

INTERIM MANAGEMENT REPORT

CEO REVIEW

The Group continues to deliver robust results in challenging trading and economic conditions, clearly demonstrating the benefits of our strong and diversified portfolio and our high quality, low risk investment strategy. Net written premiums are up 4% to £3.5bn (down 2% on constant exchange), with management actions and foreign exchange offsetting the impact of the economic downturn. The underwriting result is up by 2% to £183m, reflecting the impact of management actions on rate and expenses offset by increased weather losses in International. The combined operating ratio (COR) is 93.5% (H1 2008: 93.0%).

The investment result is £270m (H1 2008: £311m) and includes investment income of £294m, in line with guidance, and total gains of £28m (H1 2008: £32m). The operating result is £392m and profit before tax of £301m is after £28m of reorganisation costs for the UK expense reduction programme announced in February. Profit after tax is £223m (H1 2008: £292m). The underlying ROE is 12.7% (H1 2008: 17.9%), with the movement on the prior year reflecting higher opening net assets and expected lower investment income.

Business Overview

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

	Net written premiums				Combined operating ratio		
	6 Months 2009	6 Months 2008	Movement as reported	Movement at constant exchange	6 Months 2009	6 Months 2008	Movement
	£m	£m	%	%	%	%	Points
International	1,764	1,628	8	(1)	90.0	89.7	(0.3)
UK	1,339	1,377	(3)	(3)	97.4	96.2	(1.2)
Emerging Markets	373	351	6	(7)	98.1	96.2	(1.9)
Group Re	10	8	25	25	-	-	-
Total Group	3,486	3,364	4	(2)	93.5	93.0	(0.5)

Across the Group, we are continuing to take action on rate and targeting profitable growth to offset the effect of lower economic activity and exposures. We also continue to benefit from our strong and diversified portfolio and net written premiums are up 4%. We are not seeing any systemic impact from the downturn on claims frequency or severity trends. We are tightly managing claims and underwriting and where we identify, or expect, an impact, we have taken action by withdrawing capacity, enforcing existing underwriting standards and tightening underwriting criteria where required. These actions are enabling us to successfully manage through the downturn and continue delivering robust results.

International produced a resilient top line performance, with premiums up by 8% to £1.8bn (down 1% on constant exchange) reflecting continued action on rate, targeted growth and the benefit of new deals offset by the economic downturn. In Scandinavia, premiums are up by 6% to £1.0bn (down 1% on constant exchange), with strong performances in Personal, Danish Marine and Norway. In Canada, premiums have increased by 10% to £0.5bn (in line with 2008 on constant exchange, which included a £13m reinsurance benefit following the acquisition of CNS). Johnson continues to perform strongly, increasing premiums by 17% (6% on constant exchange). In Other Europe, premiums are up by 16% to £0.3bn (1% on constant exchange) with growth in Ireland offset by a withdrawal of capacity in Italy.

The UK remains one of our most competitive markets and premiums were marginally down at £1.3bn, with the impact of current conditions partly mitigated by targeted growth and action on rate. In Personal, premiums were down by 1% to £0.5bn, with lower Household premiums partially offset by good growth from Broker Panels, new Affinity deals and Pet. In Commercial, premiums declined by 4% to £0.8bn, with lower Motor premiums mitigated by strong growth in Specialty lines, with Risk Solutions up 25% and Marine up 12%. We have continued to take action on rate, increasing Personal Motor rates by 5% and Household by 4%, and achieving increases in Commercial of 7% in Liability, 6% in Property and 9% in Motor.

In Emerging Markets, premiums are up by 6% to £0.4bn (down 7% on constant exchange) with management actions and foreign exchange offsetting the impact of the downturn. In Asia and the Middle East, premiums grew by 46% (11% on constant exchange) with double digit growth in Oman and Singapore and the benefit of a large Construction contract win in Hong Kong. In Latin America, premiums are up 4% (down 2% on constant exchange), with growth in Chile, Brazil, Colombia and Uruguay offset by a reduction in Mexico and the move to six month policies in Argentina. In the Baltics, premiums are down by 21% (down 31% on constant exchange) due to the economic downturn, however, we continue to maintain our market leading position.

In June we concluded the purchase of the remaining 50% of Intouch. These businesses in Poland, the Czech Republic and Russia will be combined with the Baltics to create a Central & Eastern European (CEE) management structure. Our associate Indian business continues to perform well with 24% growth to £42m (11% on constant exchange). Emerging Markets remains attractive with good long term potential and we will continue to invest in the region.