

4 August 2011

HALF YEAR FINANCIAL REPORT TO 30 JUNE 2011

Strong top and bottom line performance

- Net written premiums of £4.2bn up 10% (9% at constant exchange)
- Underwriting result of £206m and COR of 93.2%
- Investment gains of £59m ahead of guidance following action to reduce equity exposure
- Operating result of £467m up by 22%
- Profit before tax of £376m up by 25%
- IGD surplus of £1.4bn, coverage remains strong at 2.1x
- Interim dividend up by 7% to 3.34p

Delivery against strategic objectives

- Delivering profitable top line growth in all regions driven by rating action, targeted initiatives and 2010 deals
- Emerging Markets on track to double premiums to around £2.2bn by the end of 2015
- Integration of 2010 acquisitions in International and Emerging Markets progressing well
- UK on track to achieve full year expense ratio of around 14% in 2011, a year ahead of schedule
- Maintained strong capital and financial position

Confident of continued strong performance in 2011

- For the full year, we continue to focus on delivering
 - Around 10% growth and continued strong profitability in International
 - Double digit NWP growth in Emerging Markets
 - Targeted growth and an improved underwriting result in the UK
 - A COR for the Group of better than 95%

	6 Months 2011	6 Months 2010	Movement*
Net written premiums	£4,188m	£3,802m	10%
Underwriting result	£206m	£136m	51%
Combined operating ratio	93.2%	94.8%	1.6pts
Operating result	£467m	£382m	22%
Profit before tax	£376m	£302m	25%
Profit after tax	£277m	£224m	24%
Interim dividend per ordinary share	3.34p	3.12p	7%
	30 June 2011	31 December 2010	
Financial position			
Shareholders' funds	£3,865m	£3,766m	3%
Net asset value per share excluding IAS 19	110p	108p	2%
Net asset value per share	106p	104p	2%

* Reported exchange rate

Andy Haste, Group CEO of RSA, commented:

"We have made a strong start to the year on both the top and bottom line. Premium growth of 10% is driven by rate, targeted organic initiatives and the benefit of 2010 deals. The underwriting result is up by 51% and operating profit by 22%, despite the impact of the first quarter catastrophe events, demonstrating the benefits of our focus on underwriting discipline and our strong and diversified portfolio.

We approach the second half of 2011 with confidence. While market conditions remain challenging, we continue to expect to deliver targeted profitable growth in the UK, around 10% growth in International and double digit growth in Emerging Markets. As it stands today and assuming a continuation of more normal levels of weather losses, we also expect to deliver a combined for the Group of better than 95%. This positive outlook is reflected in the 7% increase in the interim dividend to 3.34p (H1 2010: 3.12p)."

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Important disclaimer

Visit www.rsagroup.com for more information.

This half year report has been prepared in accordance with the requirements of English company law and the liabilities of the directors in connection with this half year report shall be subject to the limitations and restrictions provided by such law. This half year report 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 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 (including changes related to capital and solvency requirements), 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 and other 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. 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 half year report should be construed as a profit forecast.

INTERIM MANAGEMENT REPORT

CEO REVIEW

The Group has made a strong start to the year on both the top and bottom line. Net written premiums are up by 10% to £4.2bn (9% at constant exchange) with premium growth comprising 4% from rate on renewals, 5% from 2010 deals and 1% from foreign exchange, while volumes are flat on prior year with strong growth in Emerging Markets, Canada and Specialty lines offset by reductions in Scandinavian Commercial lines and UK Personal Motor and Mid-Market.

The underwriting result is up by 51% to £206m (H1 2010: £136m) with a current year underwriting profit of £100m (H1 2010: £15m) and a prior year profit of £106m (H1 2010: £121m). The current year result has benefitted from continued management action on rate and expenses and improved weather, which is £65m better than the prior year, while large losses are £25m worse. Within large losses, 2010 included the Chilean earthquake net loss of £30m while in 2011, other large losses are £55m worse than last year and include the first quarter catastrophe events in Japan, New Zealand and Australia. The prior year result of £106m reflects positive run off from all regions, including another strong contribution from International, particularly Swedish Personal lines and Canadian Motor and General Liability. The combined operating ratio (COR) of 93.2% is 1.6 points better than 2010.

The Group continues to adopt a prudent reserving policy for both current year and overall reserves. At 30 June 2011, reserves remain significantly to the right side of best estimate and given our prudent reserving policy, we continue to expect positive prior year development to be a significant feature of the underwriting result.

The investment result is up by 5% to £327m (H1 2010: £310m) and includes investment income of £313m (H1 2010: £292m) and total gains of £59m (H1 2010: £67m). Investment income has increased by 7% compared with the prior year with management actions, one-off property income and foreign exchange offsetting falling yields, while total gains of £59m are ahead of guidance following action taken to reduce our equity exposure and lock in gains.

The insurance result of £533m, which comprises the underwriting result plus the investment result, is up by 20% on the first half of 2010 and includes £350m from International, £145m from the UK and £36m from Emerging Markets.

The operating result is up by 22% to £467m (H1 2010: £382m), profit before tax is up by 25% to £376m (H1 2010: £302m) and profit after tax is up by 24% to £277m (H1 2010: £224m). The underlying return on opening shareholders' funds is 15.2% (H1 2010: 13.2%), with the improvement on the prior year reflecting higher profits after tax. The underlying return based on average shareholders' funds was 15.0% at the half year, compared with 13.4% in the first half of 2010.

Business Overview

Set out below are the net written premiums and combined operating ratios for our regions:

	Net written premiums				Combined operating ratio		
	6 Months	6 Months	Movement	Movement	6 Months	6 Months	Movement
	2011	2010	as reported	at constant exchange	2011	2010	
	£m	£m	%	%	%	%	Points
International	2,089	1,884	11	8	87.9	89.3	1.4
UK	1,570	1,461	7	7	98.5	98.9	0.4
Emerging Markets	519	441	18	18	98.6	103.3	4.7
Group Re	10	16	(38)	(38)	-	-	-
Total Group	4,188	3,802	10	9	93.2	94.8	1.6

- International

International, our largest region, continues to drive the Group forward, delivering top line growth and an excellent underwriting result. Premiums are up by 11% to £2,089m (8% at constant exchange) reflecting continued action on rate, organic initiatives and the benefit of 2010 deals across the region. The COR is very strong at 87.9% and the underwriting result is up by 25% to £195m.

In Scandinavia, premiums are up by 5% to £1,077m (1% at constant exchange), reflecting 6% growth (1% at constant exchange) in Personal lines and 3% growth (in line with H1 2010 at constant exchange) in Commercial. In Personal, growth is driven by Personal Accident, Danish Motor and Swedish Household. Across Scandinavia, the Commercial market remains competitive, however we have generated positive momentum in the second quarter and growth in Renewable Energy, Marine and Norway has offset the non-renewal of a small number of large accounts in Commercial Property and Danish Workers Compensation in the first quarter. The Scandinavian underwriting result has increased by 13% to £144m and the COR was an excellent 81.7% following a return to more normal weather compared with the first half of 2010 and strong performances in Personal Motor, Personal Accident, Workers Compensation and Care.

Canada has delivered an excellent top line performance. Net written premiums are up by 20% to £698m (20% at constant exchange) driven by rate increases, strong retention and the benefit of last year's acquisition of GCAN, which contributed

11 points of the growth in the first half (11 points at constant exchange). In Personal, net written premiums increased by 9% to £463m (9% at constant exchange) with Personal Intermediated up by 7% (7% at constant exchange) and with Johnson, our direct business, up by 10% (10% at constant exchange), driven by strong new business in Motor and Household. In Commercial lines, net written premiums increased by 53% to £235m (53% at constant exchange) driven by GCAN, which contributed 43 points of the growth (43 points at constant exchange) and strong performances in SME and Risk Solutions. Bottom line performance was very strong with the Canadian underwriting result increasing by 20% to £54m and a COR of 92.1% despite the impact of the Slave Lake fire in May, the second worst insured event in Canadian history, for which our estimated net loss is around £15m.

In Other Europe, premiums are up by 13% to £314m (14% at constant exchange). In Ireland, growth of 20% (21% at constant exchange) to £186m is driven by last year's acquisition of 123 Money, which delivered NWP of £42m. We also continued to push rate across the portfolio, including a 6% increase in Household and 6% in Personal Motor. In Italy, NWP of £128m is up by 7% (8% at constant exchange) due to rating action on Motor. The Other Europe COR of 100.6% reflects an excellent performance from Ireland with a sub-90% COR offset by Italy where we continue to take the right actions. Market conditions in Italy remain tough and continued regulatory changes mean that it is taking longer than we would like to return the business to profitability and having previously targeted being closer to underwriting breakeven in 2011, we now expect this to be 2012.

Across International, we continue to focus on rate and risk selection and we have again delivered excellent results in Scandinavia, Canada and Ireland and we continue to take the right action in Italy. We remain confident of delivering around 10% premium growth and continued strong profitability for the full year 2011.

- UK

The UK has delivered a strong top line performance in what remains a competitive market with premiums up by 7% to £1,570m driven by our continued focus on rating action, targeted organic growth and deals. The underwriting result of £8m and the COR of 98.5% reflect a strong performance in Personal lines, where the underwriting result has almost doubled to £27m driven by Household, offset by a Commercial lines loss of £19m, which reflects continued challenging conditions in Commercial Motor as well as the impact of the catastrophe events in the first quarter.

In Personal, premiums are up by 14% to £678m, with strong growth in Pet and Household offsetting a 3% reduction in Motor. Across Personal lines, Tesco Pet and other deals delivered 11 points of the overall growth, with rate on renewals contributing a further 8 points while there was a 5 point reduction due to volume, including the impact of the exit of a number of unprofitable Motor schemes in 2010, as we continue to prioritise rate and targeted profitable growth over policy count.

In Commercial, we continue to target Specialty lines and withdraw capacity where we are unable to meet our target returns. Premiums of £892m are up by 3% compared with the first half of 2010, reflecting capacity withdrawal in Mid-Market, which is down by 13% to £228m offset by continued strong growth in Specialty lines, with Marine up by 9% to £150m and Risk Solutions Europe up by 17% to £96m. Growth of 7% in Commercial Motor is again impacted by the phasing of a large three year contract and on an underlying basis, premiums are down by 2%.

Across the UK, we continue to take the right action on rate. We have increased Personal Motor rates by 24% and Household by 6% and achieved increases in Commercial of 4% in Liability, 6% in Property and 13% in Motor.

We continue to drive targeted profitable growth and with our focus on profit over volume we would expect full year premium growth to be marginally down on the level reported in the first half. The UK expense ratio excluding commissions is around 14% for the first six months and we are on track to achieve our full year expense ratio target of around 14% in 2011, a year ahead of schedule.

- Emerging Markets

In Emerging Markets, premiums are up by 18% to £519m (18% at constant exchange), with total premiums including our Indian associate of £589m up by 19% (20% at constant exchange). The Emerging Markets underwriting result of £3m was impacted by the severe winter weather in the Baltics and flooding in Colombia and Saudi Arabia, however, it is £16m ahead of the same period last year, which included the Chilean earthquake. The COR is 98.6%, an improvement of 4.7 points.

Latin America delivered an excellent top line result. Premiums are up by 22% to £297m (22% at constant exchange), with double digit growth in Argentina, Brazil, Chile, Colombia, Mexico and Uruguay. Affinity continued to perform strongly across the region with 8 new deals won in the first six months and premiums up by 43%. We also delivered good growth in Marine, with premiums up by 26% led by Brazil, Colombia and Argentina.

In Central and Eastern Europe, premiums are up by 7% to £107m (7% at constant exchange). The Baltic economies have stabilised and we expect this to stimulate future growth in the insurance market. At the half year, we have maintained our market leading position across the Baltics and premiums are up by 2% to £65m driven by growth in Estonia, supported by the SEB Bank deal signed in the first quarter, while premiums are in line with last year in Lithuania and marginally down in Latvia. Our Direct businesses in Poland, the Czech Republic and Russia have all delivered double digit growth, with NWP of £42m up by 17% and today we insure around 360,000 vehicles across the three countries, up 6% from the start of the year.

In Asia and the Middle East, premiums of £115m are up by 17% (22% at constant exchange) led by Specialty lines in Hong Kong and Singapore and by Oman, which delivered double digit growth driven by the acquisition of Al Ahlia in May

2010. Our Indian business again delivered excellent growth, with NWP of £70m up by 27% (32% at constant exchange) due to the continued expansion of the motor market.

Emerging Markets remains an attractive place to do business and we continue to expect to deliver double digit growth across the region in 2011 and are on track to achieve our target of doubling premiums to around £2.2bn by the end of 2015.

Outlook

We have made an excellent start to the year with strong top line momentum and a significant improvement in profitability. We continue to be excited about the outlook for the Group and our results show that we are benefitting from our strong and diversified portfolio, our focus on underwriting discipline, our prudent reserving and reinsurance policies and our high quality, low risk investment strategy. We are confident about delivering on our full year 2011 top line targets and continue to expect to deliver around 10% premium growth in International, double digit growth in Emerging Markets and targeted growth in the UK.

As it stands today and assuming a continuation of more normal weather, we also continue to expect to deliver a combined operating ratio for the full year of better than 95%. For the full year, we now expect investment income to be in the £560m to £570m range and as we continue to reduce our exposure to equities in the second six months, expect total gains to be around twice that at the first half. As a reflection of the Board's confidence in the future performance of the Group, we are increasing the interim dividend by 7% to 3.34p (H1 2010: 3.12p).

Andy Haste, Group CEO, RSA

OTHER FINANCIAL INFORMATION

- Rating movements

Rate movements achieved for risks renewing in June 2011 versus comparable risks renewing in June 2010 are set out in the table below. Our action on rating demonstrates our commitment to maintaining pricing discipline and to delivering sustainable profitable performance.

	Personal		Commercial		
	Motor %	Household %	Motor %	Liability %	Property %
Scandinavia	3	6	3	3	5
Canada	3	10	2	1	3
UK	24	6	13	4	6

- Other activities

The analysis of the other activities result is as follows:

	6 Months 2011 £m	6 Months 2010 £m	Movement
Central expenses	(32)	(29)	(10)%
Investment expenses and charges	(18)	(16)	(13)%
Other operating activities	(16)	(19)	16%
Other activities	(66)	(64)	(3)%

Other activities of £66m (H1 2010: £64m) are broadly in line with the prior year and comprises central expenses, investment expenses and the ongoing investment in our associate in India and our Direct operations in Central and Eastern Europe. In the first half of 2011, this investment in Central and Eastern Europe was £13m (H1 2010: £14m) and for the full year we would still expect this to be around our previous estimate of £25m.

We have separately disclosed one-off Solvency II implementation costs of £9m (H1 2010: £1m) on the face of the management income statement and therefore these costs are no longer shown within Other activities.

- Investment result

The analysis of the investment result is as follows:

	6 Months 2011 £m	6 Months 2010 £m	Movement
Bonds	225	230	(2)%
Equities	37	30	23%
Cash and cash equivalents	5	4	25%
Land and buildings	28	13	115%
Other	18	15	20%
Investment income	313	292	7%
Realised gains	66	29	128%
Unrealised (losses)/gains, impairments and foreign exchange	(7)	38	(118)%
Total gains	59	67	(12)%
Unwind of discount including ADC	(45)	(49)	8%
Investment result	327	310	5%

The Group continues to maintain a low risk investment strategy with the portfolio dominated by high quality fixed income and cash assets. The investment result increased by 5% to £327m (H1 2010: £310m) and includes investment income of £313m and total gains of £59m.

Investment income of £313m is up by 7% and benefits from continued management action to mitigate the impact of falling yields, one-off property income of £25m following the settlement of a rental dispute in Scandinavia and positive foreign exchange. The average underlying yield on the portfolio (excluding the yield on the ADC funds withheld account) was 4.1% (H1 2010: 3.9%), with a 1.0% return on cash assets and 4.3% on the remainder of the portfolio.

We now expect full year investment income to be in the range of £560m to £570m reflecting the skew of dividend income to the first six months of the year, lower reinvestment rates and the non-recurrence of the first half property settlement.

Total gains of £59m (H1 2010: £67m) predominantly reflect £55m of realised gains on equities as we have reduced our equity exposure by around £130m in the first six months. We currently expect to sell a further £200m of equities in the second half and have already sold a further £100m since the end of June. As it stands today, for the full year we expect total gains to be around twice the first half total.

The table below sets out the key movements in the investment portfolio during the first half of 2011:

	Value 31/12/2010	Foreign Exchange	Mark to Market	Other Movements	Value 30/06/2011
	£m	£m	£m	£m	£m
Government Bonds	5,340	134	(15)	(239)	5,220
Non Government Bonds	6,095	133	(24)	219	6,423
Cash	1,317	13	-	(278)	1,052
Equities	1,286	12	22	(95)	1,225
Property	374	2	(2)	1	375
Prefs & CIVs	264	1	12	(8)	269
Other	113	2	-	16	131
Total	14,789	297	(7)	(384)	14,695

The investment portfolio decreased marginally over the first half of the year to £14,695m, with foreign exchange gains of £297m offset by mark to market losses of £7m and other movements of £384m. The foreign exchange movement reflects the depreciation of Sterling against the Euro, Danish Krone and Swedish Krona. Other movements reflect net redemptions of government bonds, the sale of equities and the impact of the acquisition of GCAN.

At 30 June 2011, unrealised gains in the statement of financial position were £541m (31 December 2010: £580m).

On investments, we continue to follow a high quality, low risk strategy and to take appropriate action to balance risk and return.

Having benefitted from our increased equity weighting, we believed that it was time to reduce this exposure, locking in significant realised gains. We currently expect to sell around £330m of equities during 2011 and in the first half have sold around £130m. Equities (excluding preference shares and Collective Investment Vehicles backed by fixed income and cash) now comprise 8% of the portfolio, down from 9% at 31 December 2010 and since the end of June, we have reduced our exposure by around a further £100m. At the same time, we have increased the percentage of the equity portfolio protected by derivatives, with around 68% of the exposure now hedged with a rolling programme of put and call options, providing protection down to a FTSE level of 4,600.

On peripheral Europe, we have reduced our limited exposure to government bonds in Greece, Italy, Ireland, Spain and Portugal from £257m a year ago to £160m or just over 1% of the total portfolio. Of this exposure, the majority is held to back the liabilities of our European insurance operations, with £64m in Ireland and £46m in Italy. Additionally, we hold £6m of Greek and £44m of Spanish government debt and since the half year have reduced our Spanish exposure by around a further £20m. We also have limited exposure to senior and subordinated bank debt in these countries and our holdings totalled just £124m and £7m respectively at 30 June 2011.

The average duration across the Group has also been increased to 3.4 years (FY 2010: 3.1 years) enabling us to benefit from the higher yields available on longer dated securities.

Of the total investment portfolio, 86% remains invested in high quality fixed income and cash assets. The fixed interest portfolio is concentrated on high quality short dated assets, with 98% of the bond portfolio investment grade, and 76% rated AA or above. The bond holdings are well diversified, with 77% invested in currencies other than Sterling, and 55% invested in non government bonds (FY 2010: 53%).

The government bond portfolio of £5.2bn is high quality, with 88% rated AAA and 94% rated A or above. The non government bond portfolio of £6.4bn comprises £1.8bn of Scandinavian Mortgage Bonds, £3.1bn of other financials and £1.5bn of non financials. The Scandinavian Mortgage Bonds portfolio comprises £1.0bn of Swedish bonds, which are all rated AAA, and £0.8bn of Danish bonds, which are principally rated AAA. The Scandinavian Mortgage Bond portfolio has an average LTV of around 60%. Within the £3.1bn of other financial exposure, £0.3bn is in supranational and sovereign backed entities, £0.9bn in other non bank financials and £1.9bn in banks. Of the £1.9bn in banks, just £269m of this is subordinated debt and only £74m is Tier 1 (including non-perpetual preference shares).

The commercial property portfolio is 3% of investment assets and comprises high quality commercial properties.

Looking forward, we will continue to pursue our high quality, low risk strategy while taking appropriate and timely action within this framework to respond to changes in the investment environment.

OTHER INFORMATION

Capital position

The regulatory capital position of the Group under the Insurance Groups Directive (IGD) is set out below:

	30 June 2011 Requirement £bn	30 June 2011 Surplus £bn	31 December 2010 Surplus £bn
Insurance Groups Directive	1.3	1.4	1.5

The IGD surplus is £1.4bn (31 December 2010: £1.5bn) and coverage over the IGD requirement remains strong at 2.1 times (31 December 2010: 2.3 times). The small reduction in the surplus since the year end reflects profits in the half offset by the acquisition of GCAN and payment of the final 2010 dividend. A 30% fall in the FTSE from the 30 June level of around 5,950 would reduce the IGD surplus by an estimated £0.3bn.

On Solvency II, we are actively engaged with the FSA on the pre-application phase of the internal model approval process and still do not anticipate that it will cause any fundamental change to the way we run the business. The Solvency II implementation date is the subject of much current debate and remains uncertain, however, we continue to make good progress and are confident of being ready on time.

At 30 June 2011, the Group had surplus economic capital of around £1.0bn (31 December 2010: £1.1bn), which is unchanged from the end of the first quarter and marginally down on the 2010 year end position. The economic capital is our own assessment of the capital required to meet our obligations given the Group's risk profile. Our model is forward looking and compares the economic value of our assets with the total resources required in a range of scenarios, calibrated to a defined risk tolerance. The economic capital is based on a risk tolerance consistent with Standard & Poor's long term A rated bond default curve. This is equivalent to a probability of solvency over one year of 99.92%. The Group calculates its economic capital position using a global multi-year stochastic economic capital model which assumes three years of new business followed by a multi-year run off. The model is a key decision making tool and is used for a range of strategic, operational and financial management purposes throughout the Group, and has also been the basis for the Group's Individual Capital Assessment submissions to the FSA since the 2004 year end.

Our financing and liquidity position is strong. The next call on any external financing is on the £450m subordinated guaranteed perpetual notes in December 2014 and our committed £455m senior facility remains undrawn.

The Group is currently rated A positive outlook by Standard & Poor's, A2 stable outlook by Moody's and A stable outlook by AM Best.

Return on equity

Underlying return on equity is 15.2% (H1 2010: 13.2%) and is calculated as the profit after tax attributable to ordinary shareholders of the parent company, excluding reorganisation costs and acquisitions and disposals expressed in relation to opening shareholders' funds attributable to ordinary shareholders.

The underlying return on equity based on average shareholders' funds is 15.0% for the first half of 2011 compared with 13.4% for the first six months of 2010.

Combined operating ratio

The combined operating ratio represents the sum of expense and commission costs expressed in relation to net written premiums and claim costs expressed in relation to net earned premiums. The calculation of the COR of 93.2% is based on net written premiums of £4,188m and net earned premiums of £3,853m.

Net asset value per share

The net asset value per share at 30 June 2011 excluding IAS 19 was 110p (31 December 2010: 108p) and including the pension deficit was 106p (31 December 2010: 104p). At 4 August 2011, the net asset value per share excluding IAS 19 was estimated at 111p and including the pension deficit was estimated at 106p.

The net asset value per share at 30 June 2011 was based on total shareholders' funds of £3,865m, adjusted by £125m for preference shares, and shares in issue at the period end of 3,519,778,046 (excluding those held in the ESOP and SIP trusts).

Earnings per share

The earnings per share is calculated by reference to the result attributable to the ordinary shareholders of the parent company and the weighted average number of shares in issue during the period. Operating earnings per share is calculated by reference to the result attributable to the ordinary shareholders of the parent company excluding amortisation, reorganisation costs and acquisitions and disposals and the weighted average number of shares in issue during the period.

On a basic and diluted basis the weighted average number of shares in issue was 3,511,279,994 and 3,547,568,260 respectively (excluding those held in ESOP and SIP trusts). The number of shares in issue at 30 June 2011 was 3,519,778,046 (excluding those held in ESOP and SIP trusts).

Dividend

The directors have declared an interim ordinary dividend of 3.34p per share. The interim dividend will be payable on 25 November 2011 to shareholders on the register at the close of business on 12 August 2011. Shareholders will be offered a scrip dividend alternative. Scrip dividend mandates need to be received by Equiniti by 28 October 2011. The second preference share dividend for 2011 will be payable on 30 September 2011 to holders of such shares on the register at the close of business on 12 August 2011.

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The Board considers the risks and uncertainties disclosed in the latest Annual Report and Accounts to continue to reflect the principal risks and uncertainties of the Group over the remaining six months of the financial year, except where specifically mentioned in this half year financial report.

The principal risks and uncertainties of the Group, as per page 31 of the latest Annual Report and Accounts, are: prolonged economic downturn in our key markets negatively impacts premium growth and increases claims frequency; adverse financial markets and lower interest rates impact the investment portfolio and investment income; rating environment softens significantly in key markets; insurance risks are accepted outside the Group's risk appetite or below technical price and adverse loss experience arising through catastrophic events, increasing frequency and severity of large losses or deterioration in long tail reserves.

Further information on the risks and uncertainties of the Group is included in the latest Annual Report and Accounts.

Related party transactions

In 2011, there have been no related party transactions that have materially affected the financial position of the Group.

FURTHER INFORMATION

The full text of the above is available to the public at 1 Leadenhall Street, London EC3V 1PP. The text is also available online at www.rsagroup.com. A live audiocast of the analyst presentation, including the question and answer session, will be broadcast on the website at **10.30am** today and is available via a listen only conference call by dialling UK Freephone: 0800 358 5263 or International dial in: + 44 (0) 207 190 1595. An indexed version of the audiocast will be available on the website by the end of the day. Copies of the slides to be presented at the analyst meeting will be available on the site from **10.00am** today.

A Q3 interim management statement will be released on 3 November 2011.

The full year 2011 results will be announced on 23 February 2012.

MANAGEMENT BASIS OF REPORTING

The following analysis on pages 11 to 14 has been prepared on a non statutory basis as management believe that this is the most appropriate method of assessing the financial performance of the Group. The management basis reflects the way management monitor the business. The underwriting result includes insurance premiums, claims and commissions and underwriting expenses. In addition, the management basis also discloses a number of items separately such as investment result, interest costs, reorganisation costs and other activities. Estimation techniques, risks, uncertainties and contingencies are included on pages 17 to 20. Financial information on a statutory basis is included on pages 22 to 29.

SUMMARY CONSOLIDATED INCOME STATEMENT

MANAGEMENT BASIS

	6 Months	6 Months	12 Months
	2011	2010	2010
	£m	£m	£m
Net written premiums	4,188	3,802	7,455
Underwriting result	206	136	238
Investment income	313	292	569
Realised gains	66	29	68
Unrealised gains/(losses), impairments and foreign exchange	(7)	38	(5)
Unwind of discount including ADC	(45)	(49)	(94)
Investment result	327	310	538
Insurance result	533	446	776
Other activities	(66)	(64)	(135)
Operating result	467	382	641
Interest costs	(58)	(58)	(118)
Amortisation	(20)	(13)	(29)
Solvency II costs	(9)	(1)	(5)
Reorganisation costs	-	(5)	(5)
Acquisitions and disposals	(4)	(3)	(10)
Profit before tax	376	302	474
Taxation	(99)	(78)	(119)
Profit after tax	277	224	355

Earnings per share on profit attributable to the ordinary shareholders of the Parent Company:

Basic	7.8p	6.3p	9.8p
Diluted	7.7p	6.2p	9.7p

Operating earnings per share on profit attributable to the ordinary shareholders of the Parent Company:

Basic	8.3p	6.8p	10.8p
Diluted	8.2p	6.7p	10.7p

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MANAGEMENT BASIS

	30 June 2011 £m	Restated 30 June 2010 £m	31 December 2010 £m
Assets			
Goodwill and other intangible assets	1,427	1,035	1,209
Property and equipment	287	266	287
Associated undertakings	39	31	38
Investments			
Investment property	375	421	374
Equity securities	1,494	1,264	1,550
Debt and fixed income securities	11,643	11,246	11,435
Other	131	96	113
Total investments - management basis	13,643	13,027	13,472
Reinsurers' share of insurance contract liabilities	2,466	2,994	2,652
Insurance and reinsurance debtors	3,436	3,054	3,137
Other debtors and other assets	1,118	1,170	981
Cash and cash equivalents	1,052	1,199	1,317
	23,468	22,776	23,093
Assets held for sale*	12	12	11
Total assets	23,480	22,788	23,104
Equity and liabilities			
Equity			
Shareholders' funds	3,865	3,433	3,766
Non controlling interests	118	128	129
Total equity	3,983	3,561	3,895
Loan capital	1,314	1,317	1,315
Total equity and loan capital	5,297	4,878	5,210
Liabilities (excluding loan capital)			
Insurance contract liabilities	15,652	15,101	15,140
Insurance and reinsurance liabilities	632	708	656
Borrowings	299	299	298
Provisions and other liabilities	1,600	1,802	1,800
Total liabilities (excluding loan capital)	18,183	17,910	17,894
Total equity and liabilities	23,480	22,788	23,104

These summary consolidated financial statements have been approved for issue by the Board of Directors on 3 August 2011.

The 30 June 2010 figures have been restated for a change in the presentation of deferred acquisition costs. Further information can be found in note 1 to the condensed consolidated financial statements.

* Assets held for sale relate to property in Scandinavia, Canada and the UK.

OTHER INFORMATION

MANAGEMENT BASIS

Movement in net assets

	Shareholders' funds	Non controlling interests	Loan capital	Net assets
	£m	£m	£m	£m
Balance at 1 January 2011	3,766	129	1,315	5,210
Profit after tax	277	-	-	277
Exchange gains/(losses) net of tax	78	(1)	-	77
Fair value losses net of tax	(43)	-	-	(43)
Pension fund actuarial losses net of tax	(35)	-	-	(35)
Amortisation of loan capital	-	-	(1)	(1)
Share issue	19	-	-	19
Changes in shareholders' interests in subsidiaries	3	(1)	-	2
Share based payments	3	-	-	3
Prior year final dividend	(198)	(9)	-	(207)
Preference dividend	(5)	-	-	(5)
Balance at 30 June 2011	3,865	118	1,314	5,297

Net assets have increased by £87m to £5,297m. This increase primarily reflects the profit after tax for the period of £277m and exchange gains of £77m offset by the prior year final dividend of £207m and fair value losses of £43m.

Pension fund position

The table below provides a reconciliation of the Group's pension fund position (net of tax) from 1 January 2011 to 30 June 2011.

	UK £m	Other £m	Group £m
Pension fund at 1 January 2011	(86)	(56)	(142)
Actuarial losses	(34)	(1)	(35)
Pension deficit funding	42	-	42
Other movements	11	2	13
Pension fund at 30 June 2011	(67)	(55)	(122)

The deficit on the pension schemes as at 30 June 2011 is £122m compared with £142m at the start of the year. The movement primarily reflects employer's contributions and higher than expected return on assets offset by changes in market driven assumptions for the UK schemes. In line with increasing corporate bond yields, the discount rate for the UK schemes has been increased from 5.5% to 5.6% in the first six months. The general inflation assumption has increased from 3.1% to 3.3%. The inflation assumption for pension increases is 3.1% (FY 2010: 2.9%) reflecting the 5% cap on annual pension increases.

OTHER INFORMATION

MANAGEMENT BASIS

Cashflow

	6 Months	6 Months
	2011	2010
	£m	£m
Operating cashflow		
Chile earthquake cash calls	(23)	94
Equity hedges	(3)	(23)
Underlying cashflow	307	274
Operating cashflow	281	345
Tax paid	(164)	(163)
Interest paid	(75)	(77)
Group dividends	(187)	(184)
Dividend to non controlling interests	(9)	(1)
Pension deficit funding	(56)	(46)
Net cashflow	(210)	(126)
Issue of share capital	3	9
Net movement of debt	3	4
Corporate activity	(283)	(83)
Cash movement	(487)	(196)
Represented by:		
Movement in cash and cash equivalents	(276)	85
(Sales)/purchases of other investments	(211)	(281)
	(487)	(196)

The Group's operating cashflows are £281m. Within this, timing differences on cash calls relating to reinsurance on the Chilean earthquake account for a negative swing from 2010 of £117m which is partially offset by a positive movement of £20m from settled equity hedges.

The underlying cashflow improvement of 12% to £307m includes £65m of claims paid in the first six months of 2011 relating to the fourth quarter freeze in 2010.

Tax paid of £164m and interest paid of £75m are both in line with the first half of 2010 and represent about two thirds of our expected full year cost. Dividends paid are up by £11m to £196m reflecting the 7% increase in the 2010 final dividend and an increase in dividends to non controlling interests offset by higher scrip uptake.

Pension deficit funding, which is now all paid in the first half, rose by £10m to £56m, with the increase mainly due to this timing difference.

Corporate activity is £283m, principally the result of the acquisition of GCAN in Canada, which completed in January 2011.

REGIONAL ANALYSIS OF INSURANCE OPERATIONS

SIX MONTHS TO 30 JUNE

	Net written premiums		Increase as reported %	Increase at constant exchange %
	2011 £m	2010 £m		
International	2,089	1,884	11	8
UK	1,570	1,461	7	7
Emerging Markets	519	441	18	18
Group Re	10	16	(38)	(38)
Total Group	4,188	3,802	10	9

	Underwriting result		Investment result		Insurance result	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
International	195	156	155	142	350	298
UK	8	2	137	141	145	143
Emerging Markets	3	(13)	33	29	36	16
Group Re	-	(9)	2	(2)	2	(11)
Total Group	206	136	327	310	533	446

	Operating ratios					
	2011		Combined %	2010		
Claims %	Expenses %	Claims %		Expenses %	Combined %	
International	66.7	21.2	87.9	68.3	21.0	89.3
UK	68.6	29.9	98.5	66.1	32.8	98.9
Emerging Markets	56.0	42.6	98.6	59.2	44.1	103.3
Total Group	66.1	27.1	93.2	66.7	28.1	94.8

INVESTMENT RESULT BY REGION

SIX MONTHS TO 30 JUNE 2011

	International £m	UK £m	Emerging Markets £m	Group Re £m	Group £m
Investment income	148	126	28	11	313
Realised gains	32	27	6	1	66
Unrealised gains/(losses), impairments and foreign exchange	(3)	(3)	(1)	-	(7)
Unwind of discount including ADC	(22)	(13)	-	(10)	(45)
Investment result	155	137	33	2	327

The total investment income is allocated to the regions based on economic capital requirements. Realised gains, unrealised gains and impairment losses are allocated with reference to the above amounts. The unwind of discount is attributed on an actual basis.

INTERNATIONAL INSURANCE OPERATIONS

SIX MONTHS TO 30 JUNE

	Net written premiums		Underwriting result		Operating ratio	
	2011	2010	2011	2010	2011	2010
	£m	£m	£m	£m	%	%
Personal						
Scandinavia	591	556	124	108	75.8	77.3
Canada	463	426	28	26	94.1	93.7
Other Europe	219	177	(8)	(12)	104.2	107.8
Total Personal	1,273	1,159	144	122	87.4	88.1
Commercial						
Scandinavia	486	471	20	20	90.0	90.5
Canada	235	154	26	19	86.6	83.5
Other Europe	95	100	5	(5)	94.8	109.1
Total Commercial	816	725	51	34	88.4	91.1
Total						
Scandinavia	1,077	1,027	144	128	81.7	82.8
Canada	698	580	54	45	92.1	91.7
Other Europe	314	277	(3)	(17)	100.6	108.1
Total International	2,089	1,884	195	156	87.9	89.3

UK INSURANCE OPERATIONS

SIX MONTHS TO 30 JUNE

	Net written premiums		Underwriting result		Operating ratio	
	2011	2010	2011	2010	2011	2010
	£m	£m	£m	£m	%	%
Personal						
Household	293	269	30	21	89.7	93.4
Motor	275	284	(5)	(8)	101.7	104.5
Other	110	43	2	1	91.2	98.0
Total UK Personal	678	596	27	14	95.1	98.3
Commercial						
Property	322	323	(28)	(19)	109.2	101.3
Liability	144	146	11	2	92.6	95.2
Motor	272	255	(18)	(20)	107.2	108.1
Other	154	141	16	25	87.1	84.7
Total UK Commercial	892	865	(19)	(12)	101.2	99.2
Total UK	1,570	1,461	8	2	98.5	98.9

ESTIMATION TECHNIQUES, RISKS, UNCERTAINTIES AND CONTINGENCIES

Introduction

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks.

The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The uncertainty in the financial statements principally arises in respect of the insurance contract liabilities of the company.

The insurance contract liabilities of an insurance company include the provision for unearned premiums and unexpired risks and the provisions for losses and loss adjustment expenses. Unearned premiums and unexpired risks represent the amount of income set aside by the company to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the end of the reporting period. Outstanding claims represent the company's estimate of the cost of settlement of claims that have occurred by the end of the reporting period but have not yet been finally settled.

In addition to the inherent uncertainty of having to make provision for future events, there is also considerable uncertainty as regards the eventual outcome of the claims that have occurred by the end of the reporting period but remain unsettled. This includes claims that may have occurred but have not yet been notified to the company and those that are not yet apparent to the insured.

As a consequence of this uncertainty, the insurance company needs to apply sophisticated estimation techniques to determine the appropriate provisions.

Estimation techniques

Claims and unexpired risks provisions are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the potential longer term significance of large events, the levels of unpaid claims, legislative changes, judicial decisions and economic and political conditions.

Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The Group's estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies and a number of different bases to determine these provisions. These include methods based upon the following:

- the development of previously settled claims, where payments to date are extrapolated for each prior year;
- estimates based upon a projection of claims numbers and average cost;
- notified claims development, where notified claims to date for each year are extrapolated based upon observed development of earlier years; and
- expected loss ratios.

In addition, the Group uses other methods such as the Bornhuetter-Ferguson method, which combines features of the above methods. The Group also uses bespoke methods for specialist classes of business. In selecting its best estimate, the Group considers the appropriateness of the methods and bases to the individual circumstances of the provision class and underwriting year. The process is designed to select the most appropriate best estimate.

Large claims impacting each relevant business class are generally assessed separately, being measured either at the face value of the loss adjusters' estimates or projected separately in order to allow for the future development of large claims.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

The provisions for losses and loss adjustment expenses are subject to close scrutiny both within the Group's business units and at Group Corporate Centre. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisers who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. As an example, the Group's exposure to asbestos and environmental pollution is examined on this basis. The results of these reviews are considered when establishing the appropriate levels of provisions for losses and loss adjustment expenses and unexpired periods of risk.

It should be emphasised that the estimation techniques for the determination of insurance contract liabilities involve obtaining corroborative evidence from as wide a range of sources as possible and combining these to form the overall estimate. This technique means that the estimate is inevitably deterministic rather than stochastic.

The pension assets and pension and post retirement liabilities are calculated in accordance with International Accounting Standard 19 (IAS 19). The assets, liabilities and income statement charge, calculated in accordance with IAS 19, are sensitive to the assumptions made from time to time, including inflation, interest rate, investment return and mortality. IAS 19 compares, at a given date, the current market value of a pension fund's assets with its long term liabilities, which are calculated using a discount rate in line with yields on 'AA' rated bonds of suitable duration and currency. As such, the financial position of a pension fund on this basis is highly sensitive to changes in bond rates and will also be impacted by changes in equity markets.

Uncertainties and contingencies

The uncertainty arising under insurance contracts may be characterised under a number of specific headings, such as:

- uncertainty as to whether an event has occurred which would give rise to a policyholder suffering an insured loss;
- uncertainty as to the extent of policy coverage and limits applicable;
- uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring; and
- uncertainty over the timing of a settlement to a policyholder for a loss suffered.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholder.

There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the Group. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretations and court judgments that broaden policy coverage beyond the intent of the original insurance, legislative changes and claims handling procedures.

The establishment of insurance contract liabilities is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates, particularly for the Group's long tail lines of business. The Group seeks to provide appropriate levels of provisions for losses and loss adjustment expenses and provision for unexpired risks taking the known facts and experience into account.

The Group has exposures to risks in each class of business within each operating segment that may develop and that could have a material impact upon the Group's financial position. The geographic and insurance risk diversity within the Group's portfolio of issued insurance policies make it not possible to predict whether material development will occur and, if it does occur, the location and the timing of such an occurrence. The estimation of insurance contract liabilities involves the use of judgments and assumptions that are specific to the insurance risks within each territory and the particular type of insurance risk covered. The diversity of the insurance risks results in it not being possible to identify individual judgments and assumptions that are more likely than others to have a material impact on the future development of the insurance contract liabilities.

The sections below identify a number of specific risks relating to asbestos and environmental claims. There may be other classes of risk which could develop in the future and that could have a material impact on the Group's financial position.

The Group evaluates the concentration of exposures to individual and cumulative insurance risk and establishes its reinsurance policy to reduce such exposure to levels acceptable to the Group.

Asbestos and environmental claims

The estimation of the provisions for the ultimate cost of claims for asbestos and environmental pollution is subject to a range of uncertainties that is generally greater than those encountered for other classes of insurance business. As a result it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as with other types of claims, particularly in periods when theories of law are in flux. Consequently, traditional techniques for estimating provisions for losses and loss adjustment expenses cannot wholly be relied upon and the Group employs specialised techniques to determine provisions using the extensive knowledge of both internal asbestos and environmental pollution experts and external legal and professional advisers.

Factors contributing to this higher degree of uncertainty include:

- the long delay in reporting claims from the date of exposure (for example, cases of mesothelioma can have a latent period of up to 40 years). This makes estimating the ultimate number of claims the Group will receive particularly difficult;
- issues of allocation of responsibility among potentially responsible parties and insurers;
- emerging court decisions and the possibility of retrospective legislative changes increasing or decreasing insurer liability;
- the tendency for social trends and factors to influence court awards;
- developments pertaining to the Group's ability to recover reinsurance for claims of this nature; and
- for US liabilities from the Group's London market business, developments in the tactics of US plaintiff lawyers and court decisions and awards.

Potential change in discount rate for lump-sum damages awards

Legislative changes may affect the Group's liability in respect of unsettled claims in the use of predetermined factors used by courts to calculate compensation claims. For example, in the UK, standard formulae are used as an actuarial measure by the courts to assess lump sum damages awards for future losses (typically loss of earnings arising from personal injuries and fatal accidents). The calibration of these standard formulae can be updated by the UK Government and the Lord Chancellor is currently reviewing the methodology to be applied in determining the discount rate to calculate the appropriate settlements. A reduction in the prescribed discount rate would increase the value of future claims settlements.

Acquisitions and disposals

The Group makes acquisitions and disposals of businesses as part of its normal operations. All acquisitions are made after due diligence, which will include, amongst other matters, assessment of the adequacy of claims reserves, assessment of the recoverability of reinsurance balances, inquiries with regard to outstanding litigation and inquiries of local regulators and taxation authorities. Consideration is also given to potential costs, risks and issues in relation to the integration of any proposed acquisitions with existing RSA operations. The Group will seek to receive the benefit of appropriate contractual representations and warranties in connection with any acquisition and, where necessary, additional indemnifications in relation to specific risks although there can be no guarantee that these processes and any such protection will be adequate in all circumstances. The Group may also provide relevant representations, warranties and indemnities to counterparties on any disposal. While such representations, warranties and indemnities are essential components of many contractual relationships, they do not represent the underlying purpose for the transaction.

These clauses are customary in such contracts and may from time to time lead to the Group receiving claims from counterparties.

Contracts with third parties

The Group enters into joint ventures, outsourcing contracts and distribution arrangements with third parties in the normal course of its business and is reliant upon those third parties being willing and able to perform their obligations in accordance with the terms and conditions of the contracts.

Litigation, disputes and investigations

The Group, in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory, governmental and other sectoral inquiries and investigations in the normal course of its business. In addition the Group is exposed to the risk of litigation in connection with its former ownership of the US operation. The directors do not believe that any current mediation, arbitration, regulatory, governmental or sectoral inquiries and investigations and pending or threatened litigation or dispute will have a material adverse effect on the Group's financial position, although there can be no assurance that losses or financial penalties resulting from any current mediation, arbitration, regulatory, governmental or sectoral inquiries and investigations and pending or threatened litigation or dispute will not materially affect the Group's financial position or cash flows for any period.

Reinsurance

The Group is exposed to disputes on, and defects in, contracts with its reinsurers and the possibility of default by its reinsurers. The Group is also exposed to the credit risk assumed in fronting arrangements and to potential reinsurance capacity constraints. In selecting the reinsurers with whom the Group conducts business, its strategy is to seek reinsurers with the best combination of financial strength, price and capacity. The Group Corporate Centre publishes internally a list of authorised reinsurers who pass the Group's selection process and which its operations may use for new transactions.

The Group monitors the financial strength of its reinsurers, including those to whom risks are no longer ceded. Allowance is made in the financial position for non recoverability due to reinsurer default by requiring operations to provide, in line with Group standards, having regard to companies on the Group's 'Watch List'. The 'Watch List' is the list of companies whom the directors believe will not be able to pay amounts due to the Group in full.

Investment risk

The Group is exposed to market risk and credit risk on its invested assets. Market risk includes the risk of potential losses from adverse movements in market rates and prices including interest rates, equity prices, property prices and foreign exchange rates. The Group's exposure to market risks is controlled by the setting of investment limits in line with the Group's risk appetite. From time to time the Group also makes use of derivative financial instruments to reduce exposure to adverse fluctuations in interest rates, foreign exchange rates and equity markets. The Group has strict controls over the use of derivative instruments.

Credit risk includes the non performance of contractual payment obligations on invested assets and adverse changes in the credit worthiness of invested assets including exposures to issuers or counterparties for bonds, equities, deposits and derivatives. Limits are set at both a portfolio and counterparty level based on likelihood of default to manage the Group's overall credit profile and specific concentrations within risk appetite. The Group's insurance investment portfolios are concentrated in listed securities with very low levels of exposure to assets without quoted market prices. The Group uses model based analysis to verify asset values when market values are not readily available.

Rating environment

The ability of the Group to write certain types of insurance business is dependent on the maintenance of the appropriate credit ratings from the rating agencies. The Group has the objective of maintaining single 'A' ratings. At the present time the ratings are 'A' (positive outlook) from S&P, 'A' (stable outlook) from AM Best and 'A2' (stable outlook) from Moody's. A worsening in the ratings could have an adverse impact on the ability of the Group to write certain types of general insurance business.

In assessing credit risk in relation to reinsurance and investments, the Group takes into account a variety of factors, including credit rating. If any such rating changes, or is otherwise reassessed, this has potential implications for the related exposures.

Foreign exchange risk

The Group publishes consolidated financial statements in Pounds Sterling. Therefore, fluctuations in exchange rates used to translate other currencies, particularly other European currencies and the Canadian Dollar, into Pounds Sterling will impact the reported consolidated financial position, results of operations and cash flows from period to period. These fluctuations in exchange rates will also impact the Pound Sterling value of, and the return on the Group's investments.

Income and expenses for each income statement item are translated at average exchange rates. Assets and liabilities, as reported in the statement of financial position, are translated at closing exchange rates at the end of the reporting period.

Regulatory environment

The legal, regulatory and accounting environment is subject to significant change in many of the jurisdictions in which the Group operates, including developments in response to changes in the economic and political environment and the recent financial crisis. The Group continues to monitor the developments and react accordingly.

The new solvency framework for insurers being developed by the EU, referred to as 'Solvency II', is intended in the medium term to achieve greater harmonisation of approach across EU member states to assessing capital resources and requirements. There will be continued uncertainty until all the rules are finalised and the Group is actively participating in shaping the outcome through its involvement with European and UK regulators and industry bodies. The Group is actively progressing its implementation plans and the directors are confident that the Group will continue to meet all future regulatory capital requirements.

Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED INCOME STATEMENT

STATUTORY BASIS

	6 Months 2011	6 Months 2010	12 Months 2010 (audited)
	£m	£m	£m
Income			
Gross written premiums	4,720	4,364	8,448
Less: reinsurance premiums	(532)	(562)	(993)
Net written premiums	4,188	3,802	7,455
Change in the gross provision for unearned premiums	(367)	(368)	(250)
Less: change in provision for unearned premiums, reinsurers' share	32	69	(26)
Change in provision for unearned premiums	(335)	(299)	(276)
Net earned premiums	3,853	3,503	7,179
Net investment return	379	362	629
Other operating income	69	62	116
Total income	4,301	3,927	7,924
Expenses			
Gross claims incurred	(2,738)	(3,788)	(6,700)
Less: claims recoveries from reinsurers	191	1,452	1,816
Net claims and benefits	(2,547)	(2,336)	(4,884)
Underwriting and policy acquisition costs	(1,167)	(1,091)	(2,171)
Unwind of discount including ADC	(45)	(49)	(94)
Other operating expenses	(106)	(86)	(177)
Total expenses	(3,865)	(3,562)	(7,326)
Finance costs	(58)	(58)	(118)
Profit/(Loss) on disposal	1	(3)	(1)
Net share of loss after tax of associates	(3)	(2)	(5)
Profit before tax	376	302	474
Income tax expense	(99)	(78)	(119)
Profit after tax	277	224	355
Attributable to:			
Equity holders of the Parent Company	277	221	346
Non controlling interests	-	3	9
Profit after tax	277	224	355

Earnings per share on profit attributable to the ordinary shareholders of the parent company:

Basic	7.8p	6.3p	9.8p
Diluted	7.7p	6.2p	9.7p

The attached notes are an integral part of these condensed consolidated financial statements. For dividend information refer to note 7.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
STATUTORY BASIS

	6 Months 2011	6 Months 2010	12 Months 2010 (audited)
	£m	£m	£m
Profit after tax	277	224	355
Exchange gains/(losses) net of tax	77	(43)	53
Fair value (losses)/gains net of tax	(43)	22	46
Pension fund actuarial (losses)/gains net of tax	(35)	(63)	58
Other comprehensive (expenses)/income for the period, net of tax	(1)	(84)	157
Total comprehensive income for the period	276	140	512
Attributable to:			
Equity holders of the Parent Company	277	132	502
Non controlling interests	(1)	8	10
	276	140	512

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
STATUTORY BASIS

	Shareholders' funds £m	Non controlling interests £m	Total equity £m
Balance at 1 January 2011	3,766	129	3,895
Total comprehensive income/(expense) for the period	277	(1)	276
Share issue	19	-	19
Changes in shareholders' interests in subsidiaries	3	(1)	2
Share based payments	3	-	3
Prior year final dividend	(198)	(9)	(207)
Preference dividend	(5)	-	(5)
Balance at 30 June 2011	3,865	118	3,983
Balance at 1 January 2010	3,491	97	3,588
Total comprehensive income for the period	132	8	140
Share issue	12	-	12
Changes in shareholders' interests in subsidiaries	(29)	25	(4)
Share based payments	14	-	14
Prior year final dividend	(182)	(2)	(184)
Preference dividend	(5)	-	(5)
Balance at 30 June 2010	3,433	128	3,561

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

STATUTORY BASIS

	30 June 2011 £m	Restated 30 June 2010 £m	31 December 2010 £m (audited)
Assets			
Goodwill and other intangible assets	1,427	1,035	1,209
Property and equipment	287	266	287
Investment property	375	421	374
Investment in associates	39	31	38
Financial assets	13,268	12,606	13,098
Total investments	13,682	13,058	13,510
Reinsurers' share of insurance contract liabilities	2,466	2,994	2,652
Insurance and reinsurance debtors	3,436	3,054	3,137
Current tax assets	55	47	33
Deferred tax assets	211	242	204
Other debtors and other assets	852	881	744
	1,118	1,170	981
Cash and cash equivalents	1,052	1,199	1,317
	23,468	22,776	23,093
Assets held for sale*	12	12	11
Total assets	23,480	22,788	23,104
Equity and liabilities			
Equity			
Shareholders' funds	3,865	3,433	3,766
Non controlling interests	118	128	129
Total equity	3,983	3,561	3,895
Liabilities			
Loan capital	1,314	1,317	1,315
Insurance contract liabilities	15,652	15,101	15,140
Insurance and reinsurance liabilities	632	708	656
Borrowings	299	299	298
Current tax liabilities	108	153	158
Deferred tax liabilities	46	60	42
Provisions	367	547	389
Other liabilities	1,079	1,042	1,211
Provisions and other liabilities	1,600	1,802	1,800
Total liabilities	19,497	19,227	19,209
Total equity and liabilities	23,480	22,788	23,104

These condensed consolidated financial statements have been approved for issue by the Board of Directors on 3 August 2011.

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

The 30 June 2010 figures have been restated for a change in the presentation of deferred acquisition costs. Further information can be found in note 1 to the condensed consolidated financial statements.

* Assets held for sale relate to property in Scandinavia, Canada and the UK.

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

STATUTORY BASIS

	6 Months 2011	6 Months 2010
	£m	£m
Cashflows from operations	20	89
Tax paid	(164)	(163)
Investment income	331	326
Interest paid	(75)	(77)
Dividends received from associates	1	-
Pension deficit funding	(56)	(46)
Net cashflows from operating activities	57	129
Proceeds from sales or maturities of:		
Financial assets	2,424	2,043
Property and equipment	1	2
Investments in subsidiaries (net of cash disposed of)	2	(82)
Purchase or settlement of:		
Financial assets	(2,210)	(1,749)
Investment property	(1)	(14)
Property and equipment	(15)	(14)
Intangible assets	(67)	(61)
Investments in subsidiaries (net of cash acquired)	(277)	3
Net cashflows from investing activities	(143)	128
Proceeds from issue of share capital	3	9
Dividends paid to ordinary shareholders	(182)	(179)
Dividends paid to preference shareholders	(5)	(5)
Dividends paid to non controlling interests	(9)	(1)
Net movement in other borrowings	3	4
Net cashflows from financing activities	(190)	(172)
Net (decrease)/increase in cash and cash equivalents	(276)	85
Cash and cash equivalents at beginning of the year	1,314	1,105
Effect of exchange rate changes on cash and cash equivalents	14	9
Cash and cash equivalents at the end of the period	1,052	1,199

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

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Changes in significant accounting policies

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed financial information in this half year report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34).

During the second half of 2010 and as disclosed in the 2010 Annual Report and Accounts, the Group changed the presentation of deferred acquisition costs and as a consequence the statement of financial position as at 30 June 2010 has been restated. Deferred acquisition costs have previously been disclosed as a discrete asset but under the revised presentation are now deducted from the provision for unearned premiums within insurance contract liabilities. The revised presentation only affects the statement of the financial position.

There have been no significant changes in accounting policy and methods of computation in the six months to 30 June 2011. A full list of other accounting policies applied in these condensed financial statements can be found in the 2010 Annual Report and Accounts (see note 9 below).

The Board have reviewed the Group's ongoing financial commitments for the next 12 months and beyond. The Board's review included consideration of the Group's underwriting plans, strong regulatory capital surplus, diverse insurance risk profile, considerable undrawn financing facilities and highly liquid investment portfolio. As a result of this review, the Directors have satisfied themselves that it is appropriate to prepare these financial statements on a going concern basis.

2. Operating segments

Six months ended 30 June 2011

	International	UK	Emerging Markets	Central Functions	Group
	£m	£m	£m	£m	£m
Net written premiums	2,089	1,570	519	10	4,188
Underwriting result	195	8	3	-	206
Investment result	155	137	33	2	327
Insurance result	350	145	36	2	533
Other activities	(6)	1	(22)	(39)	(66)
Operating result (management basis)	344	146	14	(37)	467
Interest costs					(58)
Amortisation					(20)
Solvency II costs					(9)
Acquisitions and disposals					(4)
Profit before tax (per condensed consolidated income statement)					376
Combined operating ratio (%)	87.9	98.5	98.6	-	93.2
Segment assets (£m)	11,363	7,434	3,112	1,520	23,429

Six months ended 30 June 2010 (restated)

	International	UK	Emerging Markets	Central Functions	Group
	£m	£m	£m	£m	£m
Net written premiums	1,884	1,461	441	16	3,802
Underwriting result	156	2	(13)	(9)	136
Investment result	142	141	29	(2)	310
Insurance result	298	143	16	(11)	446
Other activities	(5)	-	(22)	(37)	(64)
Operating result (management basis)	293	143	(6)	(48)	382
Interest costs					(58)
Amortisation					(13)
Solvency II costs					(1)
Reorganisation costs					(5)
Acquisitions and disposals					(3)
Profit before tax (per condensed consolidated income statement)					302
Combined operating ratio (%)	89.3	98.9	103.3	-	94.8
Segment assets (£m)	10,111	7,313	3,861	1,460	22,745

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

The information above (including the 2010 comparative data) has been prepared on the same basis as reported in the 2010 Annual Report and Accounts. The segment assets exclude investment in associates and assets and liabilities held for sale.

3. Earnings per share

The earnings per share is calculated by reference to the result attributable to the ordinary shareholders of the parent company and the weighted average number of shares in issue during the period. On a basic and diluted basis this was 3,511,279,994 and 3,547,568,260 respectively (excluding those held in ESOP and SIP trusts). The number of shares in issue at 30 June 2011 was 3,519,778,046 (excluding those held in ESOP and SIP trusts).

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

During the first half of the year, changes to claims reserve estimates made in prior years as a result of reserve development are included in the prior year profit of £106m (H1 2010: £121m).

The Group pension fund deficit net of tax as at 30 June 2011 is £122m (31 December 2010: £142m). Further information on the movement in pension fund is included on page 13.

5. Business combinations and other changes in the structure of the Group

Acquisition of subsidiaries

On 7 January 2011, the Group acquired 100% of the share capital of Glenstone Capital Incorporated in Canada. In addition, a number of business combinations were completed in Canada, the United Kingdom & Colombia during the period. The acquisitions increase the Group's insurance activity in each of the countries. The total consideration paid was £247m and goodwill of £93m arose on these acquisitions.

£m

Provisional fair values of identifiable assets acquired and liabilities assumed:	
Investments	344
Intangible assets (excluding goodwill)	72
Other assets	50
Reinsurers' share of insurance contract liabilities	158
Cash and cash equivalents	15
Insurance contract liabilities	(368)
Other liabilities	(117)
Net assets acquired	154
Cash consideration	244
Deferred consideration	3
Total consideration paid	247
Total goodwill additions in six months ended 30 June 2011	93

In addition to the acquisition of share capital, the Group acquired the rights to debt owed by Glenstone Capital Incorporated for consideration of £48m from its former parent.

The fair value of the financial assets acquired includes premiums and insurance balances receivable of £36m, net of a reduction of £1m on their nominal value to take account of balances that are expected to be uncollectable.

Deferred consideration includes consideration which is contingent on the financial performance of the acquired business. The fair value of this consideration is £3m, with the minimum possible payment being £nil and the maximum possible payment being £22m.

Acquisition related costs for acquisitions concluded during the period (included in other operating expenses in the income statement for the six months ended 30 June 2011) amounted to £1m.

On acquisitions concluded during the period, the Group recognised £4m of non controlling interests, measured as the proportionate share in the identifiable acquired net assets.

If the acquisitions had occurred on 1 January 2011, the contribution to Group net written premiums and fee income for the period to date would have been £78m and the contribution to Group's profit after tax would have been £9m. The total net written premiums and fee income of the acquired entities since the acquisition dates included in the Group's net written premiums for the period is £67m. The total profit after tax of the acquired entities since the acquisition dates included in the Group's profit for the period is £11m.

The goodwill shown above arose from the premium paid for strengthening the Group's market position in targeted business segments and acquiring the skilled workforce to drive future profitability in those segments. Goodwill also represents the future cost saving from expected synergies and economies of scale from central costs and the benefits of enhancing distribution channels.

Of the total goodwill recognised, £1m is expected to be deductible for income tax purposes.

Due to the timing of acquisitions the valuations disclosed above are provisional pending the completion of the review of valuation of certain assets and liabilities, in particular the actuarial review of insurance liabilities and the determination of the fair value of intangible assets.

Changes in the carrying value of goodwill during the period were as follows:

	2011	2010
	£m	£m
Gross goodwill		
At 1 January	650	508
Recognised in period	93	44
Net foreign exchange rate movement	20	(11)
At 30 June	763	541

No material impairments have been recognised during the period or in prior periods.

6. Ordinary share issues during the period to 30 June

During the six months to 30 June 2011, 15,898,605 (H1 2010: 26,205,748) ordinary shares were issued on the exercise of employee share options and investment plans. The Company also issued 12,583,598 (H1 2010: 2,672,758) ordinary shares under the scrip scheme approved by the shareholders at the 2010 Annual General Meeting.

7. Dividends

	30 June 2011		30 June 2010	
	Per share p	Total £m	Per share p	Total £m
Ordinary dividend				
Final paid in respect of prior year	5.70	198	5.33	182
Interim proposed/paid in respect of current year	3.34	118	3.12	108
	9.04	316	8.45	290
Preference dividend		5		5
		321		295

8. Exchange rates

Local currency/£	6 Months 2011		6 Months 2010		12 Months 2010	
	Average	Closing	Average	Closing	Average	Closing
Canadian Dollar	1.58	1.55	1.58	1.59	1.59	1.56
Danish Krone	8.59	8.26	8.54	9.10	8.68	8.70
Swedish Krona	10.30	10.13	11.26	11.64	11.12	10.52
Euro	1.15	1.11	1.15	1.22	1.17	1.17

9. Results for 2010

The financial information relating to the year ended 31 December 2010 and included in the condensed consolidated financial statements does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006, but has been abridged from the statutory accounts. The statutory accounts of RSA Insurance Group plc for the year ended 31 December 2010 have been delivered to the Registrar of Companies. The independent auditors' report on the Group accounts for the year ended 31 December 2010 is unqualified, does not draw attention to any matters by way of emphasis and does not include a statement under section 498(2) or (3) of the Companies Act 2006.

RESPONSIBILITY STATEMENT

The condensed set of financial statements on pages 22 to 29 has been prepared in accordance with IAS 34 'Interim Financial Reporting' and we confirm that to the best of our knowledge:

- a) The interim management report on pages 3 to 20 includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year), and
- b) The interim management report on pages 3 to 20 includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

Signed on behalf of the Board

Andy Haste
Chief Executive Officer

3 August 2011

George Culmer
Chief Financial Officer

3 August 2011

INDEPENDENT REVIEW REPORT TO RSA INSURANCE GROUP PLC

We have been engaged by RSA Insurance Group plc ("the Company") to review the condensed set of financial statements in the half year financial report for the six months ended 30 June 2011 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows and related notes 1 to 9. We have read the other information contained in the half year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with 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. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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 formed.

Directors' responsibilities

The half year financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half year financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half year financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

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

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half year financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
3 August 2011