2016 INTERIM RESULTS

RSA Insurance Group plc 4 August 2016

RSA is making excellent progress. Results are ahead of our plans.

Underwriting profit up 72%. Operating profit up 20%. Underlying EPS[1] 17.8p, up 29%. Basic EPS from continuing operations up 93% to 11.2p. Interim Dividend 5.0p / share, up 43%.

Return on Tangible Equity[1] 12.8% - within our 12-15% medium term target, a year ahead of our expectations.

Stephen Hester, RSA Group Chief Executive, commented:

"We are delighted with RSA's progress towards our demanding 'best in class' ambitions. In tough, competitive insurance markets and with significant financial market volatility, our results are even more satisfying. Particularly pleasing is the track record we are building of setting out plans and then achieving them in a high quality way.

"Strategic focus has now been achieved through completion of our principal disposal programmes. Performance improvement is coming through strongly, driven by underwriting gains and cost re-engineering. In fact our interim results were actually held back by volatile items in weather / large losses.

"The impact of Brexit will take time to play out. But RSA is well placed, with a majority of earnings in foreign currencies.

"Our agenda for the second half is clear; a continued drive to raise performance through better underwriting, lower costs and strong focus on customers. We expect that 2016 will be another year of great progress for RSA."

Trading results

- Group operating profit £312m up 20% (H1 2015: £259m): Scandinavia £131m; Canada £69m; UK £144m.
- Record[1] H1 Group underwriting profit of £174m, up 72% (H1 2015: £101m). Core Group combined ratio of 94.3% (H1 2015: 96.4%). Scandinavia 88.5%; Canada 94.5%; and the UK 94.4%.
- Record[1] H1 Group current year underwriting profit of £119m (H1 2015: £73m); Core Group current year attritional loss ratio 3.1pts better than last year.
- Weather and large losses £59m worse than planned and £49m worse than H1 2015; net claims cost of £39m for the Alberta wildfire and £35m for UK and European floods in June.
- Prior year underwriting profit of £55m (H1 2015: £28m), driven by Canada and the UK in particular.
- Ireland returned to operating profit (£3m vs £11m loss in H1 2015).
- Core Group premiums flat on an underlying basis[1]; up 3%[2] headline.

[1]Underlying or alternative performance measure, refer to pgs 27-28 for further explanation; [2] At constant FX.

- Investment income of £187m (H1 2015: £206m).
- Net gains include £169m tangible gains[1] mainly from disposals completed in the year, offset by £188m intangible charges[1], as previously flagged. Reorganisation costs of £70m.
- Post tax profit of £91m (H1 2015: £215m benefited from disposal gains).
- Solvency II coverage ratio of 158% (31 December 2015: 143%), towards upper end of our target range of 130-160%; now includes the full benefit of the completed Latin America disposals and pension de-risk.
- Tangible equity[2] £3.3bn (31 December 2015: £2.8bn), 326p per share; increase driven by profits, positive mark-to-market and foreign exchange.
- Underlying return on opening tangible equity[2] of 12.8% annualised (H1 2015: 9.7%).
- Underlying earnings per share[2] (EPS) 17.8p (H1 2015: 13.8p).
- Interim dividend of 5.0p / ordinary share (H1 2015: 3.5p).

Strategic update

- Strategic actions to make RSA 'focused, stronger and better' continue apace.
- Successfully completed the disposals of our businesses in Latin America and Russia in the first half. This brings to a close our principal disposal programme (total proceeds £1.2bn 2014-16), with the desired strategic focus now achieved.
- With RSA stronger and more resilient, actions are now being taken to optimise the composition of capital. In July we completed the retirement of £200m of subordinated debt reducing both leverage and interest costs, with further actions in contemplation. During the first half we also completed, as previously flagged, a de-risking of the asset mix in our UK pension schemes.
- Our many performance improvement initiatives are proceeding well. These cover:
  - Customer service, sales effectiveness and digitisation;
  - Pricing and underwriting improvements;
  - Expense reduction;
  - Technology improvements in infrastructure, policy administration, claims and pricing.
- Core business controllable costs[2] for H1 2016 were down 3% year-on-year at constant exchange to £702m (comprising 5% cost reductions, offset by 2% inflation).
- Group FTE down 39% since start of 2014 (13% down ex disposals), with Core Group FTE down 6% year-on-year to H1 2016.
- Our cost reduction programme remains on track to deliver in excess of £350m gross annualised savings by 2018 (c.£200m achieved to date, with proportionately more cost saves expected in H2).
- Medium term performance target of 12-15% underlying return on tangible equity[2] remains, and we continue to target the upper half of this range in 2017. Dividend policy unchanged: medium term ordinary dividend payout of 40-50% with additional 'special' payouts where justified.
- RSA is insulated from Brexit impacts via non-Sterling profits and separate regulated European subsidiaries. However, the impacts on interest rates are negative for insurers generally and uncertainties remain in other dimensions.

Note: The Group uses alternative performance measures, including certain underlying measures, to help explain business performance and financial position. Further information on these is set out in the appendix.

[1] Refer to page 10 for further explanation.

[2]Underlying or alternative performance measure, refer to pgs 27-28 for further explanation.

MANAGEMENT REPORT – KEY FINANCIAL PERFORMANCE DATA

Management basis

	H1 2016 £m		H1 2016 £m	H1 2015 £m Constant FX	H1 2015 £m Reported FX
Net Written Premiums	**Personal**	**Commercial**	**Total**	Total	Total
Scandinavia	500	465	965	1,003	949
Canada	420	189	609	627	637
UK	496	779	1,275	1,287	1,282
Ireland	90	61	151	136	130
Group Re[1]	-	29	29	(106)	(106)
Total Core Group	1,506	1,523	**3,029**	**2,947**	**2,892**
Discontinued & non-core[2]			*218*	*498*	551
Total Group net written premiums			**3,247**	**3,445**	**3,443**

	Combined operating ratio (%)		H1 2016 £m	H1 2015 £m	H1 2015 £m
Underwriting performance	**H1 2016**	H1 2015		Constant FX	Reported FX
Scandinavia	88.5	98.0	96	17	16
Canada	94.5	92.3	37	55	56
UK	94.4	94.4	76	77	77
Ireland	100.7	111.8	(1)	(17)	(16)
Group Re[1]	-	-	(36)	(25)	(25)
Total Core Group	**94.3**	**96.4**	**172**	**107**	**108**
Discontinued & non-core[2]	-	-	*2*	*(11)*	*(7)*
Total Group underwriting result	**94.7**	**97.2**	**174**	**96**	**101**
Investment result			150	167	167
Operating result			**312**	**254**	**259**
Profit before tax			148	281	288
Profit after tax			**91**	**208**	**215**
Underlying profit before tax[3]			**258**	**200**	**205**
Basic earnings per share (pence)			7.9p		20.4p
Basic earnings per share from continuing operations (pence)[4]			11.2p		5.8p
Underlying earnings per share (pence)[3]			17.8p		13.8p
Interim dividend per share (pence)			5.0p		3.5p
Return on tangible equity, annualised (%)			5.7%		14.3%
Underlying return on tangible equity, annualised (%)[3]			12.8%		9.7%
			30 June 2016		31 Dec 2015
Net asset value (£m)			4,136		3,642
Tangible net asset value (£m)[3]			3,324		2,838
Net asset value per share (pence)			394		346
Tangible net asset value per share (pence)[3]			326		279
Solvency II surplus (£bn)[5]			1.1		0.9
Solvency II coverage ratio[5]			158%		143%

[1] Group Re premiums include £139m in H1 2015 for the purchase of a 3 year Group aggregate reinsurance cover.
[2] In H1 2016 discontinued operations comprised Russia and Latin America, and non-core operations included UK Legacy and the Middle East. In H1 2015 discontinued operations also included Italy, Hong Kong, Singapore, China, and India.
[3] Underlying or alternative performance measure, refer to pgs 27-28 for further explanation.
[4] Refer to consolidated income statement on pg 38.
[5] Capital positions are estimated.

CHIEF EXECUTIVE'S STATEMENT

We are delighted with RSA's progress towards our demanding 'best in class' ambitions. In tough, competitive insurance markets and with significant financial market volatility, our results are even more satisfying.

In 2014 we laid out an Action Plan aimed at making RSA 'Focused, Stronger, Better'. And in February this year we gave further definition, setting the future ambition of 'best in class' performance. How are we doing against this Plan?

1. RSA's strategic refocus is essentially done. The last major element of this, our Latin American disposals, all completed this half. The Group is now set up to succeed, focused on our leadership positions in UK/Western Europe, Scandinavia and Canada. RSA is equipped with the combination of market scale and intense business focus that has been a winning formula for the highest performing and best valued companies in our industry.

2. Our balance sheet work has also gone very well. Solvency II capital ratio has built to 158%, towards the top end of our target range, and complements our stable A credit rating. We are seizing opportunities to improve both capital quality and earnings with subordinated debt retirement - £200m accomplished this July and more in contemplation. Our pension scheme risk reduction has also proven timely in the face of financial market volatility.

3. At the heart of our Action Plan is sustained performance improvement. Less than six months after raising market expectations materially, we are in the fortunate position of beating consensus again. We are doing this the 'right' way, focusing on high quality sustainable improvements - to customer capabilities and service, to underwriting loss ratios and to cost.

At the Group level the key financial measures show terrific progress in what is often our seasonally weaker half. ROTE[1] (return on tangible equity) at 12.8% is in our 12-15% medium-term target range a full year ahead of our expectation. EPS[1] 17.8p / share, up 29%.

Operating Profits up 20%. Underwriting Profits up 72%. Combined ratio of 94.7%, a record[1] for RSA.

Our advances are being achieved in the face of market headwinds to premiums and pricing as well as investment income. Underlying[1] Core Group premiums were flat, with softness in Canada and Denmark particularly. While premium growth is not our top priority at present, serving customers better is. Right across our business new capabilities are being built, service channels and standards improved: there are good signs that these are reinforcing our strong existing franchise base, with more to come.

Current year underwriting profits are a record £119m, up 63%. This is driven by a 3.1pt improvement in the Core Group attritional loss ratio. Volatile underwriting results from weather / large losses were £49m worse than prior year (and £59m worse than plan) due notably to Fort McMurray fires in Canada and UK/European flash floods in June. Our reinsurance protection limited these loss areas considerably and provides good downside protection for the second half also. Prior year reserve releases at 1.9% of NEP were above plan.

Total Group controllable expenses[1] fell 12% and our cost reduction is on a path to beat the increased 2018 target of £350 million.

'Below the line' our financials will be noisy in 2016 as flagged and for good reason. Non-cash accounting charges mask the capital and value accretive sale of our Latin American businesses. Restructuring charges are reflecting our cost improvement measures. And in the second half, debt retirement charges enable higher capital quality and lower future interest costs.

[1] *Underlying or alternative performance measure, refer to pgs 27-28 for further explanation.*

We are not complacent. The external environment is tough. Brexit brings challenges yet to be fully clear. And our own ambitions call for substantial further performance improvements. One way or another we will have setbacks.

However we truly believe RSA can continue to make excellent progress along the path we have laid out. Ours is a self-help programme and we are building credentials in doing just that.

Stephen Hester
Group Chief Executive
3 August 2016

MANAGEMENT REPORT

INCOME STATEMENT

Management basis – 6 months ended 30 June 2016

	Group H1 2016 £m	*Of which: 'Core'[4] £m*	Group H1 2015 £m	*Of which: 'Core'[4] £m*
Net Written Premiums	**3,247**	***3,029***	***3,443***	***2,892***
Net Earned Premiums	3,271	*2,990*	*3,579*	*3,010*
Net Incurred Claims[1]	(2,108)	*(1,954)*	*(2,356)*	*(2,027)*
Commissions	(480)	*(410)*	*(560)*	*(423)*
Operating expenses	(509)	*(454)*	*(562)*	*(452)*
Underwriting result	**174**	***172***	***101***	***108***
Investment income	187	*159*	*206*	*166*
Investment expenses	(6)	*(5)*	*(7)*	*(6)*
Unwind of discount	(31)	*(15)*	*(32)*	*(13)*
Investment result	**150**	***139***	***167***	***147***
Central expenses	(12)	*(12)*	*(9)*	*(9)*
Operating result	**312**	***299***	***259***	***246***
Net gains/losses/exchange – tangible[5]	169		*128*	
– intangible[5]	(188)		*41*	
Interest	(54)		*(54)*	
Non-operating charges[2]	(9)		*(17)*	
Non-recurring charges[3]	(82)		*(69)*	
Profit before tax	**148**		***288***	
Tax	(57)		*(73)*	
Profit after tax	**91**		***215***	
Underlying profit before tax[6]	**258**		***205***	
Loss ratio (%)	64.5	*65.3*	*65.8*	*67.3*
Weather loss ratio	*3.3*	*3.6*	*1.7*	*1.5*
Large loss ratio	*8.4*	*9.2*	*7.7*	*8.6*
Current year attritional loss ratio	*54.7*	*54.8*	*57.1*	*57.9*
Prior year effect on loss ratio	*(1.9)*	*(2.3)*	*(0.7)*	*(0.7)*
Commission ratio (%)	14.6	*13.8*	*15.7*	*14.1*
Expense ratio (%)	15.6	*15.2*	*15.7*	*15.0*
Combined ratio (%)	**94.7**	***94.3***	***97.2***	***96.4***
Reported ROTE, annualised	**5.7%**		***14.3%***	
Underlying ROTE, annualised[6]	**12.8%**		***9.7%***	
Notes:				
[1] Of which: claims handling costs	*(193)*		*(199)*	
[2] Amortisation	*(7)*		*(14)*	
[2] Pension net interest costs	*(2)*		*(3)*	
[3] Solvency II costs	*(6)*		*(14)*	
[3] Reorganisation costs	*(70)*		*(55)*	
[3] Economic assumption changes	*(6)*		-	

[4] 'Core' comprises Scandinavia, Canada, UK (ex Legacy), Ireland, and central functions.

[5] Refer to pg 10 for further explanation.

[6] Underlying or alternative performance measure, refer to pgs 27-28 for further explanation.

SEGMENTAL ANALYSIS

Management basis – 6 months ended 30 June 2016

	Scandinavia £m	Canada £m	UK £m	Ireland £m	Central functions £m	Total 'non-core'[1] £m	Group H1 2016 £m
Net Written Premiums	**965**	**609**	**1,275**	**151**	**29**	**218**	**3,247**
Net Earned Premiums	832	682	1,347	144	(15)	281	3,271
Net Incurred Claims	(582)	(437)	(806)	(110)	(19)	(154)	(2,108)
Commissions	(24)	(91)	(278)	(17)	-	(70)	(480)
Operating expenses	(130)	(117)	(187)	(18)	(2)	(55)	(509)
Underwriting result	**96**	**37**	**76**	**(1)**	**(36)**	**2**	**174**
Investment income	48	34	73	4	-	28	187
Investment expenses	(1)	(1)	(3)	-	-	(1)	(6)
Unwind of discount	(12)	(1)	(2)	-	-	(16)	(31)
Investment result	**35**	**32**	**68**	**4**	**-**	**11**	**150**
Central expenses	-	-	-	-	(12)	-	(12)
Operating result	**131**	**69**	**144**	**3**	**(48)**	**13**	**312**
Net gains/losses/exchange – tangible[2]							169
– intangible[2]							(188)
Interest							(54)
Non-operating charges							(9)
Non-recurring charges							(82)
Profit before tax							**148**
Tax							(57)
Profit after tax							**91**
Underlying profit before tax[3]							**258**
Loss ratio (%)	70.0	64.0	59.8	76.8			64.5
Weather loss ratio	*0.3*	*6.6*	*4.3*	*0.0*			*3.3*
Large loss ratio	*5.4*	*6.3*	*12.2*	*4.8*			*8.4*
Current year attritional loss ratio	*64.5*	*57.1*	*46.5*	*65.3*			*54.7*
Prior year effect on loss ratio	*(0.2)*	*(6.0)*	*(3.2)*	*6.7*			*(1.9)*
Commission ratio (%)	2.9	13.4	20.7	11.4			14.6
Expense ratio (%)	15.6	17.1	13.9	12.5			15.6
Combined ratio (%)	**88.5**	**94.5**	**94.4**	**100.7**			**94.7**

[1] Total 'non-core' comprises discontinued operations of Russia and Latin America; and non-core continuing operations of UK Legacy and the Middle East.
[2] Refer to pg 10 for further explanation.
[3] Underlying or alternative performance measure, refer to pgs 27-28 for further explanation.

Note: please refer to appendix for H1 2015 comparatives

Market conditions

Insurance market conditions remain competitive. Slow growth and intense price competition drive sharp price/volume trade-offs and we have continued to prioritise profit over topline growth.

Interest rates, credit spreads, equity markets and foreign exchange have been volatile during the first half of the year. Five-year bond yields fell by 100bps in the UK, 60bps in Sweden and Denmark, and were down slightly in Canada. Overall, this has a negative impact on the outlook for investment returns and discount rates on liabilities, but increases tangible equity as unrealised bond gains rise.

Around two thirds of RSA's core premiums lie outside the UK and c.75% of operating profit is not in Sterling. The weakening of Sterling during the first half has benefited reported results (Core Group premiums up 3% at constant exchange rates, but up 5% at reported exchange rates), and this seems likely to continue into the second half as current rates further impact the average FX rate for the year. If 1 August 2016 spot rates had prevailed across the first half then H1 2016 underlying profit before tax would have been 7% higher.

Premiums

H1 2016 Core Group net written premiums were up 3% year-on-year at constant exchange rates. Excluding Group Re and one-offs elsewhere, Core Group premiums were flat on an underlying basis[2].

	Scandi-navia	Canada	UK	Ireland	**Total**
Net Written Premiums (£m)	**965**	**609**	**1,275**	**151**	
% changes in NWP					
Volume change including portfolio actions	(7)	(4)	(3)	(7)	(5)
Rate increases	3	1	2	18	3
Core Group H1 2016 CFX movt.	**(4)**	**(3)**	**(1)**	**11**	**3[1]**
Impact of non-core businesses/disposals					(9)
Total Group H1 2016 CFX movt.					**(6)**

Regional highlights (at constant FX) include:

- Scandinavian premiums were down 4%. However, growth was flat on an underlying basis[2] with positive growth in Sweden offsetting weakness in Denmark and Norway;
- Canadian premiums were down 3% with Personal down 5% and Commercial up 1%, reflecting underwriting discipline in competitive market conditions;
- UK premiums were down 1%. However, growth was flat on an underlying basis[2]. Commercial was up 2% underlying[2] driven by growth in our target portfolios whilst Personal was down 3% underlying[2] reflecting continued discipline in a competitive market; and
- Ireland premiums were up 11% due to strong price increases.

Retention trends remained broadly stable with overall retention across our Core regions of around 80%.

[1] *After impact of Group Re (NWP £135m lower in H1 2016 due to purchase of 3 year Group aggregate reinsurance cover for £139m in H1 2015)*

[2] *Underlying or alternative performance measure, refer to pgs 27-28 for further explanation.*

Underwriting result

Group underwriting profit of £174m, up 72% year-on-year (H1 2015: £101m) and comprised £172m from core operations.

	Total UW result		Current Year UW		Prior Year UW	
£m	**H1'16**	**H1'15**	**H1'16**	**H1'15**	**H1'16**	**H1'15**
Scandinavia	96	16	94	49	2	(33)
Canada	37	56	(2)	7	39	49
UK	76	77	41	59	35	18
Ireland	(1)	(16)	9	(14)	(10)	(2)
Group Re	(36)	(25)	(26)	(16)	(10)	(9)
Total Core	**172**	**108**	**116**	**85**	**56**	**23**
Non-core & discontinued	2	(7)	3	(12)	(1)	5
Total Group	**174**	**101**	**119**	**73**	**55**	**28**

Current year profit of £119m (H1 2015: £73m):

- The Core Group current year attritional loss ratio was 54.8% which showed a 3.1 point improvement from H1 2015. There were good improvements across all core regions. The Canadian attritional loss ratio of 57.1% benefited by around 1 point due to benign 'indirect' winter weather.
- Total Group weather costs were £109m (H1 2015: £60m). Core Group weather costs were £107m representing a weather loss ratio of 3.6% (H1 2015: £45m or 1.5%; five year average: 3.2%).

  Included within this are net claims costs of £39m for the Alberta wildfires, and £35m for the UK & European floods in June.
- Total Group large losses were £277m (H1 2015: £277m). Core Group large losses were £276m or 9.2% of premiums (H1 2015: £261m or 8.6%), which was marginally above the five year average of 8.7%. Lower than trend levels in the UK were partly offset by more elevated levels in Canada and Ireland.

Prior year profit of £55m provided a 1.9 point benefit to the combined ratio and included positive prior year development from the UK, Canada and Scandinavia.

Our planning assumption continues to be for prior year profits to be around 1% of premiums, but there remains the potential for volatility given our commitment to transparent reserve margins.

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 slightly higher at 5.2% of booked claims reserves.

Investment result

The investment result was £150m (H1 2015: £167m) with investment income of £187m (H1 2015: £206m) partly offset by investment expenses of £6m (H1 2015: £7m) and the liability discount unwind of £31m (H1 2015: £32m).

Investment income is tracking slightly ahead of our guidance but down 9% on prior year, primarily reflecting the continued impact of the low bond yield environment with the average book yield across our major bond portfolios down slightly to 2.6% (H1 2015: 2.7%).

Total controllable costs[1]

As at the end of the first half of 2016 our cost reduction programme has delivered total gross annualised cost reductions of around £200m. We are on track to deliver around £250m cost reductions by the end of 2016 (with proportionately more cost saves expected in H2) and to beat our increased 2018 cost reduction target of £350m.

Total Group controllable costs[1] were down 12% year-on-year at constant exchange to £778m. Core business controllable costs were down 3% in the same period at constant exchange to £702m (comprising 5% cost reductions, offset by 2% inflation).

The majority of the year-on-year core business cost reduction has come from our Scandinavian business (5% down) and our UK business (4% down). Canada delivered expense reductions of 2%.

Group FTE[2] is down 39% since the start of 2014 to 13,822 at June 2016. Over the same period Core business FTE has fallen by 13% to 13,688, with FTE falling by 6% H1 2016 v H1 2015.

Non-operating items

Tangible net gains of £169m (H1 2015: £128m) include:

- £157m of tangible disposal gains, of which £155m relates to the completed Latin America disposals;
- £12m of investment gains.

Intangible net losses were £188m. £165m relates to the Latin American disposal (£100m recycle of foreign exchange losses (in the FCTR[3]), and £65m of intangibles disposed, both as previously flagged). A further £11m relates to FCTR[3] recycling in respect of the Russia disposal. These items are non-cash, non-capital impact and NAV neutral for the Group. There were also £12m of unrealised losses.

Non-cash non-operating charges of £9m (H1 2015: £17m) comprise £7m of amortisation of customer related intangible assets and £2m of pension net interest costs.

Non-recurring charges of £82m (H1 2015: £69m) include:

- Reorganisation costs of £70m (H1 2015: £55m) were broadly in line with our expectations, and included £15m in respect of redundancy and £55m in respect of restructuring activities. We continue to expect 2016 to be the last major year of restructuring charges.
- Solvency II costs of £6m (H1 2015: £14m). As previously guided, in 2016 we expect a significantly reduced Solvency II cost (reflecting ongoing preparations for Pillar III reporting), falling to zero thereafter.
- Economic assumption changes - £6m charge relating to a change in the rate used to discount Danish long-tail liabilities (discount rate reduced from 1.75% to 1.5%) following a decline in market yields for the assets we hold backing these liabilities.

[1] *Underlying or alternative performance measure, refer to pgs 27-28 for further explanation.*
[2] *Full time equivalent employees*
[3] *Foreign currency translation reserve*

Tax

The Group has reported a tax charge of £57m for the first half, giving an effective tax rate (ETR) of 39%. The Core Group underlying tax rate[1] was 24%.

The £57m tax charge largely comprises tax on overseas profits and other overseas tax charges; net local tax cost of £16m on the Latin American disposals; and a £7m upward revaluation of the net UK deferred tax asset.

The carrying value of the Group's net deferred tax asset at 30 June 2016 was £116m, of which £103m is in the UK. At current tax rates, a further c.£184m of deferred tax assets remain available for use but not recognised on balance sheet; these are predominantly in the UK.

As previously flagged, we continue to expect an optically higher ETR in 2016 of around 40%, due to the impact of disposals; higher taxed foreign profits; and UK reorganisation costs and one-off debt retirement costs that do not give an immediate tax benefit.

Dividend

We are pleased to declare an interim dividend of 5.0p per ordinary share, up 43% year-on-year (H1 2015: 3.5p).

Our medium term policy of between 40-50% ordinary dividend payouts remains, with additional payouts where justified. Potential for additional payouts should follow the completion of restructuring and progress in the unwind of unrealised bond gains.

[1] *Underlying or alternative performance measure, refer to pgs 27-28 for further explanation.*

BALANCE SHEET

Movement in Net Assets

	Shareholders' funds £m	Non controlling interests £m	Loan capital £m	Equity plus loan capital £m	TNAV[1] £m
Balance at 1 January 2016	3,642	129	1,254	**5,025**	**2,838**
Profit/(loss) after tax	85	6	-	**91**	**195**
Exchange gains/(losses) net of tax	287	10	1	**298**	**215**
Fair value gains/(losses) net of tax	219	-	-	**219**	**219**
Pension fund gains/(losses) net of tax	(22)	-	-	**(22)**	**(22)**
Repayment & amortisation of loan capital		-	6	**6**	**-**
Share issue	3	-	-	**3**	**3**
Changes in shareholders' interests in subsidiaries	(10)	(5)	-	**(15)**	**(10)**
Share based payments	8	-	-	**8**	**8**
2015 final dividend	(71)	(2)	-	**(73)**	**(71)**
Preference dividend	(5)	-	-	**(5)**	**(5)**
Goodwill and intangible additions	-	-	-	**-**	**(46)**
Balance at 30 June 2016	**4,136**	**138**	**1,261**	**5,535**	**3,324**
Per share (pence)					
At 1 January 2016	346				279
At 30 June 2016	**394**				**326**

Tangible net assets[1] have increased by 17% to £3.3bn in the first half of 2016. The increase was driven by profits in the period (including tangible disposal gains), positive foreign exchange movements, and fair value mark-to-market gains due to lower bond yields, partly offset by the payment of the 2015 final dividend and intangible asset additions.

[1] *Underlying or alternative performance measure, refer to pgs 27-28 for further explanation.*

CAPITAL POSITION

Solvency II position[1]:	Requirement (SCR) £bn	Eligible Own Funds £bn	Surplus £bn	Coverage %
30 June 2016	**1.9**	**3.0**	**1.1**	**158%**
31 December 2015	2.0	2.9	0.9	143%

The Solvency II surplus[1] increased to £1.1bn (31 December 2015: £0.9bn) during the first half with the coverage ratio of 158% up 15 points. The key drivers were as follows:

- Underlying capital generation[2] added 12 points of coverage;
- Restructuring costs and other non-operating/non-recurring charges reduced the ratio by 5 points;
- Pull-to-par on unrealised bond gains accounted for a 4 point reduction;
- 12 points of benefit from the Latin American and Russian disposals, completed in the period;
- Market movements added 5 points of coverage, mainly driven by positive foreign exchange movements. RSA has low exposure to yield movements due to matching of assets and liabilities. Equities and credit spreads were broadly flat over the period;
- Pension movements and the interim dividend reduced the coverage ratio by 2 points and 3 points respectively.

Please refer to Appendix (page 29) for further details on RSA's Solvency II position.

Debt retirement

On 12 July we completed the retirement of £200m (nominal value) of subordinated debt (the target instrument was our £500m subordinated notes with 9.4% coupon).

The retirement was achieved at a small premium to the prevailing market value. It is Solvency II neutral as the market value of the debt has been replaced within eligible own funds by c.£130m of previously ineligible Tier 2 and c.£100m of Tier 3 capital (deferred tax asset).

In the second half we expect to show a one-off accounting charge of c.£39m below the Operating Result in the P&L. Annualised run-rate interest costs will be lower by c.£19m.

Our ambition is to further improve the quality of our capital mix and reduce the cost of our debt. We will continue to look for further opportunities to retire debt as and when circumstances and market conditions allow, as well as exploring other risk/capital efficiency options.

[1] *The Solvency II capital position at 30 June 2016 is estimated*
[2] *Operating profit less interest costs and tax*

GROUP OUTLOOK

In the second half of 2016 we will continue to focus on raising performance levels.

Markets will remain competitive. Our priority is to maintain underwriting discipline.

In the first half attritional loss ratios were better than our expectations, although flattered in Canada by around 1 point due to benign 'indirect' weather. We expect the pace of improvement to moderate during the second half of the year.

We expect further cost reductions in the second half.

We are on track for a strong underwriting improvement in 2016 overall, subject to volatile items in weather, large losses and prior year reserving.

Based on current forward[1] yields and FX, we expect investment income of c.£350m for 2016.

At current foreign exchange rates there should be meaningful benefits to earnings reported in Sterling terms.

[1] If current yields and FX were kept flat, instead of using forward rates, our guidance would be unchanged. A +/-5% movement in Sterling against all other currencies would move investment income by around +/-£10m.

BUSINESS REVIEW – INVESTMENT PERFORMANCE

Management basis

Investment result	H1 2016 £m	H1 2015 £m	Change %
Bonds	153	164	(7)
Equities	14	14	-
Cash and cash equivalents	6	14	(57)
Property	11	11	-
Other	3	3	-
Investment income	**187**	**206**	**(9)**
Investment expenses	(6)	(7)	14
Unwind of discount	(31)	(32)	3
Investment result	**150**	**167**	**(10)**

Balance sheet unrealised gains (pre-tax)	30 June 2016 (£m)	31 Dec 2015 (£m)	Change %
Bonds	715	414	727
Equities	3	(1)	-
Other	1	2	-
Total	**719**	**415**	**733**

Investment portfolio	Value 31 Dec 2015 £m	Foreign exchange £m	Mark to market £m	Other movements £m	Value 30 Jun 2016 £m
Government bonds	3,707	315	97	(111)	4,008
Non-Government bonds	7,405	543	133	57	8,138
Cash	816	76	-	389	1,281
Equities	159	31	15	(21)	184
Property	365	-	-	(28)	337
Prefs & CIVs	426	21	(5)	65	507
Other	100	14	-	(3)	111
Total	**12,978**	**1,000**	**240**	**348**	**14,566**
Split by currency:					
Sterling	4,543				4,972
Danish Krone	936				1,070
Swedish Krona	2,207				2,473
Canadian Dollar	2,706				3,147
Euro	1,247				1,425
Other	1,339				1,479
Total	**12,978**				**14,566**

Credit quality – bond portfolio	Non-government		Government	
	30 June 2016 %	31 Dec 2015 %	30 June 2016 %	31 Dec 2015 %
AAA	32	33	56	89
AA	22	19	39	6
A	31	33	4	5
BBB	13	14	1	-
< BBB	2	1	-	-
Non rated	-	-	-	-
Total	**100**	**100**	**100**	**100**

INVESTMENT PERFORMANCE

Investment income of £187m (H1 2015: £206m) was offset by investment expenses of £6m (H1 2015: £7m) and the liability discount unwind of £31m (H1 2015: £32m). Investment income of £187m is slightly ahead of our expectations but down 9% on prior year, primarily reflecting the continued impact of the low bond yield environment and the sale of Latin America.

The annualised average book yield over the period on the total portfolio was 2.7% (H1 2015: 3.0%), with annualised average yield on the bond portfolios of 2.6% (H1 2015: 2.7%). The average reinvestment rate in the Group's major bond portfolios over the first six months was approximately 1.5%.

Average duration of the Group's bond portfolios is 4.2 years (31 December 2015: 4.0 years).

The investment portfolio grew by 12% during the first half to £14.6bn. The movement was driven primarily by the impact of weakening of Sterling, positive mark-to-market on bond holdings, and positive cash flow, including proceeds from completed disposals in the period.

At 30 June 2016, high quality widely diversified fixed income securities represented 83% of the portfolio (31 December 2015: 86%). Equities represented 1% (31 December 2015: 1%) and cash 9% of the total portfolio (31 December 2015: 6%). The increased cash allocation is due to timing and is expected to reverse in the second half.

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

Unrealised bond gains and pull-to-par

Balance sheet unrealised gains of £719m (pre-tax) increased by £304m during the first half (31 December 2015: £415m) driven by lower bond yields and positive foreign exchange movements, partly offset by the pull-to-par of existing bonds.

During the first half of the year yield curves flattened and, therefore, we expect these gains to largely unwind over the next 4 years, based on current forward yields.

Outlook

Based on current forward[1] bond yields and foreign exchange rates, it is estimated that investment income will be c.£350m for 2016 (of which c.£15m relates to Latin America, now disposed), c.£320m for 2017 and c.£300m for 2018. These projected income numbers are, however, sensitive to changes in market conditions. We expect discreet H2 2016 discount unwind of c.£27m post disposals and FX movements.

[1] *If current yields and FX were kept flat, instead of using forward rates, our guidance would be unchanged. A +/-5% movement in Sterling against all other currencies would move investment income by around +/-£10m.*

REGIONAL REVIEW – SCANDINAVIA

Management basis

	Net written premiums		Change	Underwriting result	
	H1 2016 £m	H1 2015 £m	**Constant FX (%)**	**H1 2016 £m**	H1 2015 £m
Split by country					
Sweden	520	476	3	76	3
Denmark	371	380	(8)	17	8
Norway	74	93	(20)	3	5
Total Scandinavia	**965**	**949**	**(4)**	**96**	**16**
Split by class					
Household	166	153	2	19	20
Personal Motor	176	183	(9)	49	34
Personal Accident & Other	158	145	3	7	(37)
Total Scandinavia Personal	**500**	**481**	**(2)**	**75**	**17**
Property	183	175	(2)	1	12
Liability	90	94	(10)	10	2
Commercial Motor	124	116	2	7	3
Marine & Other	68	83	(21)	3	(18)
Total Scandinavia Commercial	**465**	**468**	**(6)**	**21**	**(1)**
Total Scandinavia	**965**	**949**	**(4)**	**96**	**16**
Investment result				35	39
Scandinavia operating result				**131**	**55**

Operating Ratios (%)	Claims		Commission		Op Expenses		Combined	
	H1'16	H1'15	**H1'16**	H1'15	**H1'16**	H1'15	**H1'16**	H1'15
Household							87.4	85.5
Personal Motor							69.5	78.5
Personal Accident & Other							95.6	127.5
Total Scandinavia Personal	**68.2**	**79.4**	**2.8**	**3.4**	**13.0**	**13.2**	**84.0**	**96.0**
Property							99.7	91.4
Liability							84.7	96.7
Commercial Motor							93.0	96.8
Marine & Other							93.1	130.0
Total Scandinavia Commercial	**72.3**	**76.8**	**3.0**	**3.6**	**19.0**	**19.9**	**94.3**	**100.3**
Total Scandinavia	**70.0**	**78.3**	**2.9**	**3.5**	**15.6**	**16.2**	**88.5**	**98.0**
Of which:			***5yr ave***					
Weather loss ratio	*0.3*	*0.6*	*1.4*					
Large loss ratio	*5.4*	*7.0*	*5.6*					
Current year attritional loss ratio	*64.5*	*66.5*						
Prior year effect on loss ratio	*(0.2)*	*4.2*						

YTD rate increases[1] (%)	**At June 2016**	At March 2016	At Dec 2015	At Sept 2015
Personal Household	**4**	3	5	4
Personal Motor	**3**	2	3	3
Commercial Property	**2**	(1)	1	2
Commercial Liability	**3**	8	5	5
Commercial Motor	**4**	2	4	4

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

SCANDINAVIA

The Scandinavian transformation programme has delivered well in the first half, with particular success in pricing sophistication improvements, process automation, online quote capabilities, and customer satisfaction. In Denmark we've seen positive development in customer 'trust' scores, and we've increased our engagement with low 'trust' score customers to gain fresh insights. We're ranked 2nd for SME customer satisfaction in Denmark, and first for overall customer satisfaction in Norway. Our retention rates across the region have remained steady at almost 80%.

First half net written premiums were down 4% year-on-year at constant exchange, with rate increases of 3% and volume reductions of 7%.

Excluding the impact of the transfer of the Marine portfolio to the UK and the non-repeat of two large multi-year deals from H1 2015, underlying[1] Scandinavian premiums were flat, reflecting slow market conditions overall.

The underwriting result was a profit of £96m (H1 2015: £16m) with a combined ratio of 88.5% (H1 2015: 98.0%). Underlying profitability improved significantly with the attritional loss ratio 2.0 points better at 64.5%.

Weather experience in the first half was relatively benign (c.1.1 points better than long term averages) whilst large losses were broadly in line with expectations.

The prior year result was a profit of £2m (H1 2015: £33m loss).

Total written controllable expenses were down 3% year-on-year (comprising 5% cost reduction, partly offset by 2% inflation).

Scandinavia – Outlook

We continue to expect the Scandinavian P&C markets to grow in line with local GDP growth and we target 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 attritional loss ratios and cost improvements.

[1] *Underlying or alternative performance measure, refer to pgs 27-28 for further explanation.*

REGIONAL REVIEW – CANADA

Management basis

	Net written premiums H1 2016 £m	Net written premiums H1 2015 £m	Change Constant FX (%)	Underwriting result H1 2016 £m	Underwriting result H1 2015 £m
Household	168	173	(2)	21	24
Personal Motor	252	274	(6)	28	17
Total Canada Personal	**420**	**447**	**(5)**	**49**	**41**
Property	73	73	1	(16)	-
Liability	44	48	(6)	(2)	8
Commercial Motor	51	46	11	5	4
Marine & Other	21	23	(5)	1	3
Total Canada Commercial	**189**	**190**	**1**	**(12)**	**15**
Total Canada	**609**	**637**	**(3)**	**37**	**56**
Investment result				32	36
Canada operating result				**69**	**92**

Operating Ratios (%)	Claims H1'16	Claims H1'15	Commission H1'16	Commission H1'15	Op Expense H1'16	Op Expense H1'15	Combined H1'16	Combined H1'15
Household							90.1	89.1
Personal Motor							89.1	94.2
Total Canada Personal	**61.5**	**65.6**	**11.4**	**11.1**	**16.6**	**15.4**	**89.5**	**92.1**
Property							118.5	99.8
Liability							104.4	85.9
Commercial Motor							88.8	90.0
Marine & Other							95.5	87.1
Total Canada Commercial	**69.7**	**56.5**	**18.0**	**18.2**	**18.2**	**18.3**	**105.9**	**93.0**
Total Canada	**64.0**	**62.9**	**13.4**	**13.2**	**17.1**	**16.2**	**94.5**	**92.3**
Of which:			***5yr ave***					
Weather loss ratio	*6.6*	*2.7*	*4.3*					
Large loss ratio	*6.3*	*5.8*	*3.6*					
Current year attritional loss ratio	*57.1*	*61.2*						
Prior year effect on loss ratio	*(6.0)*	*(6.8)*						

YTD rate increases[1] (%)	**At June 2016**	At March 2016	At Dec 2015	At Sept 2015
Personal Household	**5**	6	9	9
Personal Motor	**-**	-	(1)	(1)
Commercial Property	**2**	2	3	3
Commercial Liability	**2**	2	2	2
Commercial Motor	**1**	-	1	1

[1] Rating increases reflect rate movements achieved for risks renewing in the year-to-date versus comparable risks renewing in the same period the previous year

CANADA

Our transformation programme in Canada has progressed well in the first half, delivering customer retention actions, deployment of new pricing tools, process simplification, and the implementation of the Guidewire claims system proceeding as planned.

We have been working hard to enhance our Customer offering. In Johnson our service and sales metrics have been outperforming benchmarks. Online quotes are up nearly ten-fold year-on-year. In our broker distributed businesses, faster response times and new digital tools are being offered with promising early results. Customer retention rates have improved by 3pts year-on-year to 84%.

First half net written premiums were down 3% year-on-year at constant exchange, with rate increases of 1% and volume reductions of 4%.

The portfolio actions of the last two years are now complete. However, conditions remain competitive, particularly in the Commercial Broker channel. Our priority is underwriting discipline, and we continue to see good rate increases in Household, flat rate in Personal Motor following a period of rate reductions, and consistent low single digit price rises in Commercial.

The underwriting result was a profit of £37m (H1 2015: £56m) with a combined ratio of 94.5% (H1 2015: 92.3%). Underlying profitability improved significantly with the attritional loss ratio 4.1 points better at 57.1%, although this benefited by around 1 point from benign 'indirect' weather experience.

The first half was impacted by the Alberta wildfires, the largest natural catastrophe in Canadian history. Our reinsurance programme limited our exposure to a net claims cost of CAD$75m/£39m. The weather ratio was therefore elevated at 6.6% (c.2.3 points worse than long term averages). Large losses were 6.3% driven by a higher than expected level of large claims in Commercial.

The prior year result was a profit of £39m (H1 2015: £49m).

Total written controllable expenses were down 1% year-on-year (comprising 2% cost reduction, partly offset by 1% inflation).

Canada – Outlook

In the second half of 2016 we expect premium reductions to moderate slightly, although we will continue to prioritise underwriting discipline.

We expect the attritional loss ratio improvement seen in the first half (which partly benefited from benign 'attritional weather') to moderate in the remainder of 2016.

Our focus continues to be on operational improvement (in underwriting, claims, technology and process simplification) and cost reduction.

REGIONAL REVIEW – UK

Management basis

	Net written premiums		Change	Underwriting result	
	H1 2016 £m	H1 2015 £m	**Constant FX (%)**	**H1 2016 £m**	H1 2015 £m
Household	248	271	(8)	26	53
Personal Motor	110	127	(13)	(11)	(18)
Pet	138	138	-	(1)	1
Total UK Personal	**496**	**536**	**(7)**	**14**	**36**
Property	318	324	(3)	42	54
Liability	155	153	1	12	(12)
Commercial Motor	131	116	13	(2)	2
Marine & Other	175	153	14	10	(3)
Total UK Commercial	**779**	**746**	**4**	**62**	**41**
Total UK	**1,275**	**1,282**	**(1)**	**76**	**77**
Investment result				68	67
UK operating result				**144**	**144**

Operating Ratios (%)	**Claims**		**Commission**		**Op Expenses**		**Combined**	
	H1'16	H1'15	**H1'16**	H1'15	**H1'16**	H1'15	**H1'16**	H1'15
Household							91.0	83.0
Personal Motor							109.7	113.6
Pet							100.7	99.5
Total UK Personal	**59.9**	**56.5**	**21.5**	**22.0**	**16.1**	**15.3**	**97.5**	**93.8**
Property							86.8	82.4
Liability							91.8	108.0
Commercial Motor							101.6	99.0
Marine & Other							93.8	102.4
Total UK Commercial	**59.8**	**63.2**	**20.1**	**19.1**	**12.3**	**12.5**	**92.2**	**94.8**
Total UK	**59.8**	**60.4**	**20.7**	**20.3**	**13.9**	**13.7**	**94.4**	**94.4**
Of which:			***5yr ave***					
Weather loss ratio	*4.3*	*1.1*	*3.6*					
Large loss ratio	*12.2*	*11.6*	*13.6*					
Current year attritional loss ratio	*46.5*	*48.7*						
Prior year effect on loss ratio	*(3.2)*	*(1.0)*						

YTD rate increases[1] (%)	**At June 2016**	At March 2016	At Dec 2015	At Sept 2015
Personal Household	**1**	-	1	1
Personal Motor	**9**	9	5	4
Commercial Property	**-**	(2)	(1)	-
Commercial Liability	**-**	(1)	2	1
Commercial Motor	**5**	4	2	2

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

UK

In the first half, our transformation agenda in the UK has seen the delivery of process simplification, site closures, deployment of new pricing tools, and the successful transition of IT infrastructure to our new provider.

We have been making good progress on our Customer initiatives. We've seen improving net promotor scores (NPS) in Commercial and Personal (MORE TH>N). In Commercial we've now taken our NPS from -26 in 2012 to +38 at H1 2016, with steady improvements each year. Customer 'journeys' are being re-modelled in Personal and our Commercial salesforce strengthened. UK retention rates have remained steady at around 80%.

First half net written premiums were down 1% year-on-year at constant exchange, with rate increases of 2% and volume reductions of 3%.

Excluding the impact of our decision last August to exit Personal Broker Motor and the transfer in of the Scandinavian Marine portfolio, underlying[1] UK premiums were flat (with underlying Personal premiums down 3% and underlying Commercial premiums up 2%).

Household reductions mainly reflect our decision to exit certain unprofitable schemes. Personal Motor premiums reflect our exit of Broker business; excluding this premiums were up 10% driven by strong growth in Telematics. Pet premiums were flat despite competitive market conditions.

In Commercial, Property was down 3% due to a disciplined underwriting approach in Regions and Delegated Business, with Motor up 13% due to increased new business in SME, higher volumes in Motability and rate increases of 5% across the portfolio. Marine premiums were driven by the transfer in of the Scandinavian Marine business (£16m).

The underwriting profit was £76m (H1 2015: £77m) with a combined ratio of 94.4% (H1 2015: 94.4%). Underlying profitability was strong with the attritional loss ratio 2.2 points better at 46.5%.

Household and Property were impacted by the flash floods in the UK and Europe in June (£35m). The overall UK weather ratio was therefore elevated at 4.3% (c.0.7 points worse than long term averages).

Commercial profitability was particularly good with an underwriting profit of £62m and combined ratio of 92.2%, with a return to profitability in Liability and positive prior year development in Marine.

The prior year result was a profit of £35m (H1 2015: £18m), helped by £14m of positive development from the December 2015 storm events. Excluding this, the prior year result was broadly flat.

Total written controllable expenses were down 2% year-on-year (comprising 4% cost reduction, partly offset by 2% inflation).

UK – Outlook

We expect underlying premium trends to continue into the second half of 2016, with a continued focus on underwriting discipline.

Our focus continues to be on the delivery of our transformation plans, including further underwriting improvements and cost reduction.

[1] *Underlying or alternative performance measure, refer to pgs 27-28 for further explanation.*

REGIONAL REVIEW – IRELAND

Management basis

	Net written premiums		**Change**	**Underwriting result**	
	H1 2016 £m	H1 2015 £m	**Constant FX (%)**	**H1 2016 £m**	H1 2015 £m
Personal	90	78	8	-	(9)
Commercial	61	52	15	(1)	(7)
Total Ireland	**151**	**130**	**11**	**(1)**	**(16)**
Investment result				4	5
Ireland operating result				**3**	**(11)**

Operating Ratios (%)	**Claims**		**Commission**		**Op Expenses**		**Combined**	
	H1'16	H1'15	**H1'16**	H1'15	**H1'16**	H1'15	**H1'16**	H1'15
Personal							99.7	110.1
Commercial							102.3	114.9
Total Ireland	**76.8**	**85.3**	**11.4**	**12.6**	**12.5**	**13.9**	**100.7**	**111.8**
Of which:			***5yr ave***					
Weather loss ratio	*-*	*-*	*4.3*					
Large loss ratio	*4.8*	*2.1*	*3.8*					
Current year attritional loss ratio	*65.3*	*81.5*						
Prior year effect on loss ratio	*6.7*	*1.7*						

YTD rate increases[1] (%)	**At June 2016**	At March 2016	At Dec 2015	At Sept 2015
Personal Household	**14**	14	1	1
Personal Motor	**35**	37	19	19
Commercial Property	**2**	1	1	2
Commercial Liability	**22**	21	13	12
Commercial Motor	**25**	18	14	15

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

IRELAND

In the first half, our transformation and simplification agenda in Ireland has seen the opening of a new operations centre, technology upgrades, further progress on cost reduction, and the exits of non-performing portfolios.

We also reviewed the strength of our customer orientation during the first half, in order to develop plans to enhance our customer franchise. The strategy will centre around simple products and processes which are easy for our customers to navigate, together with digital and operational excellence. Customer retention rates held up well in the first half, at around 75% overall, notwithstanding the need to continue to prioritise rate.

First half net written premiums were up 11% year-on-year at constant exchange, with rate increases of 18% and volume reductions of 7%. Premiums were up strongly in both Personal and Commercial lines driven by the strong rate increases.

The underwriting loss was £1m (H1 2015: £16m loss) with a combined ratio of 100.7% (H1 2015: 111.8%), and included a current year profit £9m and a prior year loss of £10m.

Importantly, the business delivered a current year combined ratio of 93.8% with the attritional loss ratio 16.2 points better at 65.3%. The business also returned to operating profit in the first half.

Total written controllable expenses were down 12% year-on-year (comprising 14% cost reduction, partly offset by 2% inflation).

Ireland - Outlook

We expect underlying premium trends to continue into the second half of 2016. The challenging market environment, in particular for claims inflation, demands that securing adequate rate remains a key focus area for the business. The delivery of our ongoing transformation plans is also a priority, including those relating to underwriting and pricing excellence, and cost reduction.

DISCONTINUED & NON-CORE OPERATIONS

	Net written premiums		Underwriting result	
	H1 2016	H1 2015	**H1 2016**	H1 2015
	£m	£m	**£m**	£m
Latin America[1]	125	333	-	(2)
Middle East[2]	93	105	7	1
UK Legacy[2]	-	2	(5)	(14)
Other[1, 3]	-	111	-	8
Total Discontinued & Non-Core	**218**	**551**	**2**	**(7)**

[1] *Discontinued.*
[2] *Non-core.*
[3] *Includes Hong Kong, Singapore, China, India, Italy, UK Engineering, and Russia.*

Disposal programme

In 2014 we commenced a major disposal programme with the intention of focusing RSA on its strongest businesses. Significant progress has been made to date, as follows:

Completed disposals:

- **Baltics** (Lithuania, Latvia, Estonia): announced 17 April 2014, completed 30 June 2014 Latvia, 31 October 2014 Lithuania and Estonia. Total proceeds: £215m. Gain on sale: £124m.
- **Poland**: announced 17 April 2014, completed 15 September 2014. Total proceeds: £74m. Gain on sale: £29m.
- **Noraxis**: announced 19 May 2014, completed 2 July 2014. Total proceeds: £220m. Gain on sale: £164m.
- **Thailand associate**: announced and completed 19 December 2014. Total proceeds: £37m. Gain on sale: £21m.
- **Hong Kong & Singapore**: announced 21 August 2014, completed 31 March 2015. Total proceeds: £123m. Gain on sale: £103m.
- **China**: announced 3 July 2014, completed 14 May 2015. Total proceeds: £69m. Gain on sale: £28m.
- **India associate**: announced 18 February 2015, completed 29 July 2015. Total proceeds: £46m. Gain on sale: £21m.
- **Italy:** announced 17 October 2014, completed 31 December 2015. Total proceeds: £18m. Gain on sale: £29m.
- **UK Engineering Inspection:** Completed 1 November 2015. Gain on sale: £2m.
- **Russia:** announced 9 December 2015, completed 29 January 2016. Total proceeds: £5m. Tangible gain on sale: £1m.
- **Latin America:** announced 8 September 2015, completed during H1 2016. Total proceeds: £432m. Tangible gain on sale: £139m.

Remaining non-core operations (which will not necessarily be disposed):

- Middle East
- UK Legacy

UK Legacy

Our UK Legacy portfolio comprises exposure to asbestos and other long term liabilities arising from Employers' and Public Liability policies written over the past 50 years. The UK Legacy underwriting result for H1 2016 was a loss of £5m (H1 2015: £14m loss) primarily reflecting operating expenses incurred.

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 47-49 of the condensed consolidated financial statements presents a reconciliation of the Management basis to Statutory income statement.

Underlying Core Group premiums

Underlying growth rates exclude Group Re, and have been calculated by adjusting Scandinavian H1 2015 premiums downwards by £26m for the non-repeat of two large multi-year deals; UK H1 2015 premiums downwards by £27m for the exit of Personal Broker Motor; and reversing the transfer of Marine from Scandinavia to the UK in H1 2016 (£16m).

Combined operating ratio

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

COR = loss ratio + commission ratio + expense ratio

Where:

Loss ratio = net incurred claims / net earned premiums

Commission ratio = commissions / net earned premiums

Expense ratio = operating expenses / net earned premiums

Underlying profit before tax

Underlying profit before tax is calculated as operating profit less interest costs.

Underlying Core Group 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).

Net asset value and tangible net asset value per share

Net asset value per share data at 30 June 2016 was based on total shareholders' funds of £4,136m, adjusted by £125m for preference shares. Tangible net asset value per share was based on a tangible book value of £3,324m (equal to shareholders' funds of £4,136m, less goodwill & intangible assets of £687m, less £125m preference share capital).

Earnings per share

The earnings per share (EPS) is calculated using the result attributable to the ordinary shareholders of the Parent Company and the weighted average number of shares in issue during the period. On a basic and diluted basis these were 1,017,522k and 1,021,501k respectively (net of RSA owned shares). The number of shares in issue at 30 June 2016 was 1,019,108k (net of RSA owned shares).

Headline EPS uses profit attributable to ordinary shareholders (profit after tax less non-controlling interests and preference share dividends). Underlying EPS uses an underlying profit measure calculated as operating profit less interest costs taxed at an underlying tax rate of 26% for H1 2016, less non-controlling interests and preference share dividends.

Controllable costs

Total controllable costs are stated on a 'written' basis, and include underwriting operating expenses, claims expenses, investment expenses, central expenses, and Solvency II costs.

Current year underwriting result

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

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 H1 Group underwriting profit and combined ratio considers the H1 periods for 2006-2016. 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.

Record H1 Group current year underwriting profit considers stated current year underwriting profits for 2006-16.

Return on equity and tangible equity

		H1 2016 £m	H1 2015 £m
	Profit after tax	**91**	**215**
	Less: non-controlling interest	(6)	(3)
	Less: preference dividend	(5)	(5)
A	**Profit attributable to ordinary shareholders**	**80**	**207**
	Operating profit before tax	**312**	**259**
	Less: interest costs	(54)	(54)
	Underlying profit before tax	**258**	**205**
	Less: tax[1]	(67)	(57)
	Less: non-controlling interest	(6)	(3)
	Less: preference dividend	(5)	(5)
B	**Underlying profit after tax attributable to ordinary shareholders**	**180**	**140**
	Opening shareholders' funds	**3,642**	**3,825**
	Less: preference share capital	(125)	(125)
C	**Opening ordinary shareholders' funds**	**3,517**	**3,700**
	Less: goodwill & intangibles	(679)	(800)
D	**Opening tangible ordinary shareholders' funds**	**2,838**	**2,900**
	Return on equity (annualised)		
(2xA)/C	Reported	4.6%	11.2%
(2xB)/C	Underlying	10.3%	7.6%
	Return on tangible equity (annualised)		
(2xA)/D	Reported	5.7%	14.3%
(2xB)/D	Underlying	12.8%	9.7%

[1] *Using underlying assumed tax rate of 26% in H1 2016 and 28% in H1 2015*

We expect the underlying assumed tax rate to continue to fall next year to a rate broadly in line with the statutory tax rates in our Core territories.

CAPITAL

Solvency II approach

- Internal Model approval received on 5 December 2015.
- Fully consolidated Internal Model tailored to RSA's risk profile (benefiting from having been part of the PRA's ICA regime for the past 11 years).
- The SCR (Solvency Capital Requirement) represents the Value-at-Risk of basic own funds subject to a confidence level of 99.5 % over a one-year period.
- Covers existing business and all new business expected to be written over the next 12 months.
- No transitional measures utilised, except for grandfathering of debt.

Target operating range

- We maintain a measured approach to capital management, targeting a single 'A' capital rating. This involves considering a range of indicators relating to capital, to operating results, and to qualitative factors.
- RSA is a diversified, multi-channel, multi-product general insurer and its business mix reduces exposure to significant volatility.
- However, the UK pension scheme provides a degree of IAS 19 volatility under Solvency II for RSA.
- As Solvency II beds in across the industry, we will assess target coverage ratios. But based on current knowledge, we consider a target operating range of 130-160% to be appropriate for the Group's risk profile.
- Our previous guidance with respect to tangible net assets : premium ratio is superseded by Solvency II but will continue to be a comparative tool we analyse.

Reconciliation of IFRS total capital to Eligible Own Funds

	30 June 2016 £bn
Shareholders' funds (incl. preference shares)	4.1
Loan capital	1.3
Non-controlling interests	0.1
Total IFRS capital	**5.5**
Less: goodwill & intangibles	(0.7)
Adjust technical provisions to SII basis	(0.9)
Basic Own Funds	**3.9**
Tiering & availability restrictions	(0.8)
Forseeable dividends	(0.1)
Eligible Own Funds	**3.0**

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 2016 to 30 June 2016.

	UK £m	non-UK £m	Group £m
Pension fund surplus/(deficit) at 1 January 2016	**117**	**(53)**	**64**
Actuarial gains/(losses)[1]	5	(27)	(22)
Deficit funding	53	-	53
Other movements[2]	13	(11)	2
Pension fund surplus/(deficit) at 30 June 2016	**188**	**(91)**	**97**

At an aggregate level the pension fund surplus under IAS 19 improved during the first half year from £64m to £97m.

The UK position improved by £71m driven largely by the annual deficit repair contribution (£65m gross of tax). The UK schemes are broadly hedged for interest rate and inflation movements. Other market movements, equities and credit spreads in particular, were broadly flat over the first half.

The non-UK schemes deficit deteriorated by £38m in the first half, mainly driven by market movements, in particular yields and foreign exchange.

[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 2015 (re-presented onto current segmental split)

	Scandinavia £m	Canada £m	UK £m	Ireland £m	Central functions £m	Total 'non-core'[1] £m	**Group H1 2015 £m**
Net Written Premiums	**949**	**637**	**1,282**	**130**	**(106)**	**551**	**3,443**
Net Earned Premiums	782	722	1,378	134	(6)	569	3,579
Net Incurred Claims	(613)	(454)	(832)	(114)	(14)	(329)	(2,356)
Commissions	(27)	(95)	(281)	(17)	(3)	(137)	(560)
Operating expenses	(126)	(117)	(188)	(19)	(2)	(110)	(562)
Underwriting result	**16**	**56**	**77**	**(16)**	**(25)**	**(7)**	**101**
Investment income	50	38	73	5	-	40	206
Investment expenses	(1)	(1)	(4)	-	-	(1)	(7)
Unwind of discount	(10)	(1)	(2)	-	-	(19)	(32)
Investment result	**39**	**36**	**67**	**5**	**-**	**20**	**167**
Central expenses	-	-	-	-	(9)	-	(9)
Operating result	**55**	**92**	**144**	**(11)**	**(34)**	**13**	**259**
Net gains/losses/exchange – tangible							128
– intangible							41
Interest							(54)
Non-operating charges							(17)
Non-recurring charges							(69)
Profit before tax							**288**
Tax							(73)
Profit after tax							**215**
Underlying profit before tax[2]							**205**
Loss ratio (%)	78.3	62.9	60.4	85.3			65.8
Weather loss ratio	*0.6*	*2.7*	*1.1*	*-*			*1.7*
Large loss ratio	*7.0*	*5.8*	*11.6*	*2.1*			*7.7*
Current year attritional loss ratio	*66.5*	*61.2*	*48.7*	*81.5*			*57.1*
Prior year effect on loss ratio	*4.2*	*(6.8)*	*(1.0)*	*1.7*			*(0.7)*
Commission ratio (%)	3.5	13.2	20.3	12.6			15.7
Expense ratio (%)	16.2	16.2	13.7	13.9			15.7
Combined ratio (%)	**98.0**	**92.3**	**94.4**	**111.8**			**97.2**

[1] Total 'non-core' comprises discontinued operations of Italy, Hong Kong, Singapore, China, India, Russia and Latin America; and non-core continuing operations of UK Legacy and the Middle East.

[2] Underlying or alternative performance measure, refer to pgs 27-28 for further explanation.

COMBINED RATIO DETAIL

Core Group

£m unless stated		Current year		Prior year		H1'16 total	Current year	Prior year	H1'15 total
Net Written Premiums	*1*	**3,026**	*7*	**3**	*13*	**3,029**	**2,892**	**-**	**2,892**
Net Earned Premiums	*2*	3,001	*8*	(11)	*14*	2,990	3,016	(6)	3,010
Net Incurred Claims	*3*	(2,028)	*9*	74	*15*	(1,954)	(2,052)	25	(2,027)
Commissions	*4*	(406)	*10*	(4)	*16*	(410)	(429)	6	(423)
Operating expenses	*5*	(451)	*11*	(3)	*17*	(454)	(450)	(2)	(452)
Underwriting result	*6*	**116**	*12*	**56**	*18*	**172**	**85**	**23**	**108**
CY attritional claims	*19*	(1,645)					(1,746)		
Weather claims	*20*	(107)					(45)		
Large losses	*21*	(276)					(261)		
Net incurred claims	*22*	(2,028)					(2,052)		
Loss ratio (%)			*=15 / 14*		*23*	65.3			67.3
Weather loss ratio			*=20 / 2*		*24*	*3.6*			*1.5*
Large loss ratio			*=21 / 2*		*25*	*9.2*			*8.6*
Current year attritional loss ratio			*=19 / 2*		*26*	*54.8*			*57.9*
Prior year effect on loss ratio			*=23 - 24 - 25 - 26*		*27*	*(2.3)*			*(0.7)*
Commission ratio (%)			*=16 / 14*		*28*	13.8			14.1
Expense ratio (%)			*=17 / 14*		*29*	15.2			15.0
Combined ratio (%)			*=23 + 28 + 29*		*30*	**94.3**			**96.4**

Scandinavia

£m unless stated	Current year	Prior year	H1'16 total	Current year	Prior year	H1'15 total
Net Written Premiums	**965**	**-**	**965**	**949**	**-**	**949**
Net Earned Premiums	832	-	832	782	-	782
Net Incurred Claims	(584)	2	(582)	(580)	(33)	(613)
Commissions	(24)	-	(24)	(27)	-	(27)
Operating expenses	(130)	-	(130)	(126)	-	(126)
Underwriting result	**94**	**2**	**96**	**49**	**(33)**	**16**
CY attritional claims	(537)			(521)		
Weather claims	(2)			(4)		
Large losses	(45)			(55)		
Net incurred claims	(584)			(580)		
Loss ratio (%)			70.0			78.3
Weather loss ratio			*0.3*			*0.6*
Large loss ratio			*5.4*			*7.0*
Current year attritional loss ratio			*64.5*			*66.5*
Prior year effect on loss ratio			*(0.2)*			*4.2*
Commission ratio (%)			2.9			3.5
Expense ratio (%)			15.6			16.2
Combined ratio (%)			**88.5**			**98.0**

COMBINED RATIO DETAIL

Canada

£m unless stated	Current year	Prior year	H1'16 total	Current year	Prior year	H1'15 total
Net Written Premiums	**612**	**(3)**	**609**	**637**	**-**	**637**
Net Earned Premiums	685	(3)	682	722	-	722
Net Incurred Claims	(479)	42	(437)	(503)	49	(454)
Commissions	(94)	3	(91)	(98)	3	(95)
Operating expenses	(114)	(3)	(117)	(114)	(3)	(117)
Underwriting result	**(2)**	**39**	**37**	**7**	**49**	**56**
CY attritional claims	(391)			(442)		
Weather claims	(45)			(19)		
Large losses	(43)			(42)		
Net incurred claims	(479)			(503)		
Loss ratio (%)			64.0			62.9
Weather loss ratio			*6.6*			*2.7*
Large loss ratio			*6.3*			*5.8*
Current year attritional loss ratio			*57.1*			*61.2*
Prior year effect on loss ratio			*(6.0)*			*(6.8)*
Commission ratio (%)			13.4			13.2
Expense ratio (%)			17.1			16.2
Combined ratio (%)			**94.5**			**92.3**

Total UK (excluding Legacy)

£m unless stated	Current year	Prior year	H1'16 total	Current year	Prior year	H1'15 total
Net Written Premiums	**1,269**	**6**	**1,275**	**1,283**	**(1)**	**1,282**
Net Earned Premiums	1,348	(1)	1,347	1,377	1	1,378
Net Incurred Claims	(849)	43	(806)	(845)	13	(832)
Commissions	(271)	(7)	(278)	(285)	4	(281)
Operating expenses	(187)	-	(187)	(188)	-	(188)
Underwriting result	**41**	**35**	**76**	**59**	**18**	**77**
CY attritional claims	(627)			(671)		
Weather claims	(58)			(14)		
Large losses	(164)			(160)		
Net incurred claims	(849)			(845)		
Loss ratio (%)			59.8			60.4
Weather loss ratio			*4.3*			*1.1*
Large loss ratio			*12.2*			*11.6*
Current year attritional loss ratio			*46.5*			*48.7*
Prior year effect on loss ratio			*(3.2)*			*(1.0)*
Commission ratio (%)			20.7			20.3
Expense ratio (%)			13.9			13.7
Combined ratio (%)			**94.4**			**94.4**

COMBINED RATIO DETAIL

UK Personal

£m unless stated	Current year	Prior year	H1'16 total	Current year	Prior year	H1'15 total
Net Written Premiums	**496**	**-**	**496**	**536**	**-**	**536**
Net Earned Premiums	553	-	553	582	-	582
Net Incurred Claims	(334)	3	(331)	(341)	13	(328)
Commissions	(119)	-	(119)	(126)	(2)	(128)
Operating expenses	(89)	-	(89)	(90)	-	(90)
Underwriting result	**11**	**3**	**14**	**25**	**11**	**36**
CY attritional claims	(282)			(307)		
Weather claims	(33)			(11)		
Large losses	(19)			(23)		
Net incurred claims	(334)			(341)		
Loss ratio (%)			59.9			56.5
Weather loss ratio			*6.1*			*1.9*
Large loss ratio			*3.5*			*3.9*
Current year attritional loss ratio			*50.8*			*52.9*
Prior year effect on loss ratio			*(0.5)*			*(2.2)*
Commission ratio (%)			21.5			22.0
Expense ratio (%)			16.1			15.3
Combined ratio (%)			**97.5**			**93.8**

UK Commercial

£m unless stated	Current year	Prior year	H1'16 total	Current year	Prior year	H1'15 total
Net Written Premiums	**773**	**6**	**779**	**747**	**(1)**	**746**
Net Earned Premiums	795	(1)	794	795	1	796
Net Incurred Claims	(515)	40	(475)	(504)	-	(504)
Commissions	(152)	(7)	(159)	(159)	6	(153)
Operating expenses	(98)	-	(98)	(98)	-	(98)
Underwriting result	**30**	**32**	**62**	**34**	**7**	**41**
CY attritional claims	(345)			(364)		
Weather claims	(25)			(3)		
Large losses	(145)			(137)		
Net incurred claims	(515)			(504)		
Loss ratio (%)			59.8			63.2
Weather loss ratio			*3.0*			*0.4*
Large loss ratio			*18.2*			*17.3*
Current year attritional loss ratio			*43.6*			*45.6*
Prior year effect on loss ratio			*(5.0)*			*(0.1)*
Commission ratio (%)			20.1			19.1
Expense ratio (%)			12.3			12.5
Combined ratio (%)			**92.2**			**94.8**

REPORTING AND DIVIDEND TIMETABLE

Reporting:

Q3 trading update	3 November 2016

Dividend:

Interim ordinary dividend for the period ended 30 June 2016

Announcement date	4 August 2016
Ex-dividend date	8 September 2016
Record date	9 September 2016
Dividend payment date	14 Oct 2016

2nd Preference Dividend

Announcement date	4 August 2016
Ex-dividend date	11 August 2016
Record date	12 August 2016
Dividend payment date	3 October 2016

Note: the scrip dividend alternative is not being offered for the 2016 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.

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Prior to publication, the information contained within this announcement was deemed to constitute inside information under the Market Abuse Regulations (EU) No 596/2014 ("MAR").

Market soundings, as defined in MAR, were taken in respect of this announcement prior to its release with the result that certain persons became aware of inside information, as permitted by MAR. Those persons that received inside information in a market sounding are no longer in possession of inside information relating to the Company and its securities following this announcement.

Further information

A live webcast of the analyst presentation, including the question and answer session, will be broadcast on the website at 10:30am on 4 August 2016. A webcast and transcript of the call will be available via the company website (www.rsagroup.com).

Important disclaimer

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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CONDENSED CONSOLIDATED INCOME STATEMENT
STATUTORY BASIS
for the 6 month period ended 30 June 2016

	Note	**(Reviewed) 6 months 30 June 2016 £m**	(Reviewed) 6 months 30 June 2015 £m Re-presented[1]
Income			
Gross written premiums		**3,726**	3,712
Less: reinsurance premiums		**(647)**	(705)
Net written premiums	7	**3,079**	3,007
Change in the gross provision for unearned premiums		**(169)**	(254)
Less: change in provision for unearned reinsurance premiums		**174**	375
Change in provision for unearned premiums		**5**	121
Net earned premiums		**3,084**	3,128
Net investment return		**144**	228
Other operating income		**61**	78
Total income		**3,289**	3,434
Expenses			
Gross claims incurred		**(2,420)**	(2,219)
Less: claims recoveries from reinsurers		**408**	106
Net claims		**(2,012)**	(2,113)
Underwriting and policy acquisition costs		**(961)**	(995)
Unwind of discount		**(32)**	(25)
Other operating expenses		**(69)**	(127)
Total expenses		**(3,074)**	(3,260)
Finance costs		**(54)**	(54)
Gains on disposals of businesses		**-**	1
Profit before tax		**161**	121
Income tax expense		**(36)**	(54)
Profit/(loss) after tax from continuing operations		**125**	67
(Loss)/ profit from discontinued operations, net of tax	5a	**(34)**	148
Profit for the period		**91**	215
Attributable to:			
Equity holders of the Parent Company		**85**	212
Non-controlling interests		**6**	3
		91	215
Earnings per share on profit/(loss) attributable to the ordinary shareholders of the Parent Company:			
Basic			
From continuing operations	8	**11.2p**	5.8p
From discontinued operations	8	**(3.3)p**	14.6p
		7.9p	20.4p
Diluted			
From continuing operations	8	**11.1p**	5.8p
From discontinued operations	8	**(3.3)p**	14.5p
		7.8p	20.3p
Ordinary dividend			
Final paid in respect of prior year	9	**7.0p**	2.0p
Interim proposed/paid in respect of current year	9	**5.0p**	3.5p

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

[1] For information about the re-presentation applied to these financial statements, please see note 3.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATUTORY BASIS

for the 6 months period ended 30 June 2016

	Note	(Reviewed) 6 months 30 June 2016 £m	(Reviewed) 6 months 30 June 2015 £m Re-presented[1]
Profit for the period		**91**	215
Items from continuing operations that may be reclassified to the income statement:			
Exchange gains/(losses) net of tax on translation of foreign operations		**273**	(126)
Fair value gains/(losses) on available for sale financial assets net of tax		**215**	(147)
		488	(273)
Items from continuing operations that will not be reclassified to the income statement:			
Pension - remeasurement of net defined benefit liability net of tax		**(22)**	26
		(22)	26
Other comprehensive income/(expense) for the period from continuing operations		**466**	(247)
Other comprehensive income/(expense) for the period from discontinued operations	**5a**	**28**	(61)
Total other comprehensive income/(expense) for the period		**494**	(308)
Total comprehensive income/(expense) for the period from continuing operations		**591**	(180)
Total comprehensive (expense)/income for the period from discontinued operations		**(6)**	87
Total comprehensive income/(expense) for the period		**585**	(93)
Attributable to:			
Equity holders of the Parent Company			
from continuing operations		**572**	(182)
from discontinued operations		**(3)**	88
		569	(94)
Non-controlling interests			
from continuing operations		**19**	2
from discontinued operations		**(3)**	(1)
		16	1
		585	(93)

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

[1] For information about the re-presentation applied to these condensed financial statements, please see note 3.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
STATUTORY BASIS
for the 6 month period ended 30 June 2016

	Note	(Reviewed) Share-holders' equity £m	(Reviewed) Non-controlling interests £m	(Reviewed) Total equity £m
Balance at 1 January 2016		**3,642**	**129**	**3,771**
Total comprehensive income for the period				
Profit for the period		**85**	**6**	**91**
Other comprehensive income for the period		**484**	**10**	**494**
		569	**16**	**585**
Transactions with owners of the Company				
Contributions and distribution				
Dividends	9	**(76)**	**(2)**	**(78)**
Shares issued for cash		**4**	**-**	**4**
Share based payments		**8**	**-**	**8**
Changes in shareholders' interests in subsidiaries		**(11)**	**(5)**	**(16)**
Total transactions with owners of the Company		**(75)**	**(7)**	**(82)**
Balance at 30 June 2016		**4,136**	**138**	**4,274**
Balance at 1 January 2015		3,825	108	3,933
Total comprehensive income for the period				
Profit for the period		212	3	215
Other comprehensive income for the period		(306)	(2)	(308)
		(94)	1	(93)
Transactions with owners of the Company				
Contribution and distribution				
Dividends	9	(25)	(1)	(26)
Shares issued for cash		1	-	1
Share based payments		15	-	15
Changes in shareholders' interests in subsidiaries		-	16	16
Total transactions with owners of the Company		(9)	15	6
Balance at 30 June 2015		3,722	124	3,846

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 2016

	Notes	(Reviewed) 30 June 2016 £m	(Audited) 31 December 2015 £m
Assets			
Goodwill and other intangible assets	10	**687**	616
Property and equipment		**112**	109
Investment property		**337**	365
Investments in associates		**12**	13
Financial assets	11	**12,948**	11,797
Total investments		**13,297**	12,175
Reinsurers' share of insurance contract liabilities		**2,449**	1,988
Insurance and reinsurance debtors		**2,950**	2,653
Deferred tax assets		**164**	163
Current tax assets		**63**	51
Other debtors and other assets		**758**	693
Other assets		**985**	907
Cash and cash equivalents	12	**1,281**	816
		21,761	19,264
Assets held for sale and disposal groups	5b	**10**	1,347
Total assets		**21,771**	20,611
Equity and liabilities			
Equity			
Shareholders' equity	13	**4,136**	3,642
Non-controlling interests		**138**	129
Total equity		**4,274**	3,771
Liabilities			
Loan capital		**1,261**	1,254
Insurance contract liabilities		**13,453**	12,191
Insurance and reinsurance liabilities		**1,118**	945
Borrowings		**-**	11
Deferred tax liabilities		**48**	40
Current tax liabilities		**23**	31
Provisions		**329**	261
Other liabilities		**1,265**	1,017
Provisions and other liabilities		**1,665**	1,349
		17,497	15,750
Liabilities of disposal groups	5b	**-**	1,090
Total liabilities		**17,497**	16,840
Total equity and liabilities		**21,771**	20,611

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

The financial statements were approved on 3 August 2016 by the Board of Directors and are signed on its behalf by:

Scott Egan
Chief Financial Officer

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS
STATUTORY BASIS
for the 6 month period ended 30 June 2016

	Note	(Reviewed) 6 months 30 June 2016 £m	(Reviewed) 6 months 30 June 2015 £m Re-presented[1]
Cashflows from operating activities			
Net profit for the year before tax from continuing operations		**161**	121
Adjustments for non-cash movements in net profit for the period			
Depreciation		**10**	10
Amortisation and impairment of intangible assets		**40**	40
Amortisation of available for sale investments		**35**	32
Fair value gains/(losses) on disposal of financial assets		**26**	(34)
Fair value (losses) on disposal of investment property		**-**	(15)
Impairment charge on available for sale financial assets		**2**	2
Foreign exchange (gain)/loss		**(68)**	17
Other non-cash movements		**(121)**	6
Changes in operating assets/liabilities			
Loss and loss adjustment expenses		**(156)**	(1)
Unearned premiums		**(12)**	(128)
Movement in working capital		**321**	345
Reclassification of investment income and interest paid		**(122)**	(130)
Tax paid		**(63)**	(60)
Dividend income		**15**	14
Interest and other investment income		**159**	166
Dividends received from associates		**1**	-
Pension deficit funding		**(65)**	(65)
Net cashflows from operating activities - continuing operations		**163**	320
Net cashflows from operating activities - discontinued operations		**(9)**	(51)
Cashflows from investing activities			
Proceeds from sales or maturities of:			
Financial assets		**2,085**	1,740
Investment property		**28**	-
Investment in subsidiaries (net of cash disposed of)		**2**	-
Purchase of:			
Investment property		**-**	(1)
Financial assets		**(2,081)**	(1,891)
Investment in subsidiaries (net of cash acquired)		**-**	(20)
Property and equipment		**(18)**	(6)
Intangible assets		**(45)**	(22)
Net cashflows from investing activities - continuing operations		**(29)**	(200)
Net cashflows from investing activities - discontinued operations[2]		**333**	178
Cashflows from financing activities			
Proceeds from issue of share capital		**4**	1
Dividends paid to ordinary shareholders		**(71)**	(20)
Dividends paid to preference shareholders		**(5)**	(5)
Dividends paid to non-controlling interests		**(2)**	(1)
Redemption of long term borrowings		**-**	(299)
Interest paid		**(80)**	(81)
Net cashflows from financing activities - continuing operations		**(154)**	(405)
Net increase/(decrease) in cash and cash equivalents		**304**	(158)
Cash and cash equivalents at beginning of the period		**902**	1,135
Effect of exchange rate changes on cash and cash equivalents		**75**	(46)
Cash and cash equivalents at end of the period	12	**1,281**	931

[1] For information about the re-presentation applied to these condensed financial statements, please see note 3.

[2] Cash proceeds from the disposal of subsidiaries is presented net of £98m (30 June 2015: £19m) of cash balances in the subsidiaries

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 the UK & Ireland, 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 financial commitments for the next twelve months and beyond. The Board's review included consideration of the Group's underwriting plans, projected 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.

These condensed consolidated financial statements have been prepared by applying the accounting policies used in the Annual Report and Accounts 2015 (see note 16).

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 2016, none of which have had a significant impact of the condensed consolidated financial statements.

3. RE-PRESENTATION OF FINANCIAL STATEMENTS

During the second half of 2015, the Group reclassified a number of its businesses as held for sale when it became highly probable that their values would be recovered principally through sale rather than through continuing operations. Each of these sales has completed during the first six months of 2016. As these businesses each represented a separate geographical area of operation, they have been classified as discontinued operations (see note 5).

Accordingly, this has resulted in the re-presentation of the comparatives for the allocation of the profit after tax from continuing operations, the other comprehensive income, the earnings per share ('EPS') and diluted EPS between the amounts from continuing and discontinued operations.

RISK MANAGEMENT

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 2015.

The EU referendum result presents uncertainties to the financial markets and UK economic growth prospects. The risk to RSA is mitigated through non-Sterling profits earned outside of the UK and having separate regulated EU entities.

Details of the remaining principal risks and uncertainties can be found in the Annual Report and Accounts 2015; Risk Management information in Note 6 on pages 116 to 123 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

The Group classified the following operations as discontinued as they have been sold and represented a separate geographical area of operation.

Operation	Date of disposal	Acquirer
Hong Kong	31 March 2015	Allied World Assurance Company
Singapore	31 March 2015	Allied World Assurance Company
Labuan	12 May 2015	Allied World Assurance Company
China	14 May 2015	Swiss Re Corporate Solutions
Indian associate	29 July 2015	Sundaram Finance Ltd
Italy	31 December 2015	ITAS Mutua
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 and 2015 (re-presented subsequent to the reported period to recognise operations reclassified as discontinued) relating to these discontinued operations is set out below.

DISCONTINUED INCOME STATEMENT
for the period ended 30 June 2016

	Note	**6 months 30 June 2016 £m**	6 months 30 June 2015 £m Re-presented[1]
Income			
Gross written premiums		**254**	626
Less: reinsurance premiums		**(86)**	(190)
Net written premiums	**7**	**168**	436
Change in the gross provision for unearned premiums		**38**	25
Less: change in provision for unearned reinsurers premiums		**(19)**	(10)
Change in provision for unearned premiums		**19**	15
Net earned premiums		**187**	451
Net investment return		**16**	30
Total income		**203**	481
Expenses			
Gross claims incurred		**(311)**	(380)
Less: claims recoveries from reinsurers		**215**	137
Net claims		**(96)**	(243)
Underwriting and policy acquisition costs		**(88)**	(201)
Unwind of discount		**(5)**	(7)
Other operating expenses		**(7)**	(3)
Total expenses		**(196)**	(454)
Profit from discontinued operations before tax		**7**	**27**
(Loss)/gain on disposal after tax	**5c**	**(36)**	139
(Loss)/profit before tax		**(29)**	166
Income tax expense		**(5)**	(18)
(Loss)/profit after tax		**(34)**	148

5. DISCONTINUED OPERATIONS AND DISPOSALS (CONTINUED)

DISCONTINUED STATEMENT OF COMPREHENSIVE INCOME
for the period ended 30 June 2016

	(Reviewed) 6 months 30 June 2016 £m	(Reviewed) 6 months 30 June 2015 £m Re-presented[1]
(Loss)/profit for the period from discontinued operations net of tax	**(34)**	148
Items from discontinued operations that may be reclassified to the income statement:		
Exchange losses recycled on disposal of discontinued operations net of tax	**(111)**	(39)
Exchange gains/(losses) net of tax	**135**	(18)
Exchange losses on non-controlling interests net of tax	**-**	(1)
	24	(58)
Fair value losses recycled on disposal of discontinued operations net of tax	**(1)**	-
Fair value gains/(losses) on available for sale financial assets net of tax	**3**	(3)
	2	(3)
Items from discontinued operations that will not be reclassified to the income statement:		
Movement in property revaluation, net of tax	**2**	-
Other comprehensive income/(expense) for the year from discontinued operations	**28**	**(61)**
Total comprehensive (expense)/income for the year from discontinued operations	**(6)**	**87**

[1] For information about the re-presentation applied to these condensed financial statements, please see note 3.

b) Held for sale disposal groups

	30 June 2016		31 December 2015		
	UK[1]	**Total[1]**	Latin America[2]	Russia[2]	Total[2]
	£m	**£m**	£m	£m	£m
Assets classified as held for sale:					
Goodwill and intangibles	**-**	**-**	63	-	63
Property and equipment	**10**	**10**	21	-	21
Investments	**-**	**-**	380	-	380
Reinsurers' share of insurance contract liabilities	**-**	**-**	237	-	237
Insurance and reinsurance debtors	**-**	**-**	468	1	469
Other debtors and other assets	**-**	**-**	77	3	80
Cash and cash equivalents	**-**	**-**	77	20	97
Total assets of disposal groups	**10**	**10**	1,323	24	1,347
Liabilities directly associated with assets classified as held for sale:					
Insurance contract liabilities	**-**	**-**	699	12	711
Insurance and reinsurance liabilities	**-**	**-**	175	-	175
Provisions and other liabilities	**-**	**-**	200	4	204
Liabilities of disposal groups	**-**	**-**	1,074	16	1,090
Total net assets of disposal groups	**10**	**10**	249	8	257

[1]Prior to 30 June 2016, the UK acquired a £10m non-current asset from IBM as part of the transfer of infrastructure services to Wipro who in turn acquired the asset from RSA two weeks later on 9 July. These non-current assets have been classified as HFS as they meet the IFRS 5 requirement that non-current assets acquired exclusively with a view to their subsequent disposal should be reclassified as HFS.

[2]The sale of the Latin American and Russian businesses completed during the first half of 2016 (see note 5a).

5. DISCONTINUED OPERATIONS AND DISPOSALS (CONTINUED)

c) Discontinued operations disposed of during the period

	6 months ended 30 June 2016			6 months ended 30 June 2015		
	Latin America £m	**Russia £m**	**Total £m**	Hong Kong, Singapore and Labuan £m	China £m	Total £m
Consideration received	**432**	**5**	**437**	128	68	196
Less: transaction costs	**(20)**	**(1)**	**(21)**	(10)	(2)	(12)
Net proceeds from sales	**412**	**4**	**416**	118	66	184
Less: Carrying value of net assets disposed of[1]	**(321)**	**(3)**	**(324)**	(34)	(48)	(82)
Gains on sale before recycling of items from other comprehensive income	**91**	**1**	**92**	84	18	102
Recycle of items from other comprehensive income on disposals:						
- Foreign currency translation reserve	**(100)**	**(11)**	**(111)**	28	10	38
- Unrealised loss on available for sale investments	**(1)**	**-**	**(1)**	-	-	-
(Loss)/profits on sales of discontinued operations before tax	**(10)**	**(10)**	**(20)**	112	28	140
Tax on disposal	**(16)**	**-**	**(16)**	-	(1)	(1)
(Loss)/profits on sales of discontinued operations after tax	**(26)**	**(10)**	**(36)**	112	27	139

[1]includes £98m (30 June 2015: £19m) of cash balances in the disposed businesses.

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 2016, the reorganisation costs of £70m included £15m in respect of redundancy and £55m in respect of other restructuring activities. The Group continues to expect 2016 to be the last major year of restructuring charges.

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

7. OPERATING SEGMENTS

The Group's operating segments are split between core and non-core businesses which is consistent with how the Group is managed.

These operating segments are based on geography and each is engaged in providing personal and commercial general insurance services. Central Functions is a separate operating segment and includes the Group's internal reinsurance function and Group Corporate Centre.

Core businesses

The Group's core businesses are Scandinavia, Canada, and UK & Ireland. These represent three separate operating segments, and the major geographical areas in which the Group continues to operate through established businesses in mature markets. 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.

Amounts attributable to Central Functions are also included within the core business results.

Non-core businesses

The Group's non-core businesses comprise the Group's UK legacy business and Middle East operation.

The results of the businesses in Latin America and Russia previously presented within core and non-core businesses respectively at 30 June 2015 have been re-presented as discontinued businesses in the comparative information (see note 5 for details).

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.

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

Impact of change in the discount rate

In 2016, there has been a reduction in the discount rate from 1.75% to 1.50% on certain classes of long tail insurance liabilities in Scandinavia. The impact is £6m presented as an economic assumption change on a management basis outside of the operating result. On an IFRS basis, the change in economic assumption is included within the unwind of discount heading on the Condensed Consolidated Income Statement.

7. OPERATING SEGMENTS (CONTINUED)

Segment revenue and results

Period ended 30 June 2016

	Core								
			UK & Ireland						
	Scandinavia	Canada	UK (excl. Legacy)	Ireland	Central Functions	Non-core	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	1,275	151	29	50	3,079	168	3,247
Underwriting result	96	37	76	(1)	(36)	(1)	171	3	174
Investment result	35	32	68	4	-	2	141	9	150
Central costs and other activities	-	-	-	-	(12)	-	(12)	-	(12)
Operating result (management basis)	131	69	144	3	(48)	1	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)
Profits before tax							161	(13)	148
Tax on operations							(36)	(5)	(41)
Tax on disposals of discontinued operations							-	(16)	(16)
Profits after tax							125	(34)	91
Combined operating ratio (%)	88.5%	94.5%	94.4%	100.7%					94.7%

7. OPERATING SEGMENTS (CONTINUED)

Segment revenue and results

Period ended 30 June 2015 – Re-presented

	Core								
			UK & Ireland						
	Scandinavia	Canada	UK (excl. Legacy)	Ireland	Central Functions	Non-core	Continuing operations per income statement	Discontinued operations (note 5)	Total Group
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net written premiums	949	637	1,282	130	(106)	115	3,007	436	3,443
Underwriting result	16	56	77	(16)	(25)	(14)	94	7	101
Investment result	39	36	67	5	-	1	148	19	167
Central costs and other activities	-	-	-	-	(9)	1	(8)	(1)	(9)
Operating result (management basis)	55	92	144	(11)	(34)	(12)	234	25	259
Realised gains							21	3	24
Unrealised gains, impairments and foreign exchange							2	2	4
Interest costs							(54)	-	(54)
Amortisation of intangible assets							(13)	(1)	(14)
Pension net interest and administration costs							(3)	-	(3)
Solvency II costs							(14)	-	(14)
Reorganisation costs							(53)	(2)	(55)
Gains on disposal of businesses							1	140	141
Profits before tax							121	167	288
Tax on operations							(54)	(18)	(72)
Tax on disposals of discontinued operations								(1)	(1)
Profits after tax							67	148	215
Combined operating ratio (%)	98.0%	92.3%	94.4%	111.8%					97.2%

8. EARNINGS PER SHARE

The earnings per ordinary share are calculated by reference to the profit/(loss) attributable to the ordinary shareholders and the weighted average number of shares in issue during the period. On a basic and diluted basis these were 1,017,521,731 and 1,021,500,912 respectively (excluding those held in Employee Stock Ownership Plan (ESOP) and Share Incentive Plan (SIP) trusts). The number of shares in issue at 30 June 2016 was 1,018,533,324 (excluding those held in ESOP and SIP trusts).

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 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 share trusts and held as own shares.

9. DISTRIBUTIONS PAID AND DECLARED

	30 June 2016	30 June 2015	**30 June 2016**	30 June 2015
	p	p	**£m**	£m
Ordinary dividend:				
Final paid in respect of prior year	**7.0**	2.0	**71**	20
Preference dividend			**5**	5
			76	25

Subsequent to 30 June 2016, the directors declared an interim dividend of 5.0p (30 June 2015: 3.5p) per ordinary share amounting to a total of **£51m** (2015: £36m). The proposed dividend will be paid on 14 October 2016 and accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2016.

NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

10. GOODWILL AND OTHER INTANGIBLE ASSETS

	30 June 2016	31 December 2015
	£m	£m
Goodwill	363	363
Intangible assets arising from acquired claims provisions	2	1
Externally acquired software	17	22
Internally generated software	228	204
Other	77	89
Total goodwill and other intangible assets	**687**	**679**
Less: Assets classified as held for sale	**-**	**63**
Carrying amount of goodwill net of held for sale	**687**	**616**

In the table above, other includes customer lists, renewal rights and acquired brands.

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

	30 June 2016	30 June 2015
	£m	£m
Other intangible asset write-offs	1	-
	1	-

The software impairment charge of £1m during the first half of 2016 was recognised within underwriting and policy acquisition costs.

11. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS

Financial assets

	30 June 2016	31 December 2015
	£m	£m
Equity securities	691	585
Debt securities	12,146	11,488
Financial assets measured at fair value	12,837	12,073
Loans and receivables	111	100
Total financial assets	12,948	12,173
Less: Assets classified as held for sale		
Debt securities	-	376
Total financial assets net of held for sale	12,948	11,797

11. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS (CONTINUED)

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

	Fair value hierarchy 30 June 2016				
	Level 1	**Level 2**	**Level 3**	**Less: Assets of operations classified as held for sale**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Available for sale financial assets:					
Equity securities	**306**	**-**	**355**	**-**	**661**
Debt securities	**4,619**	**7,258**	**252**	**-**	**12,129**
Financial assets at fair value through the income statement:					
Equity securities	**-**	**-**	**30**	**-**	**30**
Debt securities	**-**	**-**	**17**	**-**	**17**
	4,925	**7,258**	**654**	**-**	**12,837**
Derivative assets:					
At fair value through the income statement	**-**	**54**	**-**	**-**	**54**
Total assets measured at fair value	**4,925**	**7,312**	**654**	**-**	**12,891**
Derivative liabilities:					
At fair value through the income statement	**-**	**80**	**-**	**-**	**80**
Designated as hedging instruments	**-**	**183**	**-**	**-**	**183**
Total liabilities measured at fair value	**-**	**263**	**-**	**-**	**263**
Loan capital	**-**	**1,353**	**9**	**-**	**1,362**
Total value of liabilities not measured at fair	**-**	**1,353**	**9**	**-**	**1,362**

During the first half of 2016, the Group re-evaluated the basis of valuation of certain investments. As a consequence, the Group transferred £1,053m of debt securities from a classification of Level 1 to a classification of Level 2.

11. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS (CONTINUED)

	Fair value hierarchy 31 December 2015				
	Level 1	Level 2	Level 3	Less: Assets of operations classified as held for sale	Total
	£m	£m	£m	£m	£m
Available for sale financial assets:					
Equity securities	278	-	269	-	547
Debt securities	6,988	4,331	154	376	11,097
Financial assets at fair value through the income statement:					
Equity securities	-	-	38	-	38
Debt securities	-	-	15	-	15
	7,266	4,331	476	376	11,697
Derivative assets:					
At fair value through the income statement	-	31	-	-	31
Designated as hedging instruments	-	7	-	-	7
Total assets measured at fair value	7,266	4,369	476	376	11,735
Derivative liabilities:					
At fair value through the income statement	-	42	-	-	42
Designated as hedging instruments	-	47	-	-	47
Total liabilities measured at fair value	-	89	-	-	89
Loan capital	-	1,361	8	-	1,369
Fair value of liabilities not measured at fair value	-	1,361	8	-	1,369

During 2015, the Group re-evaluated the basis of valuation of certain investments. As a consequence during 2015 the Group transferred £3,369m 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 its market value at the reporting date.

Cash and cash equivalents, loans and receivables

For cash, loans and receivables, commercial paper, other assets, liabilities and accruals, their carrying amounts are considered to be as approximate fair values.

Derivative financial instruments

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

Loan capital

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

The fair value measurement of the subordinated guaranteed US$ bonds is 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.

11. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS (CONTINUED)

- 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. Where prices are available for a financial instrument but these instruments are not traded on an active market, the valuation is classified as a Level 2 valuation.

Quoted prices are not always available, or the asset may not be traded very often or not at all on a market. In these instances, the use of the following observable data is used to estimate the fair value of Level 2 assets and liabilities.

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in markets that are not active.
- Inputs other than quoted prices that are observable for the asset or liability, for example
    - Interest rates and yield curves observable at commonly quoted intervals;
    - implied volatilities;
    - credit spreads.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means ('market-corroborated inputs').

In limited circumstances, the Group uses 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 considered Level 3 valuations.

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

	Available for sale investments		Investments at fair value through the income statement		
	Equity securities	Debt securities	Equity securities	Debt securities	Total
	£m	£m	£m	£m	£m
Level 3 financial assets at 1 January 2015	129	2	43	18	192
Total (losses) recognised in:					
Income statement	-	-	(7)	(1)	(8)
Other comprehensive income	(4)	3	-	-	(1)
Purchases	152	149	7	14	322
Disposals	(4)	-	(5)	(17)	(26)
Exchange adjustment	(4)	-	-	1	(3)
Level 3 financial assets at 1 January 2016	**269**	**154**	**38**	**15**	**476**
Total gains/(losses) recognised in:					
Income statement	**-**	**-**	**(1)**	**-**	**(1)**
Other comprehensive income	**9**	**(4)**	**-**	**-**	**5**
Purchases	**62**	**95**	**3**	**-**	**160**
Disposals	**(1)**	**-**	**(10)**	**-**	**(11)**
Exchange adjustment	**16**	**7**	**-**	**2**	**25**
Level 3 financial assets at 30 June 2016	**355**	**252**	**30**	**17**	**654**

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 2016 is £627m (31 December 2015: £404m). 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 2016 of £25m (31 December 2015: £19m).

12. CASH AND CASH EQUIVALENTS

	30 June 2016	30 June 2015	31 December 2015
	£m	£m	£m
Cash and cash equivalents and bank overdrafts (as reported within the Condensed Consolidated Statement of Cashflows)	**1,281**	931	902
Add: Bank overdrafts reported in Borrowings	**-**	-	11
Total cash and cash equivalents	**1,281**	931	913
Less: cash and cash equivalents reported in assets held for sale	**-**	50	97
Total cash and cash equivalents (as reported in the Condensed Consolidated Statement of Financial Position)	**1,281**	881	816

13. SHARE CAPITAL

The issued share capital at 30 June 2016 consists of 1,019,108,046 ordinary shares of £1.00 each and 125,000,000 preference shares of £1.00 each (31 December 2015: 1,017,059,842 ordinary shares of £1.00 each and 125,000,000 preference shares of £1 each).

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

14. 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 2016 to 30 June 2016.

	UK	**Other**	**Group**
	£m	**£m**	**£m**
Pension fund at 1 January 2016	**117**	**(53)**	**64**
Re-measurements[1]	**5**	**(27)**	**(22)**
Deficit funding	**53**	**-**	**53**
Other movements[2]	**13**	**(11)**	**2**
Pension fund at 30 June 2016	**188**	**(91)**	**97**

	UK	Other	Group
	£m	£m	£m
Pension fund at 1 January 2015	33	(105)	(72)
Re-measurements[1]	26	39	65
Deficit funding	52	-	52
Other movements[2]	6	13	19
Pension fund at 31 December 2015	117	(53)	64

[1]Re-measurements 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 during the first half of 2016 from a surplus of £64m to a surplus of £97m.

The UK pension position has improved by £71m during the first half of the year to a surplus of £188m. The movement in the period is driven by gains on scheme assets of £818m, contributions of £73m, experience gains of £26m, changes to actuarial assumptions of £(836)m and service costs of £(10)m.

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

15. RELATED PARTY TRANSACTIONS

During the first half of 2016, 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 16 on page 134 of the Annual Report and Accounts for the year ended 31 December 2015.

16. RESULTS FOR 2015

The financial information relating to the year ended 31 December 2015 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 2015 have been delivered to the Registrar of Companies. The independent auditor's report on the Group accounts for the year ended 31 December 2015 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.

17. EVENTS AFTER THE REPORTING PERIOD

On 7 July 2016, the Group bought back £200m of its holding of 9.375% Lower Tier 2 guaranteed subordinated step-up notes.

APPENDIX A: EXCHANGE RATES

Local currency/£	**6 months 30 June 2016**		6 months 30 June 2015		12 months ended 31 December 2015	
	Average	**Closing**	Average	Closing	Average	Closing
Canadian Dollar	**1.91**	**1.74**	1.88	1.96	1.95	2.05
Danish Krone	**9.57**	**8.98**	10.18	10.53	10.27	10.13
Swedish Krona	**11.95**	**11.38**	12.75	13.01	12.88	12.47
Euro	**1.28**	**1.21**	1.37	1.41	1.38	1.36

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.

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

(a)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

(b)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

3 August 2016

Scott Egan
Chief Financial Officer

3 August 2016

INDEPENDENT REVIEW REPORT TO RSA INSURANCE GROUP PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 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. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Stuart Crisp
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
London, E14 5GL

3 August 2016