned controllable cost ratio of 19.3% showed a 2.4 point reduction year-on-year. Headcount was down 5% in the first half of the year and is now down 16% since the end of 2013.

Canada – Outlook

We target a continuation of the positive premium trends we have seen in the first half of 2017 and continued progress towards our combined ratio ambition of <94%. Our focus is on customer delivery, operational improvement (in underwriting, claims, technology and process simplification) and cost reduction.

REGIONAL REVIEW – UK & INTERNATIONAL

Management basis

	Net written premiums		Change (%)		Underwriting result	
	HI 2017 £m	HI 2016 £m	RFX	CFX	HI 2017 £m	HI 2016 £m
Household	261	248	5	5	5	26
Personal Motor	149	110	35	35	1	(11)
Pet	144	138	4	4	1	(1)
Total UK Personal	554	496	12	12	7	14
Property	334	318	5	2	1	42
Liability	155	155	-	(1)	8	12
Commercial Motor	114	131	(13)	(13)	(6)	(2)
Marine & Other	207	175	18	9	7	10
Total UK Commercial	810	779	4	1	10	62
Total UK	1364	1,275	7	5	17	76
Ireland	152	151	1	(8)	2	(1)
Middle East	112	92	22	9	13	7
Total UK & International	1,628	1,518	7	3	32	82
Investment result					77	74
UK & International operating result					109	156

Operating Ratios (%)	Claims		Commission		Op Expenses		Combined	
	HI'17	HI'16	HI'17	HI'16	HI'17	HI'16	HI'17	HI'16
Household							98.0	91.0
Personal Motor							99.3	109.7
Pet							99.3	100.7
Total UK Personal	60.8	59.9	20.9	21.5	17.0	16.1	98.7	97.5
Property							99.5	86.8
Liability							95.1	91.8
Commercial Motor							105.1	101.6
Marine & Other							96.0	93.8
Total UK Commercial	65.9	59.8	20.5	20.1	12.3	12.3	98.7	92.2
Total UK	63.7	59.8	20.7	20.7	14.3	13.9	98.7	94.4
Ireland	74.5	76.8	11.6	11.4	12.7	12.5	98.8	100.7
Middle East	50.5	58.2	18.7	16.6	18.1	16.6	87.3	91.4
UK & International	64.0	61.3	19.6	19.6	14.4	13.9	98.0	94.8
Of which:			5yr ave					
Weather loss ratio	1.1	3.8		3.8				
Large loss ratio	15.3	10.8		11.9				
Current year attritional loss ratio	48.9	49.0						
Prior year effect on loss ratio	(1.3)	(2.3)						

UK YTD rate changes¹ (%)	At June 2017	At Dec 2016
Personal Household	2	1
Personal Motor	12	9
Commercial Property	(1)	(1)
Commercial Liability	1	-
Commercial Motor	12	5

¹ Rate changes reflect changes for risks renewing in the year-to-date versus comparable risks renewing in the same period the previous year

UK & INTERNATIONAL

In H1 2017 the UK & International delivered a combined ratio of 95.4% (excluding the impact of Ogden; 98.0% including Ogden) despite a competitive landscape.

UK

In the UK our customer capabilities have continued to advance with improved satisfaction metrics for Personal Intermediated and Motability. Motability improved on their NPS score, increasing 10 pts to +86 for the half year.

First half net written premiums in the UK increased by 5% at constant exchange, with rate increases of 1% and volume increases of 4%. UK Personal growth of 12% was underpinned by continued growth in our motor telematics proposition. UK Commercial net written premiums grew by 1% at constant exchange. Targeted growth in our Marine and Property portfolios helped offset shrinkage in Commercial Motor as a result of strong underwriting actions.

The UK underwriting result of £56m excluding Ogden (£17m including the impact of the Ogden discount rate change) (H1 2016: £76m) was achieved despite difficult trading conditions. Weather and large losses taken together were 1.6 points worse than last year. The attritional loss ratio deteriorated mainly due to inflationary experience in Personal Household. Prior year reserve releases were positive but lower than last year due to the impact of Ogden.

Our transformation agenda continues to deliver benefits with increased process simplification and enhanced data analytics capabilities.

Total written controllable expenses were down 5% year-on-year, with 7% cost reductions offset by 2% inflation. The earned controllable cost ratio of 21.2% improved 0.6 points year-on-year. Headcount was down 10% in the first half of the year and is now down 22% since the end of 2013.

Ireland

Ireland returned to underwriting profit delivering a first half profit of £2m and combined ratio of 98.8% (96.7% ex Ogden), underpinned by disciplined underwriting actions. The attritional loss ratio of 60.9% was 4.4 points better than prior year. The result also includes a £3m cost due to the Ogden discount rate change. Net written premiums of £152m were down 8% at constant FX versus H1 2016 following targeted remediation activity.

Middle East

The Middle East region delivered an underwriting result of £13m (H1 2016: £7m) and combined ratio of 87.3% (H1 2016: 91.4%) driven by a 4.5 point improvement in the attritional loss ratio following underwriting actions taken across the portfolio. Premiums of £112m were up 9% at constant FX despite challenging trading conditions in Saudi Arabia.

UK & International – Outlook

We expect underlying premium trends to continue into the second half. Underwriting discipline and attritional loss ratios will be a key focus, resulting in some portfolio reductions coupled with targeted growth in stronger areas. Our transformation plans target further underwriting improvements, cost reductions and capability uplifts.

In Ireland we continue to target a return to operating profit for the full year 2017, although the market remains challenging, in particular for claims inflation. In the Middle East the medium term outlook remains positive and work is underway to further develop capabilities throughout the region including underwriting and pricing sophistication.

INVESTMENT PERFORMANCE

Management basis

Investment result	HI 2017 £m	HI 2016 £m	Change %
Bonds	136	153	(11)
Equities	16	14	14
Cash and cash equivalents	3	6	(50)
Property	11	11	-
Other	5	3	67
Investment income	171	187	(9)
Investment expenses	(6)	(6)	-
Unwind of discount	(17)	(31)	45
Investment result	148	150	(1)

Balance sheet unrealised gains (pre-tax)	30 June 2017 (£m)	31 Dec 2016 (£m)	Change %
Bonds	469	619	(24)
Equities	16	8	100
Other	2	2	-
Total	487	629	(23)

Investment portfolio	Value 31 Dec 2016 £m	Foreign exchange £m	Mark to market £m	Other movements £m	Transfer from assets held for sale £m	Value 30 June 2017 £m
Government bonds	3,713	12	(43)	161	-	3,843
Non-Government bonds	7,832	34	(54)	(672)	87	7,227
Cash	985	(12)	-	(215)	3	761
Equities	170	8	(3)	53	-	228
Property	333	-	2	1	-	336
Prefs & CIVs	522	(3)	13	10	-	542
Other	88	(1)	-	67	-	154
Total	13,643	38	(85)	(595)	90	13,091

Split by currency:		
Sterling	3,994	3,582
Danish Krone	1,081	1,101
Swedish Krona	2,565	2,595
Canadian Dollar	3,232	3,071
Euro	1,345	1,407
Other	1,426	1,335
Total	13,643	13,091

Credit quality – bond portfolio	Non-government		Government	
	30 June 2017 %	31 Dec 2016 %	30 June 2017 %	31 Dec 2016 %
AAA	38	35	67	65
AA	18	22	28	30
A	30	30	4	4
BBB	12	11	1	1
< BBB	2	2	-	-
Non rated	-	-	-	-
Total	100	100	100	100

INVESTMENT PERFORMANCE

Investment income of £171m (HI 2016: £187m) was offset by investment expenses of £6m (HI 2016: £6m) and the liability discount unwind of £17m (HI 2016: £31m). Investment income was down 9% on prior year, primarily reflecting the impact of the disposal of Latin America and the UK Legacy business together with ongoing reinvestment at lower yields.

The average book yield over the period on the total portfolio was 2.5% (HI 2016: 2.7%), with average yield on the bond portfolios of 2.4% (HI 2016: 2.6%). Reinvestment rates in the Group's major bond portfolios over the first half was approximately 1.6%.

Average duration of the Group's bond portfolios is marginally lower at 3.6 years (31 December 2016: 3.7 years).

The investment portfolio decreased by 4% during the first half to £13.1bn. The movement was driven primarily by cash outflows for corporate debt restructuring.

At 30 June 2017, high quality widely diversified fixed income securities represented 85% of the portfolio (31 December 2016: 85%). Equities (largely REITs) represented 2% (31 December 2016: 1%) and cash 6% of the total portfolio (31 December 2016: 7%).

The quality of the bond portfolio remains very high with 98% investment grade and 71% rated AA or above. We remain well diversified by sector and geography.

Unrealised bond gains and pull-to-par

Balance sheet unrealised gains of £487m (pre-tax) reduced by £142m or 23% during the first half, driven by realised gains from the UK Legacy disposal and bond pull-to-par.

We anticipate that the remaining gains will largely unwind over the next 3.5 years, based on current forward yields. We expect pull-to-par of c.£90m in H2 2017, c.£150m in 2018, and c.£110m in 2019.

Outlook

Based on current forward bond yields and foreign exchange rates it is estimated that investment income will be c.£315m for full year 2017. This projected income number is, however, sensitive to changes in market conditions. We continue to expect a discount unwind on long-tail liabilities in the range £30-35m per annum.

APPENDIX

UNDERLYING AND ALTERNATIVE PERFORMANCE MEASURES

The Group uses alternative performance measures, including certain underlying measures, to help explain business performance and financial position. Where not defined in the body of this announcement, further information is set out below.

Note 7 on pages 44-46 of the condensed consolidated financial statements presents a reconciliation of the management basis to statutory income statement.

Combined operating ratio

The Group's combined operating ratio (COR) is calculated on an 'earned' basis as follows:

$\text{COR} = \text{loss ratio} + \text{commission ratio} + \text{expense ratio}$

Where:

$\text{Loss ratio} = \text{net incurred claims} / \text{net earned premiums}$

$\text{Commission ratio} = \text{commissions} / \text{net earned premiums}$

$\text{Expense ratio} = \text{operating expenses} / \text{net earned premiums}$

Constant exchange (CFX)

Prior period comparative translated at current period exchange rates.

Controllable costs

Total controllable costs are stated on a 'written' basis, and include underwriting written controllable expenses of £520m, claims expenses of £187m (included within net incurred claims), investment expenses of £6m, and central expenses of £10m. These items are included within total expenses in the condensed consolidated income statement.

Current year underwriting result

The profit or loss earned from business for which protection has been provided in the current financial period.

Interest costs

Interest costs as shown on a management basis (£30m) comprise coupon costs only. On a statutory basis finance costs of £89m comprise coupon costs of £30m plus debt buyback costs of £59m.

Investment income

Investment income of £171m as shown in the management basis P&L compares to net investment return of £169m shown on a statutory basis. The difference of £2m relates to certain realised and unrealised net losses that are shown within net investment return within the statutory income statement.

Operating profit

Operating profit is calculated as the underwriting result, plus the investment result, less central costs. Note 7 on pages 44-46 of the condensed consolidated financial statements presents a reconciliation of operating profit to profit before tax.

Prior year underwriting result

The profit or loss arising from settling claims incurred in previous years at a better or worse level than the previous estimated costs.

‘Record’ underwriting performance

Record Group underwriting performance (combined ratio and/or underwriting profit) considers the periods for 2006-2017. In order to compare on a ‘like-for-like’ basis, historical periods have been adjusted for central expense reallocation changes made in 2015, Scandinavian discount rate changes made in 2014, and IAS 19 pension net interest cost changes made in 2012. In the case of the expense reallocations and IAS 19 changes, the restatement value applied in the year of change has been applied to all preceding years back to 2006.

Reported exchange (RFX)

Prior period comparative translated at the exchange rates reported at that time.

Tangible net asset value (TNAV)

Tangible net asset value of £2,790m at 30 June 2017 comprises shareholders’ funds of £3,651m, less goodwill & intangible assets of £736m, less £125m preference share capital.

Underlying earnings per share (EPS)

Please refer to page 23 for calculation.

Underlying profit before tax

Underlying profit before tax is calculated as operating profit of £360m less interest costs of £30m less coupon costs of £3m on the 2017 issuance of restricted tier 1 securities (as shown in Note 9 of the condensed consolidated financial statements).

Reconciliation of underlying profit before tax to profit before tax:

	HI 2017	HI 2016
Underlying profit before tax	327	258
Less non-operating charges	(67)	(110)
Add back coupon on 2017 issued tier 1 securities	3	-
Less profit before tax from discontinued operations	-	(7)
Add back loss before tax on sale of discontinued operations	-	20
Profit before tax (statutory basis)	263	161

Underlying profit after tax attributable to ordinary shareholders

Reconciliation of underlying profit after tax attributable to ordinary shareholders to profit after tax:

	HI 2017	HI 2016
Underlying PAT attributable to ordinary shareholders	238	180
Add non-controlling interest	10	6
Add preference dividend	5	5
Less non-operating charges	(67)	(110)
Add back coupon on 2017 issued tier 1 securities	3	-
Add difference between underlying and statutory tax	17	10
Profit after tax (statutory basis)	206	91

Underlying return on tangible equity (ROTE)

Please refer to page 23 for calculation.

Underlying tax rate

The underlying Core Group tax rate mainly comprises the local statutory tax rates in our territories applied to underlying regional profits (operating profits less interest costs).

Underwriting result

Comprise net earned premiums less net incurred claims (including claims handling expenses), less underwriting expenses less commission expenses.

Net asset value (NAV) and tangible net asset value (TNAV) per share

Net asset value per share data at 30 June 2017 was based on total ordinary shareholders' funds of £3,651m, adjusted by £125m for preference shares. Tangible net asset value per share was based on a tangible book value of £2,790m.

Return on equity and tangible equity, and earnings per share calculations

	HI 2017 £m	HI 2016 £m
Profit after tax	206	91
Less: non-controlling interest	(10)	(6)
Less: coupon on 2017 issued restricted tier 1 instrument	(3)	-
Less: preference dividend	(5)	(5)
A Profit attributable to ordinary shareholders	188	80
Operating profit before tax	360	312
Less: interest costs	(30)	(54)
Less: coupon on 2017 issued restricted tier 1 instrument	(3)	-
Underlying profit before tax	327	258
Less: underlying tax ¹	(74)	(67)
Less: non-controlling interest	(10)	(6)
Less: preference dividend	(5)	(5)
B Underlying profit after tax attributable to ordinary shareholders	238	180
Opening shareholders' funds	3,715	3,642
Less: preference share capital	(125)	(125)
C Opening ordinary shareholders' funds	3,590	3,517
Less: goodwill & intangibles	(728)	(679)
D Opening tangible ordinary shareholders' funds	2,862	2,838
E Weighted average no. shares issue during the period (un-diluted)	1,020.3k	1,017.5k
Return on equity (annualised)		
(2x A)/C Reported	10.5%	4.6%
(2x B)/C Underlying	13.3%	10.3%
Return on tangible equity (annualised)		
(2x A)/D Reported	13.1%	5.7%
(2x B)/D Underlying	16.6%	12.8%
Earnings per share		
A/E Basic earnings per share	18.4p	7.9p
B/E Underlying earnings per share	23.3p	17.8p

¹ Using underlying assumed tax rate of 22.4% in HI 2017 (applied to operating profits of £360m less interest costs of £30m) and 26% in HI 2016

We expect the underlying assumed tax rate to continue to fall to a rate broadly in line with the statutory tax rates in our operating territories. Given the scale of unrecognised UK tax assets it may trend towards 20% over the next few years.

DISPOSALS

HI 2016 net written premiums of £3,247m included £126m in respect of businesses now disposed (Latin America and Russia). The underwriting profit of £174m for the same period included a loss of £5m in respect of these disposed businesses. See page 26 for further detail.

CAPITAL

Solvency II sensitivities

HI 2017 coverage ratio

163%

Sensitivities (change in coverage ratio):	Incl. pensions	Excl. pensions
Interest rates: +1% non-parallel ¹ shift	+13%	+5%
Interest rates: -1% non-parallel ¹ shift	-12%	-5%
Equities: -15%	-8%	-2%
Foreign exchange: GBP +10% vs all currencies	-3%	-3%
Cat loss of £75m net	-4%	-4%
Credit spreads: +0.25% parallel shift	+4%	-4%
Credit spreads: -0.25% parallel shift	-13%	+4%

The above sensitivities have been considered in isolation. The impact of a combination of sensitivities may be different to the individual outcomes stated above.

Reconciliation of IFRS total capital to Eligible Own Funds

	30 June 2017 £bn
Shareholders' funds (incl. preference shares)	3.7
Loan capital	0.7
Non-controlling interests	0.1
Total IFRS capital	4.5
Less: goodwill & intangibles	(0.7)
Adjust technical provisions to SII basis	(0.4)
Basic Own Funds	3.4
Tiering & availability restrictions	(0.4)
Forseeable dividends	(0.1)
Eligible Own Funds	2.9

¹ The interest rate sensitivity assumes a non-parallel shift in the yield curve. This is to reflect that the long end of the yield curve is typically more stable than the short end.

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 2017 to 30 June 2017.

	UK £m	non-UK £m	Group £m
Pension fund surplus/(deficit) at 1 January 2017	(113)	(84)	(197)
Actuarial gains/(losses) ¹	2	(7)	(5)
Deficit funding	54	-	54
Other movements ²	3	2	5
Pension fund surplus/(deficit) at 30 June 2017	(54)	(89)	(143)

At an aggregate level the pension fund position under IAS 19 improved during the first half from a £197m deficit to a £143m deficit. This was driven by deficit funding contributions (£65m pre-tax). Market movements, in aggregate, were largely neutral.

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

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

SEGMENTAL ANALYSIS

Management basis – 6 months ended 30 June 2016 (re-presented onto current segmental split)

	Scandi navia £m	Canada £m	UK & International £m	Central functions £m	Group ex. disposals £m	Disposals ¹ £m	Group HI 2016 £m
Net Written Premiums	965	609	1,518	29	3,121	126	3,247
Net Earned Premiums	832	682	1,584	(15)	3,083	188	3,271
Net Incurred Claims	(582)	(437)	(971)	(19)	(2,009)	(99)	(2,108)
Commissions	(24)	(91)	(310)	-	(425)	(55)	(480)
Operating expenses	(130)	(117)	(221)	(2)	(470)	(39)	(509)
Underwriting result	96	37	82	(36)	179	(5)	174
Investment income	48	34	79	-	161	26	187
Investment expenses	(1)	(1)	(3)	-	(5)	(1)	(6)
Unwind of discount	(12)	(1)	(2)	-	(15)	(16)	(31)
Investment result	35	32	74	-	141	9	150
Central expenses	-	-	-	(12)	(12)	-	(12)
Operating result	131	69	156	(48)	308	4	312
Interest							(54)
Other non-operating charges							(110)
Profit before tax							148
Tax							(57)
Profit after tax							91
Underlying profit before tax							258
Loss ratio (%)	70.0	64.0	61.3	-	65.1	-	64.5
Weather loss ratio	0.3	6.6	3.8	-	3.5	-	3.3
Large loss ratio	5.4	6.3	10.8	-	8.9	-	8.4
Current year attritional loss ratio	64.5	57.1	49.0	-	55.0	-	54.7
Prior year effect on loss ratio	(0.2)	(6.0)	(2.3)	-	(2.3)	-	(1.9)
Commission ratio (%)	2.9	13.4	19.6	-	13.9	-	14.6
Expense ratio (%)	15.6	17.1	13.9	-	15.2	-	15.6
Combined ratio (%)	88.5	94.5	94.8	-	94.2	-	94.7

¹ Disposals comprise Latin America and Russia, both completed during HI 2016.

COMBINED RATIO DETAIL

Group ex. disposals

£m unless stated		Current year	Prior year		HI 2017 total	Current year	Prior year		HI 2016 total
Net Written Premiums	1	3,430	7	19	13	3,449	3,118	3	3,121
Net Earned Premiums	2	3,236	8	15	14	3,251	3,094	(11)	3,083
Net Incurred Claims	3	(2,186)	9	84	15	(2,102)	(2,085)	76	(2,009)
Commissions	4	(424)	10	(17)	16	(441)	(422)	(3)	(425)
Operating expenses	5	(483)	11	(3)	17	(486)	(467)	(3)	(470)
Underwriting result	6	143	12	79	18	222	120	59	179
CY attritional claims	19	(1,778)				(1,700)			
Weather claims	20	(38)				(109)			
Large losses	21	(370)				(276)			
Net incurred claims	22	(2,186)				(2,085)			
Loss ratio (%)		=15 / 14			23	64.7			65.1
Weather loss ratio		=20 / 2			24	1.2			3.5
Large loss ratio		=21 / 2			25	11.4			8.9
Current year attritional loss ratio		=19 / 2			26	54.9			55.0
Prior year effect on loss ratio		=23 - 24 - 25 - 26			27	(2.8)			(2.3)
Commission ratio (%)		=16 / 14			28	13.6			13.9
Expense ratio (%)		=17 / 14			29	14.9			15.2
Combined ratio (%)		=23 + 28 + 29			30	93.2			94.2

Scandinavia

£m unless stated		Current year	Prior year		HI 2017 total	Current year	Prior year		HI 2016 total
Net Written Premiums		1,066	(2)		1,064	965	-		965
Net Earned Premiums		896	0		896	832	-		832
Net Incurred Claims		(617)	42		(575)	(584)	2		(582)
Commissions		(24)	0		(24)	(24)	-		(24)
Operating expenses		(135)	0		(135)	(130)	-		(130)
Underwriting result		120	42		162	94	2		96
CY attritional claims		(565)				(537)			
Weather claims		0				(2)			
Large losses		(52)				(45)			
Net incurred claims		(617)				(584)			
Loss ratio (%)					64.2				70.0
Weather loss ratio					-				0.3
Large loss ratio					5.8				5.4
Current year attritional loss ratio					63.1				64.5
Prior year effect on loss ratio					(4.7)				(0.2)
Commission ratio (%)					2.7				2.9
Expense ratio (%)					15.0				15.6
Combined ratio (%)					81.9				88.5

COMBINED RATIO DETAIL

Canada

£m unless stated	Current Year	Prior year	HI 2017 total	Current year	Prior year	HI 2016 total
Net Written Premiums	728	-	728	612	(3)	609
Net Earned Premiums	777	-	777	685	(3)	682
Net Incurred Claims	(535)	24	(511)	(479)	42	(437)
Commissions	(105)	-	(105)	(94)	3	(91)
Operating expenses	(118)	(3)	(121)	(114)	(3)	(117)
Underwriting result	19	21	40	(2)	39	37
CY attritional claims	(450)			(391)		
Weather claims	(21)			(45)		
Large losses	(64)			(43)		
Net incurred claims	(535)			(479)		
Loss ratio (%)			65.8			64.0
Weather loss ratio			2.7			6.6
Large loss ratio			8.2			6.3
Current year attritional loss ratio			57.9			57.1
Prior year effect on loss ratio			(3.0)			(6.0)
Commission ratio (%)			13.4			13.4
Expense ratio (%)			15.6			17.1
Combined ratio (%)			94.8			94.5

Total UK

£m unless stated	Current year	Prior year	HI 2017 total	Current year	Prior year	HI 2016 total
Net Written Premiums	1,343	21	1,364	1,269	6	1,275
Net Earned Premiums	1,317	13	1,330	1,348	(1)	1,347
Net Incurred Claims	(858)	10	(848)	(849)	43	(806)
Commissions	(260)	(15)	(275)	(271)	(7)	(278)
Operating expenses	(190)	0	(190)	(187)	-	(187)
Underwriting result	9	8	17	41	35	76
CY attritional claims	(621)			(627)		
Weather claims	(17)			(58)		
Large losses	(220)			(164)		
Net incurred claims	(858)			(849)		
Loss ratio (%)			63.7			59.8
Weather loss ratio			1.3			4.3
Large loss ratio			16.8			12.2
Current year attritional loss ratio			47.1			46.5
Prior year effect on loss ratio			(1.5)			(3.2)
Commission ratio (%)			20.7			20.7
Expense ratio (%)			14.3			13.9
Combined ratio (%)			98.7			94.4

COMBINED RATIO DETAIL

UK Personal

£m unless stated	Current year	Prior year	HI 2017 total	Current year	Prior year	HI 2016 total
Net Written Premiums	549	5	554	496	-	496
Net Earned Premiums	549	9	558	553	-	553
Net Incurred Claims	(329)	(10)	(339)	(334)	3	(331)
Commissions	(116)	(1)	(117)	(119)	-	(119)
Operating expenses	(95)	0	(95)	(89)	-	(89)
Underwriting result	9	(2)	7	11	3	14
CY attritional claims	(298)			(282)		
Weather claims	(13)			(33)		
Large losses	(18)			(19)		
Net incurred claims	(329)			(334)		
Loss ratio (%)			60.8			59.9
Weather loss ratio			2.4			6.1
Large loss ratio			3.3			3.5
Current year attritional loss ratio			54.3			50.8
Prior year effect on loss ratio			0.8			(0.5)
Commission ratio (%)			20.9			21.5
Expense ratio (%)			17.0			16.1
Combined ratio (%)			98.7			97.5

UK Commercial

£m unless stated	Current year	Prior year	HI 2017 total	Current year	Prior year	HI 2016 total
Net Written Premiums	794	16	810	773	6	779
Net Earned Premiums	768	4	772	795	(1)	794
Net Incurred Claims	(529)	20	(509)	(515)	40	(475)
Commissions	(144)	(14)	(158)	(152)	(7)	(159)
Operating expenses	(95)	0	(95)	(98)	-	(98)
Underwriting result	-	10	10	30	32	62
CY attritional claims	(323)			(345)		
Weather claims	(4)			(25)		
Large losses	(202)			(145)		
Net incurred claims	(529)			(515)		
Loss ratio (%)			65.9			59.8
Weather loss ratio			0.5			3.0
Large loss ratio			26.4			18.2
Current year attritional loss ratio			42.0			43.6
Prior year effect on loss ratio			(3.0)			(5.0)
Commission ratio (%)			20.5			20.1
Expense ratio (%)			12.3			12.3
Combined ratio (%)			98.7			92.2

REPORTING AND DIVIDEND TIMETABLE

Reporting:

Q3 2017 trading update

2 November 2017

Dividend:

Interim ordinary dividend for the period ended 30 June 2017

Announcement date

2 August 2017

Ex-dividend date

7 September 2017

Record date

8 September 2017

Dividend payment date

13 October 2017

2nd Preference Dividend

Announcement date

2 August 2017

Ex-dividend date

10 August 2017

Record date

11 August 2017

Dividend payment date

2 October 2017

Note: a scrip dividend alternative is not being offered for the 2017 interim ordinary dividend payment.

Note: the interim ordinary dividend is conditional upon the directors being satisfied, in their absolute discretion, that the payment of the interim ordinary dividend would not breach any legal or regulatory requirements, including Solvency II regulatory capital requirements.

DISCLOSURE CHANGE

To better align with reporting practice across the European insurance sector, we intend to continue the provision of class of business premium information and performance trend commentary in our disclosures, but to report combined ratios at total Personal and total Commercial level only for each region.

Our intention is that this will apply for full year 2017 disclosures and reporting periods thereafter.

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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 09:00am on 2 August 2017. A webcast and transcript of the presentation will be available via the company website (www.rsagroup.com).

Important disclaimer

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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CONDENSED CONSOLIDATED INCOME STATEMENT
STATUTORY BASIS
for the 6 month period ended 30 June 2017

	Note	(Reviewed) 6 months 30 June 2017 £m	(Reviewed) 6 months 30 June 2016 £m
Income			
Gross written premiums		4,026	3,726
Less: reinsurance premiums		(577)	(647)
Net written premiums	7	3,449	3,079
Change in the gross provision for unearned premiums		(295)	(169)
Less: change in provision for unearned reinsurance premiums		97	174
Change in provision for unearned premiums		(198)	5
Net earned premiums		3,251	3,084
Net investment return		169	144
Other operating income		76	61
Total income		3,496	3,289
Expenses			
Gross claims incurred		(2,584)	(2,420)
Less: claims recoveries from reinsurers		482	408
Net claims		(2,102)	(2,012)
Underwriting and policy acquisition costs		(1,002)	(961)
Unwind of discount		(17)	(32)
Other operating expenses		(76)	(69)
Total expenses		(3,197)	(3,074)
Finance costs	15	(89)	(54)
Net gains related to business disposals	5d	52	-
Net share of profit after tax of associates		1	-
Profit before tax	7	263	161
Income tax expense		(57)	(36)
Profit after tax from continuing operations		206	125
Loss from discontinued operations, net of tax	5a	-	(34)
Profit for the period		206	91
Attributable to:			
Equity holders of the Parent Company		196	85
Non-controlling interests		10	6
		206	91
Earnings per share on profit attributable to the ordinary shareholders of the Parent Company:			
Basic			
From continuing operations	8	18.4p	11.2p
From discontinued operations	8	-	(3.3)p
		18.4p	7.9p
Diluted			
From continuing operations	8	17.9p	11.1p
From discontinued operations	8	-	(3.3)p
		17.9p	7.8p
Ordinary dividend			
Final paid in respect of prior year	9	11.0p	7.0p
Interim proposed/paid in respect of current year	9	6.6p	5.0p

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
STATUTORY BASIS
for the 6 month period ended 30 June 2017

		(Reviewed) 6 months 30 June 2017 £m	(Reviewed) 6 months 30 June 2016 £m (Re-presented ¹)
	Note		
Profit for the period		206	91
Items from continuing operations that may be reclassified to the income statement:			
Exchange (losses)/gains net of tax on translation of foreign operations		(9)	179
Fair value (losses)/gains on available for sale financial assets net of tax		(144)	215
		(153)	394
Items from continuing operations that will not be reclassified to the income statement:			
Pension - remeasurement of net defined benefit liability net of tax		(5)	(22)
		(5)	(22)
Other comprehensive (expense)/income for the period from continuing operations		(158)	372
Other comprehensive income for the period from discontinued operations	5a	-	122
Total other comprehensive (expense)/income for the period		(158)	494
Total comprehensive income for the period from continuing operations		48	497
Total comprehensive expense for the period from discontinued operations	5a	-	88
Total comprehensive income for the period		48	585
Attributable to:			
Equity holders of the Parent Company			
From continuing operations		44	478
From discontinued operations		-	91
		44	569
Non-controlling interests			
From continuing operations		4	19
From discontinued operations		-	(3)
		4	16
		48	585

¹ On a basis consistent with FY 2016 the HY 2016 Other Comprehensive Income exchange gains and losses have been reclassified resulting in a total net impact of nil and a reclassification of £94m income from continuing to discontinued operations.

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY STATUTORY BASIS

for the 6 month period ended 30 June 2017

(Reviewed)

	Ordinary share capital	Ordinary share premium	Own shares	Preference shares	Revaluation reserves	Capital redemption reserve	Foreign currency translation reserve	Retained earnings	Share- holders' equity	Tier 1 notes	Non- controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2017	1,020	1,080	(1)	125	496	389	78	528	3,715	-	132	3,847
Total comprehensive income for the period												
Profit for the period	-	-	-	-	-	-	-	196	196	-	10	206
Other comprehensive expense	-	-	-	-	(141)	-	(7)	(4)	(152)	-	(6)	(158)
	-	-	-	-	(141)	-	(7)	192	44	-	4	48
Transactions with owners of the Company												
Contributions and distribution												
Dividends (note 9)	-	-	-	-	-	-	-	(120)	(120)	-	(4)	(124)
Shares issued for cash	1	3	-	-	-	-	-	-	4	-	-	4
Share based payments	2	-	-	-	-	-	-	6	8	-	-	8
Issue of Tier 1 notes (note 14)	-	-	-	-	-	-	-	-	-	297	-	297
Other reserve transfer	-	-	-	-	(7)	-	-	7	-	-	-	-
Total transactions with owners of the Company	3	3	-	-	(7)	-	-	(107)	(108)	297	(4)	185
Balance at 30 June 2017	1,023	1,083	(1)	125	348	389	71	613	3,651	297	132	4,080
Balance at 1 January 2016	1,017	1,077	(1)	125	293	389	(221)	963	3,642	-	129	3,771
Total comprehensive income for the period												
Profit for the period	-	-	-	-	-	-	-	85	85	-	6	91
Other comprehensive income for the period	-	-	-	-	243	-	263	(22)	484	-	10	494
	-	-	-	-	243	-	263	63	569	-	16	585
Transactions with owners of the Company												
Contribution and distribution												
Dividends (note 9)	-	-	-	-	-	-	-	(76)	(76)	-	(2)	(78)
Shares issued for cash	2	2	-	-	-	-	-	-	4	-	-	4
Share based payments	-	-	-	-	-	-	-	8	8	-	-	8
	2	2	-	-	-	-	-	(68)	(64)	-	(2)	(66)
Changes in shareholders' interests in subsidiaries	-	-	-	-	(11)	-	-	-	(11)	-	(5)	(16)
Total transactions with owners of the Company	2	2	-	-	(11)	-	-	(68)	(75)	-	(7)	(82)
Balance at 30 June 2016	1,019	1,079	(1)	125	525	389	42	958	4,136	-	138	4,274

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
STATUTORY BASIS
as at 30 June 2017

		(Reviewed) 30 June 2017	(Audited) 31 December 2016
	Note	£m	£m
Assets			
Goodwill and other intangible assets	10	737	728
Property and equipment		105	109
Investment property		336	333
Investments in associates		13	12
Financial assets	11	11,994	12,325
Total investments		12,343	12,670
Reinsurers' share of insurance contract liabilities	16	2,454	2,252
Insurance and reinsurance debtors		3,112	2,823
Deferred tax assets		262	270
Current tax assets		37	65
Other debtors and other assets		567	430
Other assets		866	765
Cash and cash equivalents	12	761	985
		20,378	20,332
Assets of operations classified as held for sale	5b	677	807
Total assets		21,055	21,139
Equity and liabilities			
Equity			
Shareholders' equity	13	3,651	3,715
Tier 1 notes	14	297	-
Non-controlling interests		132	132
Total equity		4,080	3,847
Liabilities			
Loan capital	15	441	1,068
Insurance contract liabilities	16	13,032	12,676
Insurance and reinsurance liabilities		1,041	954
Borrowings		225	251
Deferred tax liabilities		56	54
Current tax liabilities		23	32
Provisions		390	420
Other liabilities		1,090	1,087
Provisions and other liabilities		1,559	1,593
		16,298	16,542
Liabilities of operations classified as held for sale	5b	677	750
Total liabilities		16,975	17,292
Total equity and liabilities		21,055	21,139

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

The financial statements were approved on 1 August 2017 by the Board of Directors and are signed on its behalf by:

Scott Egan
Group Chief Financial Officer

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS
STATUTORY BASIS
for the 6 month period ended 30 June 2017

	(Reviewed) 6 months 30 June 2017	(Reviewed) 6 months 30 June 2016 (Re-presented ¹)
Note	£m	£m
Cashflows from operating activities		
Net profit for the year before tax from continuing operations	263	161
Adjustments for non-cash movements in net profit for the period		
Depreciation	11	10
Amortisation and impairment of intangible assets	45	40
Amortisation of available for sale investments	31	35
Fair value gains on disposal of financial assets	-	26
Impairment charge on available for sale financial assets	-	2
Share of profit of associates	(1)	-
Net gains related to business disposals	(52)	-
Foreign exchange loss/(gain)	9	(68)
Other non-cash movements ¹	16	17
Changes in operating assets/liabilities		
Loss and loss adjustment expenses	(96)	(156)
Unearned premiums	182	(12)
Movement in working capital ¹	(326)	183
Reclassification of investment income and interest paid	(72)	(122)
Tax paid	(35)	(63)
Dividend income	16	15
Interest and other investment income	141	159
Dividends received from associates	14	1
Pension deficit funding	(65)	(65)
Net cashflows from operating activities - continuing operations	81	163
Net cashflows from operating activities - discontinued operations	-	(9)
Cashflows from investing activities		
Proceeds/(cash outflows) from sales or maturities of:		
Financial assets	1,992	2,085
Investment property	-	28
Disposals of businesses not classified as discontinued	(3)	2
Disposal of UK Legacy liabilities	(101)	-
Purchase of:		
Financial assets	(1,654)	(2,081)
Property and equipment	(7)	(18)
Intangible assets	(54)	(45)
Net cashflows from investing activities - continuing operations	173	(29)
Net cashflows from investing activities - discontinued operations	-	333
Cashflows from financing activities		
Proceeds from issue of share capital	4	4
Proceeds from issue of Tier 1 notes	297	-
Dividends paid to ordinary shareholders	(112)	(71)
Coupon payment on Tier 1 notes	(3)	-
Dividends paid to preference shareholders	(5)	(5)
Dividends paid to non-controlling interests	(4)	(2)
Redemption of long term borrowings	(607)	-
Movement in other borrowings	(39)	-
Interest paid	(110)	(80)
Net cashflows from financing activities - continuing operations	(579)	(154)
Net (decrease)/increase in cash and cash equivalents	(325)	304
Cash and cash equivalents at beginning of the period	1,087	902
Effect of exchange rate changes on cash and cash equivalents	(12)	75
Cash and cash equivalents at end of the period	12	750
		1,281

¹ Following a review of other non-cash movements, specific balances have been further analysed and classified as movements in working capital for HY 2016. These adjustments have no impact on the overall reported cash flow from operating activities in either year, or any other notes to the financial statements.

BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

1. BASIS OF PREPARATION

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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.

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

These Condensed Consolidated Financial Statements have been prepared by applying the accounting policies used in the Annual Report and Accounts 2016 (see note 4 and Appendix A).

2. ADOPTION OF NEW AND REVISED STANDARDS

There are only a small number of narrow scope amendments arising from annual improvement projects that are applicable to the Group for the first time in 2017, none of which have had a significant impact on the Condensed Consolidated Financial Statements.

3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

The IASB published IFRS 17 'Insurance Contracts' on 18 May 2017 which will change the way in which insurance contracts are accounted for and presented. The latest adoption date for the new standard will be 2021 and it still has to be endorsed by the EU. Work has already commenced on assessing the impact of the new standard.

The Group plans to take advantage of the deferral approach available under IFRS 4 for adopting IFRS 9 'Financial Instruments', thereby adopting it from 1 January 2021, at the same time as IFRS 17.

IFRS 16 'Leases'

In January 2016, the IASB issued IFRS 16 'Leases' to replace the existing standard IAS 17, which will be effective from 1 January 2019 but with earlier adoption permitted.

The main change under IFRS 16 is that it requires the recognition of all lease obligations, together with an asset representing the right to the use of the leased asset during the term of the lease. Under IAS 17, for leases qualifying as operating leases, the lease obligations are not recognised in the Statement of Financial Position.

The Group has completed its initial assessment of the impact of IFRS 16 on the financial statements and is in the process of considering the options available on transition to the new standard.

IFRS 15 'Revenue Recognition'

IFRS 15 'Revenue Recognition' becomes effective from 1 January 2018. Revenue arising from insurance contracts and financial instruments is outside the scope of IFRS 15. Work is progressing on preparing for the adoption of IFRS 15 which is not expected to have a significant impact for the Group.

Other pronouncements

There are a number of amendments to IFRS that have been issued by the IASB that become mandatory during 2017 or in a subsequent accounting period. The Group has evaluated these changes and none are expected to have a significant impact on the consolidated financial statements.

4. RISK MANAGEMENT

The principal risks and uncertainties of the Group and the management of these risks have not materially changed since the year ended 31 December 2016.

Details of the principal risks and uncertainties can be found in the Annual Report and Accounts 2016; Risk Management information in Note 5 on pages 120 to 126 and the estimation techniques and uncertainties in the specific disclosures to which they relate.

SIGNIFICANT TRANSACTIONS AND EVENTS

5. DISCONTINUED OPERATIONS AND DISPOSALS

a) Discontinued operations

During the six months to 30 June 2017, no operations have been classified as discontinued.

During 2016, the Group classified the following operations as discontinued on the basis that they represented a separate geographical area of operation. The sales all completed during 2016.

<u>Operation</u>	<u>Date of disposal</u>	<u>Acquirer</u>
Russia	29 January 2016	Joint Stock Insurance Company Blagosostoyanie
Brazil	29 February 2016	Suramericana S.A.
Colombia	31 March 2016	Suramericana S.A.
Chile	30 April 2016	Suramericana S.A.
Argentina	30 April 2016	Suramericana S.A.
Mexico	31 May 2016	Suramericana S.A.
Uruguay	30 June 2016	Suramericana S.A.

The revenue, expenses and related income tax expense in 2016 relating to these discontinued operations are set out in the comparatives below.

DISCONTINUED INCOME STATEMENT for the period ended 30 June 2017

		(Reviewed) 6 months 30 June 2017	(Reviewed) 6 months 30 June 2016
	Note	£m	£m
Income			
Gross written premiums		-	254
Less: reinsurance premiums		-	(86)
Net written premiums	7	-	168
Change in the gross provision for unearned premiums		-	38
Less: change in provision for unearned reinsurers' premiums		-	(19)
Change in provision for unearned premiums		-	19
Net earned premiums		-	187
Net investment return		-	16
Total income		-	203
Expenses			
Gross claims incurred		-	(311)
Less: claims recoveries from reinsurers		-	215
Net claims		-	(96)
Underwriting and policy acquisition costs		-	(88)
Unwind of discount		-	(5)
Other operating expenses		-	(7)
Total expenses		-	(196)
Profit from discontinued operations before tax		-	7
Loss on disposal after tax	5c	-	(36)
Loss before tax		-	(29)
Income tax expense		-	(5)
Loss after tax		-	(34)

5. DISCONTINUED OPERATIONS AND DISPOSALS (CONTINUED)

DISCONTINUED STATEMENT OF COMPREHENSIVE INCOME for the period ended 30 June 2017

	(Reviewed) 6 months 30 June 2017 £m	(Reviewed) 6 months 30 June 2016 £m (Re-presented ¹)
Loss for the period from discontinued operations net of tax	-	(34)
Items from discontinued operations that may be reclassified to the income statement:		
Exchange gains recycled on disposal of discontinued operations net of tax	-	111
Exchange gains net of tax	-	7
	-	118
Fair value losses recycled on disposal of discontinued operations net of tax	-	(1)
Fair value gains on available for sale financial assets net of tax	-	3
	-	2
Items from discontinued operations that will not be reclassified to the income statement:		
Movement in property revaluation, net of tax	-	2
Other comprehensive income for the year from discontinued operations	-	122
Total comprehensive expense for the year from discontinued operations	-	88

¹ On a basis consistent with FY 2016 the HY 2016 Other Comprehensive Income exchange gains and losses have been reclassified resulting in a total net impact of £nil and a reclassification of £94m income from continuing to discontinued operations.

5. DISCONTINUED OPERATIONS AND DISPOSALS (CONTINUED)

b) Held for sale disposal groups

	30 June 2017		31 December 2016			
	UK Legacy ¹	Total	UK Legacy ¹	Oman ²	UK Other	Total
	£m	£m	£m	£m	£m	£m
Assets classified as held for sale						
Property and equipment	-	-	-	-	4	4
Investments	-	-	689	87	-	776
Reinsurers' share of insurance contract liabilities	677	677	90	6	-	96
Insurance and reinsurance debtors	-	-	-	15	-	15
Other debtors and other assets	-	-	9	6	1	16
Cash and cash equivalents	-	-	101	3	-	104
Total assets of disposal groups	677	677	889	117	5	1,011
Remeasurement of disposal groups to fair value less costs to sell	-	-	(204)	-	-	(204)
Assets of operations classified as held for sale	677	677	685	117	5	807
Liabilities directly associated with assets classified as held for sale						
Insurance contract liabilities	677	677	685	50	-	735
Insurance and reinsurance liabilities	-	-	-	5	-	5
Provisions and other liabilities	-	-	-	10	-	10
Liabilities of disposal groups	677	677	685	65	-	750
Total net assets of disposal groups	-	-	-	52	5	57

¹ The UK Legacy investments presented as held for sale at 31 December 2016 have been disposed of and the proceeds used to acquire reinsurance for the gross legacy liabilities pending completion of a subsequent legal transfer of the business.

² It is no longer expected that RSA will lose control over its Oman business as a result of an initial public offering of its shares that is taking place during the third quarter of 2017 and as a consequence the assets and liabilities of this business were reclassified out of held for sale.

5. DISCONTINUED OPERATIONS AND DISPOSALS (CONTINUED)

c) Discontinued operations disposed of during the period

	6 months 30 June 2017	6 months 30 June 2016		
	Total £m	Latin America £m	Russia £m	Total £m
Consideration received	-	432	5	437
Less: transaction costs	-	(20)	(1)	(21)
Net proceeds from sales	-	412	4	416
Less: carrying value of net assets disposed of ¹	-	(321)	(3)	(324)
Gains on sale before recycling of items from other comprehensive income	-	91	1	92
Recycle of items from other comprehensive income on disposals:				
- Foreign currency translation reserve	-	(100)	(11)	(111)
- Unrealised loss on available for sale investments	-	(1)	-	(1)
Loss on sales of discontinued operations before tax	-	(10)	(10)	(20)
Tax on disposal	-	(16)	-	(16)
Loss on sales of discontinued operations after tax	-	(26)	(10)	(36)

¹ Includes £nil (30 June 2016: £98m) of cash balances in the disposed businesses.

d) Gain/(loss) related to business disposals not classified as discontinued

In the six months to 30 June 2017 the net gain related to business disposals within continuing operations was **£52m** comprised of **£66m** mainly relating to the realised gain on the mark-to-market of the bonds transferred to the UK Legacy buyer, **£(22)m** on the commutation of the Group's Adverse Development Cover reinsurance protection that was bought in 2014 to partly protect the UK Legacy book and **£8m** from the sale of the UK Accident and Repair business.

At full year 2016, the assets and liabilities of the Oman and UK Legacy business were classified as held for sale. Upon classification as held for sale, the net assets were measured at the lower of carrying amount and fair value less costs to sell. The valuation adjustment resulted in a £234m loss which was recognised in the continuing income statement for full year 2016.

6. REORGANISATION COSTS

Reorganisation costs represent external and clearly identifiable internal costs that are necessarily incurred and directly attributable to the Group's restructuring programme. The aim of the restructuring programme is to both reduce operating costs and improve profitability.

In the six months to 30 June 2017, the reorganisation costs of **£41m** (30 June 2016: £70m) comprised of **£20m** (30 June 2016: £15m) of redundancy costs and **£21m** (30 June 2016: £55m) of other restructuring activities.

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

7. OPERATING SEGMENTS

Group excluding disposals

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

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

During 2016, following a reorganisation change, the Middle East was combined with the UK and Ireland regions to form the 'UK & International' segment. Previously the Middle East operations were reported under 'non-core'. The 2016 half year segmental results have been re-presented accordingly.

Disposals

Disposals are categorised between disposals of continuing operations and discontinued operations:

Disposals of continuing operations

On 7 February 2017, the Group's UK Legacy liabilities were disposed of to Enstar Group Limited. The transaction initially takes the form of a reinsurance agreement, effective from 31 December 2016, which substantially effects economic transfer, to be followed by completion of a subsequent legal transfer of the business. The Group's UK Legacy business is managed as part of the UK operations. It is not presented as a discontinued operation as it is neither a separate geographical area nor a major line of business.

Discontinued operations

During 2015, the Group classified the Latin American and Russian operations as discontinued as they were held for sale at 31 December 2015 and represented a separate geographical area of operation. The sale of these operations completed in the first six months of 2016 and they are therefore classified as discontinued at 30 June 2016 (see note 5 for further details).

During the six months to 30 June 2017, no further operations have been classified as discontinued and as such, the 2016 comparatives do not require re-presentation.

Assessing segment performance

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

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

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

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

7. OPERATING SEGMENTS (CONTINUED)

Segment revenue and results

Period ended 30 June 2017

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

7. OPERATING SEGMENTS (CONTINUED)

Segment revenue and results

Period ended 30 June 2016 – Re-presented

	Scandinavia	Canada	UK & International	Central Functions	Group excluding disposals	Disposals of continuing operations	Continuing operations per income statement	Discontinued operations (note 5)	Total Group
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net written premiums	965	609	1,518	29	3,121	(42)	3,079	168	3,247
Underwriting result	96	37	82	(36)	179	(8)	171	3	174
Investment result	35	32	74	-	141	-	141	9	150
Central costs and other activities	-	-	-	(12)	(12)	-	(12)	-	(12)
Operating result (management basis)	131	69	156	(48)	308	(8)	300	12	312
Realised gains							10	2	12
Unrealised losses, impairments and foreign exchange							(11)	-	(11)
Interest costs							(54)	-	(54)
Amortisation of intangible assets							(7)	-	(7)
Pension net interest and administration costs							(2)	-	(2)
Solvency II costs							(6)	-	(6)
Reorganisation costs							(63)	(7)	(70)
Economic assumption changes							(6)	-	(6)
Loss on disposal of businesses							-	(20)	(20)
Profit/(loss) before tax							161	(13)	148
Tax on operations							(36)	(5)	(41)
Tax on disposals of discontinued operations							-	(16)	(16)
Profit/(loss) after tax							125	(34)	91
Combined operating ratio (%)	88.5%	94.5%	94.8%		94.2%				94.7%

8. EARNINGS PER SHARE

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

The number of shares used in the calculation on a basic and diluted basis were 1,020,292,327 and 1,065,655,658 respectively (excluding ordinary shares purchased by various employee share trusts and held as own shares). The weighted average number of diluted shares recognises that the Tier I loan notes issued in the period (note 14), are convertible in the event that certain regulatory capital measures are breached.

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

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

9. DISTRIBUTIONS PAID AND DECLARED

	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	p	p	£m	£m
Ordinary dividend:				
Final paid in respect of prior year	11.0	7.0	112	71
Preference dividend			5	5
Tier 1 notes coupon payment			3	-
			120	76

Subsequent to 30 June 2017, the directors declared an interim dividend of **6.6p** (30 June 2016: 5.0p) per ordinary share amounting to a total of **£67m** (2016: £51m). The proposed dividend will be paid on X 2017 and accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2017.

The Tier 1 coupon payment relates to the two floating rate notes issued on 27 March 2017 (note 14).

NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

10. GOODWILL AND INTANGIBLE ASSETS

	30 June 2017	30 December 2016
	£m	£m
Goodwill	345	345
Externally acquired software	9	14
Internally generated software	311	287
Other	72	82
Total goodwill and other intangible assets	737	728

Other includes customer lists, renewal rights and acquired brands.

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

	30 June 2017	30 June 2016
	£m	£m
Other intangible asset write-offs	-	1
	-	1

The software impairment charge of **£nil** during the six months to 30 June 2017 (30 June 2016: £1m) was recognised within underwriting and policy acquisition costs.

11. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS

Financial assets

	30 June 2017	31 December 2016
	£m	£m
Equity securities	770	692
Debt securities	11,070	12,321
Financial assets measured at fair value	11,840	13,013
Loans and receivables	154	88
Total financial assets	11,994	13,101
Less: Assets classified as held for sale		
Debt securities	-	776
Total financial assets net of held for sale	11,994	12,325

11. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value measurements recognised in the statement of financial position

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

	Fair value hierarchy				Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	Less: Assets of operations classified as held for sale £m	
Group occupied property - land and buildings	-	-	34	-	34
Investment property	-	-	336	-	336
Available for sale financial assets:					
Equity securities	403	-	366	-	769
Debt securities	3,802	6,934	316	-	11,052
Financial assets at fair value through the income statement:					
Equity securities	-	-	1	-	1
Debt securities	-	-	18	-	18
	4,205	6,934	1,071	-	12,210
Derivative assets:					
At fair value through the income statement	-	39	-	-	39
Designated as hedging instruments	-	18	-	-	18
Total assets measured at fair value	4,205	6,991	1,071	-	12,267
Derivative liabilities:					
At fair value through the income statement	-	40	-	-	40
Designated as hedging instruments	-	74	-	-	74
Total liabilities measured at fair value	-	114	-	-	114
Loan capital	-	464	9	-	473
Total value of liabilities not measured at fair value	-	464	9	-	473

11. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value hierarchy
31 December 2016

	Level 1 £m	Level 2 £m	Level 3 £m	Less: Assets of operations classified as held for sale £m	Total £m
Group occupied property - land and buildings	-	-	34	4	30
Investment property	-	-	333	-	333
Available for sale financial assets:					
Equity securities	323	-	363	-	686
Debt securities	4,256	7,780	266	776	11,526
Financial assets at fair value through the income statement:					
Equity securities	-	-	6	-	6
Debt securities	-	-	19	-	19
	4,579	7,780	1,021	780	12,600
Derivative assets:					
At fair value through the income statement	-	47	-	-	47
Designated as hedging instruments	-	9	-	-	9
Total assets measured at fair value	4,579	7,836	1,021	780	12,656
Derivative liabilities:					
At fair value through the income statement	-	38	-	-	38
Designated as hedging instruments	-	129	-	-	129
Total liabilities measured at fair value	-	167	-	-	167
Loan capital	-	1,129	8	-	1,137
Fair value of liabilities not measured at fair value	-	1,129	8	-	1,137

During 2016, the Group re-evaluated the basis of valuation of certain investments. As a consequence during 2016 the Group transferred £3,074m of debt securities from a classification of Level 1 to a classification of Level 2.

Estimation of the fair value of assets and liabilities

Fair value is used to value a number of assets within the Statement of Financial Position and represents market value at the reporting date.

Group occupied property and investment property

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

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

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

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

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

11. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

Derivative financial instruments

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

Loan capital

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

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

Fair value hierarchy

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

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

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

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

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

11. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS (CONTINUED)

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

	Available for sale investments		Investments at fair value through the income statement		Total
	Equity securities	Debt securities	Equity securities	Debt securities	
	£m	£m	£m	£m	£m
Level 3 financial assets at 1 January 2016	269	154	38	15	476
Total gains/(losses) recognised in:					
Income statement	1	-	1	(9)	(7)
Other comprehensive income	16	1	-	-	17
Purchases	49	96	5	28	178
Disposals	7	-	(38)	(15)	(46)
Exchange adjustment	21	15	-	-	36
Level 3 financial assets at 1 January 2017	363	266	6	19	654
Total losses recognised in:					
Income statement	-	-	-	(1)	(1)
Other comprehensive income	(4)	(1)	-	-	(5)
Purchases	12	54	-	-	66
Disposals	(7)	(2)	(5)	-	(14)
Exchange adjustment	2	(1)	-	-	1
Level 3 financial assets at 30 June 2017	366	316	1	18	701

The Group's property portfolio (including the Group occupied properties) is almost exclusively located in the UK. An increase of 100bps in the discount rate used to value the UK property portfolio would result in a decrease of £51m (31 December 2016: £72m) in the fair value of the portfolio.

The Group investments in financial assets classified at Level 3 in the hierarchy are primarily investments in various private fund structures investing in debt instruments where the valuation includes estimates of the credit spreads on the underlying holdings. The estimates of the credit spread are based upon market observable credit spreads for what are considered to be assets with similar credit risk. The aggregate value of these holdings included in the table above at 30 June 2017 is **£701m** (31 December 2016: £654m). An increase in the estimate of the credit spread of the underlying holdings of 100bps would result in a reduction in the fair value of these investments at 30 June 2017 of **£22m** (31 December 2016: £29m).

12. CASH AND CASH EQUIVALENTS

	30 June 2017	30 June 2016	31 December 2016
	£m	£m	£m
Cash and cash equivalents and bank overdrafts (as reported within the Condensed Consolidated Statement of Cashflows)	750	1,281	1,087
Add: Bank overdrafts reported in Borrowings	11	-	2
Total cash and cash equivalents	761	1,281	1,089
Less: cash and cash equivalents reported in assets held for sale	-	-	104
Total cash and cash equivalents (as reported in the Condensed Consolidated Statement of Financial Position)	761	1,281	985

13. SHARE CAPITAL

The issued share capital at 30 June 2017 consists of 1,022,652,327 ordinary shares of £1.00 each and 125,000,000 of preference shares of £1.00 each (31 December 2016: 1,019,554,986 ordinary shares of £1.00 each and 125,000,000 preference shares of £1.00 each).

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

14. TIER 1 NOTES

On 27 March 2017, the Group issued two floating rate Restricted Tier 1 (RT1) Notes totalling £297m in aggregate size and with a blended coupon of c.4.7%. The Notes are as follows:

Swedish Krona 2,500m at 3 month Stibor +525bps (equivalent to c.4.8% coupon on issue)

Danish Krone 650m at 3 month Cibor +485bps (equivalent to c.4.6% coupon on issue)

Proceeds of this issuance have been on-lent within the Group to finance our Scandinavian business.

The Tier 1 notes are treated as a separate category within Equity and future coupon payments recognised outside of the Profit after Tax result, similar to the treatment of preference dividends.

15. LOAN CAPITAL

	30 June 2017	31 December 2016
	£m	£m
Subordinated guaranteed US\$ bonds	6	6
Guaranteed subordinated step-up notes due 2039	40	298
Guaranteed subordinated notes due 2045	395	395
Total dated loan capital	441	699
Perpetual guaranteed capital securities	-	369
Total loan capital	441	1,068

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

The dated guaranteed subordinated step-up notes were issued on 20 May 2009 at a fixed rate of 9.375%. The nominal £500m bonds have a redemption date of 20 May 2039. On 7 July 2016, the Group bought back £200m in nominal value of these step-up notes, with a further £245m being bought back on 29 March 2017 and £15m in Q2 2017. The remaining £40m has a first call date of 20 May 2019.

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

The perpetual guaranteed subordinated capital securities issued on 12 May 2006 have a nominal value of £375m and the rate of interest payable is 6.701% of the nominal value. On 29 March 2017, the Group bought back £347m of the outstanding principal amount. The remaining £28m has been called and is therefore presented within other creditors in the Consolidated Statement of Financial Position.

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

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

Finance costs of £89m include £59m relating to debt buyback premium.

16. INSURANCE CONTRACT LIABILITIES

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

Details of the Group accounting policies in respect of insurance contract liabilities can be found in Note 4 on page 115 of the Annual Report and Accounts 2016.

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

	Gross	RI	Net
Period ended 30 June 2017	2017	2017	2017
	£m	£m	£m
Provision for unearned premiums	3,580	(886)	2,694
Provision for losses and loss adjustment expenses	10,129	(2,245)	7,884
Total insurance contract liabilities	13,709	(3,131)	10,578
Less: Held for sale provision for unearned premiums	-	-	-
Less: Held for sale provisions for losses and loss adjustment expenses	677	(677)	-
Less: Total liabilities held for sale	677	(677)	-
Provision for unearned premiums at 30 June net of held for sale	3,580	(886)	2,694
Provision for losses and loss adjustment expenses at 30 June net of held for sale	9,452	(1,568)	7,884
Total insurance contract liabilities excluding held for sale	13,032	(2,454)	10,578

	Gross	RI	Net
Period ended 31 December 2016	2016	2016	2016
	£m	£m	£m
Provision for unearned premiums	3,328	(818)	2,510
Provision for losses and loss adjustment expenses	10,083	(1,530)	8,553
Total insurance contract liabilities	13,411	(2,348)	11,063
Less: Held for sale provision for unearned premiums	17	(2)	15
Less: Held for sale provisions for losses and loss adjustment expenses	718	(94)	624
Less: Total liabilities held for sale	735	(96)	639
Provision for unearned premiums at 31 December net of held for sale	3,311	(816)	2,495
Provision for losses and loss adjustment expenses at 31 December net of held for sale	9,365	(1,436)	7,929
Total insurance contract liabilities excluding held for sale	12,676	(2,252)	10,424

17. RETIREMENT BENEFIT OBLIGATIONS

The table below provides a reconciliation of the movement in the Group's pension fund position under IAS 19 (net of tax) from 1 January 2017 to 30 June 2017.

	UK £m	Other £m	Group £m
Pension fund at 1 January 2017	(113)	(84)	(197)
Re-measurements ¹	2	(7)	(5)
Deficit funding	54	-	54
Other movements ²	3	2	5
Pension fund at 30 June 2017	(54)	(89)	(143)

	UK £m	Other £m	Group £m
Pension fund at 1 January 2016	117	(53)	64
Re-measurements ¹	(295)	(20)	(315)
Deficit funding	54	-	54
Other movements ²	11	(11)	-
Pension fund at 31 December 2016	(113)	(84)	(197)

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

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

The Group's IAS 19 pension position has improved in the first half of 2017 from a deficit of £197m to a deficit of £143m.

The UK pension position has improved by £59m during the first half of 2017 to a deficit of £54m. The movement in the period is driven by gains on scheme assets of £32m, contributions of £64m, experience losses of £(12)m, changes to actuarial assumptions of £(14)m and service costs of £(11)m.

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

18. RELATED PARTY TRANSACTIONS

During the first half of 2017, no related party transactions took place that have materially affected the financial position or the results for the period. There have also been no changes in the nature of the related party transactions as disclosed in Note 15 on page 137 of the Annual Report and Accounts for the year ended 31 December 2016.

19. RESULTS FOR THE YEAR 2016

The statutory accounts of RSA Insurance Group plc for the year ended 31 December 2016 have been delivered to the Registrar of Companies. The independent auditor's report on the Group accounts for the year ended 31 December 2016 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.

APPENDIX A: EXCHANGE RATES

Local currency/£	6 months 30 June 2017		6 months 30 June 2016		12 months 31 December 2016	
	Average	Closing	Average	Closing	Average	Closing
Canadian Dollar	1.68	1.69	1.91	1.74	1.79	1.66
Danish Krone	8.64	8.47	9.57	8.98	9.11	8.71
Swedish Krona	11.14	10.98	11.95	11.38	11.59	11.19
Euro	1.16	1.14	1.28	1.21	1.22	1.17

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

We confirm that to the best of our knowledge:

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

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

- DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
- DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Signed on behalf of the Board

Stephen Hester
Group Chief Executive

Scott Egan
Group Chief Financial Officer

1 August 2017

1 August 2017

INDEPENDENT REVIEW REPORT TO RSA INSURANCE GROUP PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of financial position, the condensed consolidated statement of cashflows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

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

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

Directors' responsibilities

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

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

Our responsibility

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

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

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

Stuart Crisp
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
1 August 2017