Direct Line Group

4 August 2020

DIRECT LINE INSURANCE GROUP PLC

HALF YEAR REPORT 2020

GOOD PROGRESS ON STRATEGIC TRANSFORMATION, RESILIENT FINANCIAL PERFORMANCE

PENNY JAMES, CEO OF DIRECT LINE GROUP, COMMENTED

"I am very proud of what we have achieved so far this year. We have launched initiatives with an estimated investment of £80 to £90 million to support our customers, people and local communities through the uncertainty caused by Covid-19. When the Covid-19 pandemic hit, we prioritised phone lines for existing customers, created new online journeys and offered additional value through various initiatives including mileage refunds and payment deferrals. We did not access Government support and chose to protect all roles and salaries at the Group through to the autumn and our Community Fund is providing £3.5million to help people in communities across the UK.

"Despite the significant disruption caused by Covid-19 we have continued the trading momentum we saw at the end of 2019, growing direct own brands by 2% and improving the quality of our earnings with an improved current-year loss ratio. We have also demonstrated financial resilience in the face of Covid-19 disruption, which has enabled us to declare our 2020 interim dividend as well as a catch-up of our cancelled 2019 final dividend.

"We have seen just how quickly people change their behaviour and I am proud that we've been able to adapt rapidly whilst still making good progress on our strategic transformation. We still have a huge amount to do, both operationally and technically, but even in the midst of a pandemic we have made excellent progress on our technology transformation. Delivering so much change whilst over 9,000 of our people worked from home was an exceptional achievement.

"I would like to thank Mike Biggs, who after eight years stands down as Chairman today, for all of his support, wisdom and for building the dynamic Board that we have today. I would also like to welcome Danuta Gray as our new Chair, who brings with her a wealth of experience and a deep understanding of the Group, and look forward to working with her and the Board to help realise the immense potential of the Group."

Results summary

	H1 2020 £m	H1 2019 £m	Change
In-force policies (thousands)	**14,633**	14,882	(1.7%)
Of which: direct own brands[1,2,3] (thousands)	**7,370**	7,225	2.0%
Gross written premium	**1,580.8**	1,575.1	0.4%
Of which: direct own brands[1,2]	**1,090.3**	1,076.9	1.2%
Operating profit	**264.9**	274.3	(3.4%)
Combined operating ratio[4]	**90.3%**	92.5%	2.2pts
Profit before tax	**236.4**	261.3	(9.5%)
Return on tangible equity annualised[5]	**19.9%**	20.9%	(1.0pt)
Dividend per share – interim (pence)[6]	**7.4**	7.2	2.8%
– special (pence)	**14.4**	–	–
	30 Jun 2020	31 Dec 2019	Change
Solvency capital ratio[7,8]	**192%**	165%	27pts

Financial highlights

- Direct own brand in-force policies grew 2.0% with continued growth across Motor, Green Flag and Commercial direct own brands, with Home broadly stable. Total policies reduced by 1.7% as partnership volumes reduced.
- Gross written premium was broadly steady as strong momentum in Q1, with growth of 4.7%, was largely offset by lower new business shopping in Motor and Rescue in Q2 due to Covid-19.
- Operating expenses before restructuring and one-off costs of £372.0 million were £9.0 million higher than H1 2019 following investment in initiatives to support our customers, people and society through the Covid-19 uncertainty. Despite an increase in levy costs of £3.0 million, underlying operating expenses were broadly stable. The Group reiterates its target of delivering a 20% expense ratio by 2023.
- Across the Group the impact of Covid-19 on operating profit was broadly neutral, as the additional travel and business interruption claims, alongside a reduction in investment asset returns and higher operating expenses, were offset by favourable claims frequencies in Motor and Commercial. The net impacts of Covid-19 on travel and business interruption claims are unchanged from Q1 and estimated at £25 million and £10 million respectively.
- Operating profit of £264.9 million was £9.4 million lower than H1 2019 mainly due to increased weather costs of £30.4 million, partially offset by the change in the Ogden discount rate to minus 0.25% in H1 2019 (H1 2019: £16.9 million). There was continued improvement in current-year profitability, offset by reduced prior year reserve releases.

- Profit before tax of £236.4 million was £24.9 million lower than H1 2019 following the reduction in operating profit alongside £15 million of restructuring and one-off costs as the Group invests £60 million in cost saving initiatives across 2019 and 2020 as outlined at the Capital Markets Day in November 2019.
- Interim ordinary dividend of 7.4 pence per share, an increase of 2.8% over the interim dividend announced at H1 2019, alongside a special interim dividend of 14.4 pence per share reflecting a full catch-up of the cancelled 2019 final dividend.
- Strong capital position with a solvency capital ratio of 192% after dividends.

Strategic and operational highlights

- Strong Churchill new business growth, increased share of new business in the price comparison website ("**PCW**") channel across Motor and Home.
- Darwin now live on four PCWs helping fuel rapid policy growth.
- Further enhancements made and continued progress towards starting the roll-out of Direct Line and Churchill on our new IT platform before the end of 2020, which aims to deliver operational efficiencies, improved customer experience and pricing capability.
- All Privilege Motor new business now sold on the Group's new IT platform with renewals underway.
- Launched a new Green Flag claims system and updated the customer 'Rescue Me' App, enabling an increasing proportion of claims to be serviced digitally.
- Launched a new counter fraud operating system and accelerated roll-out of digital self-service for claims journeys.
- Successfully moved to remote working while continuing to serve and support our customers and deliver our change agenda at pace.
- Achieved our 2020 climate targets and now intend to set Science Based Targets ("**SBT**"). From this year we will become a 100% carbon neutral business by offsetting our emissions whilst working towards reducing our emissions over time and aim to be Task Force for Climate-related Financial Disclosures ("**TCFD**") compliant by the end of this year.
- Launched initiatives with planned investment in the region of £80-90 million to support our customers, people and wider society through the uncertainty caused by Covid-19 with around half of this recognised in H1 2020.

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Notes:

1. Direct own brands include in-force policies for Home and Motor under the Direct Line, Churchill, Darwin and Privilege brands, Rescue policies under the Green Flag brand and Commercial under the Direct Line for Business and Churchill brands.
2. Commercial direct own brands include Direct Line for Business and commercial products sold under the Churchill brand that were previously reported within NIG and other. Prior periods have been re-presented accordingly.
3. In-force policies, including direct own brands, as at 30 June 2019 have been restated to include 52,000 Green Flag policies omitted from previously reported amounts.
4. A reduction in the ratio represents an improvement as a proportion of net earned premium, while an increase in the ratio represents a deterioration. See glossary pages 48 to 50 for definitions.
5. See glossary on pages 48 to 50 for definitions and appendix A – Alternative performance measures on pages 51 to 54 for reconciliation to financial statement line items.
6. The Group's dividend policy includes an expectation that generally one-third of the regular annual dividend will be paid in the third quarter as an interim dividend and two-thirds will be paid as a final dividend in the second quarter of the following year.
7. Estimates based on the Group's Solvency II partial internal model.
8. The solvency capital ratio as reported at 31 December 2019 is after taking into account the then expected 14.4p final dividend and the £150 million share buyback declared on 3 March 2020. The impacts of the cancellation of the dividend (as announced on 8 April 2020) and the suspension of the share buyback programme (as announced on 19 March 2020) would have added 24 percentage points to the ratio as reported to give an adjusted solvency capital ratio of 189%.

Forward-looking statements disclaimer

Certain information contained in this document, including any information as to the Group's strategy, plans or future financial or operating performance, constitutes "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "aims", "ambition", "anticipates", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "over the medium term", "plans", "predicts", "projects", "propositions", "seeks", "should", "strategy", "targets" or "will" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in several places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, among other things: the Group's results of operations, financial condition, prospects, growth, strategies and the industry in which the Group operates. Examples of forward-looking statements include financial targets and guidance which are contained in this document specifically with respect to the return on tangible equity, solvency capital ratio, the Group's combined operating ratio, percentage targets for current-year contribution to operating profit, prior-year reserve releases, cost reduction, reductions in expense and commission ratios, investment income yield, net realised and unrealised gains, capital expenditure and risk appetite range. By their nature, all forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and/or are beyond the Group's control. Forward-looking statements are not guaranteeing future performance. The Group's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this document, for example directly or indirectly as a result of, but not limited to:

- United Kingdom ("UK") domestic and global economic business conditions;
- the direct and indirect impacts and implications of the coronavirus Covid-19 on the economy, nationally and internationally, on the Group, its operations and prospects, and on the Group's customers and their behaviours and expectations;
- the outcome of discussions between the UK and the European Union ("EU") regarding the terms, following Brexit, of any future trading and other relationships between the UK and the EU;
- the terms of future trading and other relationships between the UK and other countries following Brexit;
- market-related risks such as fluctuations in interest rates and exchange rates;
- the policies and actions of regulatory authorities and bodies (including changes related to capital and solvency requirements or the Ogden discount rate or rates or in response to the Covid-19 pandemic and its impact on the economy and customers) and changes to law and/or understandings of law and/or legal interpretation following the decisions and judgements of courts;
- the impact of competition, currency changes, inflation and deflation;
- the timing, impact and other uncertainties of future acquisitions, disposals, partnership arrangements, joint ventures or combinations within relevant industries; and
- the impact of tax and other legislation and other regulation and of regulator expectations, interventions and requirements and of court, arbitration, regulatory or ombudsman decisions and judgements (including in any of the foregoing in connection with Covid-19) in the jurisdictions in which the Group and its affiliates operate.

In addition, even if the Group's actual results of operations, financial condition and the development of the business sector in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

The forward-looking statements contained in this document reflect knowledge and information available as of the date of preparation of this document. The Group and the Directors expressly disclaim any obligations or undertaking to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise, unless required to do so by applicable law or regulation. Nothing in this document constitutes or should be construed as a profit forecast.

Neither the content of Direct Line Group's website nor the content of any other website accessible from hyperlinks on the Group's website is incorporated into, or forms part of, this document.

This announcement contains inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. The person responsible for arranging the release of this announcement on behalf of Direct Line Insurance Group plc is Tim Harris, Chief Financial Officer.

Financial summary

	H1 2020 £m	H1 2019 £m	Change
In-force policies (thousands)	**14,633**	14,882	(1.7%)
Of which: direct own brands (thousands)[1,2]	**7,370**	7,225	2.0%
Gross written premium	**1,580.8**	1,575.1	0.4%
Of which: direct own brands[1]	**1,090.3**	1,076.9	1.2%
Net earned premium	**1,474.4**	1,482.6	(0.6%)
Underwriting profit	**143.6**	110.6	29.8%
Instalment and other operating income	**80.0**	88.0	(9.1%)
Investment return	**41.3**	75.7	(45.4%)
Operating profit	**264.9**	274.3	(3.4%)
Restructuring and one-off costs	**(15.0)**	–	–
Operating profit after restructuring and one-off costs	**249.9**	274.3	(8.9%)
Finance costs	**(13.5)**	(13.0)	(3.8%)
Profit before tax	**236.4**	261.3	(9.5%)
Tax	**(43.8)**	(49.5)	11.5%
Profit after tax	**192.6**	211.8	(9.1%)
Key metrics			
Current-year attritional loss ratio[3,4]	**65.3%**	73.5%	8.2pts
Loss ratio[3,4]	**59.0%**	61.9%	2.9pts
Commission ratio[3,4]	**6.1%**	6.1%	–
Expense ratio[3,4]	**25.2%**	24.5%	(0.7pts)
Combined operating ratio[3,4]	**90.3%**	92.5%	2.2pts
Investment income yield annualised[4]	**2.1%**	2.5%	(0.4pts)
Net investment income yield annualised[4]	**1.8%**	2.1%	(0.3pts)
Investment return yield annualised[4]	**1.4%**	2.5%	(1.1pts)
Basic earnings per share (pence)	**13.6**	14.9	(8.7%)
Diluted earnings per share (pence)	**13.4**	14.7	(8.8%)
Return on tangible equity annualised[4]	**19.9%**	20.9%	(1.0pt)
Return on equity annualised[4]	**13.7%**	16.0%	(2.3pts)
Dividend per share – interim (pence)	**7.4**	7.2	2.8%
– special (pence)	**14.4**	–	–
	30 Jun 2020	31 Dec 2019	Change
Net asset value per share (pence)	**203.7**	193.4	5.3%
Tangible net asset value per share (pence)	**148.9**	142.0	4.9%
Solvency capital ratio[5,6]	**192%**	165%	27pts

Notes:

1. Commercial direct own brands include Direct Line for Business and commercial products sold under the Churchill brand that were previously reported within NIG and other. Prior periods have been re-presented accordingly.
2. In-force policies, including direct own brands, as at 30 June 2019 have been restated to include 52,000 policies omitted from previously reported amounts.
3. A reduction in the ratio represents an improvement as a proportion of net earned premium, while an increase in the ratio represents a deterioration. See glossary on pages 48 to 50 for definitions.
4. See glossary on pages 48 to 50 for definitions and appendix A – Alternative performance measures on pages 51 to 54 for reconciliation to financial statement line items.
5. Estimates based on the Group's Solvency II partial internal model.
6. The solvency capital ratio as reported at 31 December 2019 after taking into account the then expected 14.4p final dividend and the £150 million share buyback declared on 3 March 2020. The impacts of the cancellation of the dividend (as announced on 8 April 2020) and the suspension of the share buyback programme (as announced on 19 March 2020) would have added 24 percentage points to the ratio as reported to give an adjusted solvency capital ratio of 189%.

CEO REVIEW

I am very proud of what we achieved so far this year. We came into 2020 with positive trading momentum from the end of 2019 and have grown our direct own brand policies by 2% compared with H1 2019 despite a period of limited shopping by customers during the Covid-19 lockdown in Q2. We have also improved the quality of our earnings, delivering an improvement in the current year attritional loss ratio before Covid-19 impacts.

Our solvency position is strong, reflecting our financial resilience. We recognise the importance of dividends to our shareholders and are therefore delighted to bring our cancelled 2019 final dividend back in full alongside a 2020 interim dividend.

A key focus for us throughout lockdown has been to support our customers, people and local communities. We have implemented a range of initiatives including mileage refunds and payment deferrals for customers, moving over 9,000 office-based colleagues to remote working and protecting roles through to the autumn and setting up a community fund for local charities.

We have also managed to make good progress on our strategic transformation, continuing major technical deliveries in the remote working environment, whilst also focusing on business transformation as we change the way we operate so we can take advantage of the tools we are building.

Covid-19 response

At the heart of our strategy is the vision to become a force for good and so, a key focus for us during H1 has been on supporting our customers, people and wider society through the Covid-19 uncertainty. As we outlined at Q1, we have implemented a range of initiatives that we estimate will cost in the region of £80-90 million during 2020, with around half of this having been incurred in H1.

Customers

We have offered customers greater flexibility during the last few months, recognising that individual customer circumstances may have changed, particularly for customers in financial difficulty who may have lost their jobs or seen reduced hours. As a result of offering payment deferrals and mileage refunds for motor customers, waiving cancellation fees and reducing cover we have supported over 300,000 customers.

Our Travel team have supported over 10,000 customers with refunds, including those who have seen their travel plans cancelled or curtailed due to Covid-19 and repatriated 800 customers stranded abroad. We have trebled the size of the travel claims department to help customers with their queries.

People

The majority of our people, including frontline colleagues, continue to work from home and we are planning the gradual return of up to 20% of colleagues to our main office sites beginning in the autumn through to the end of the year.

All roles remain protected through to the autumn and we continue to give flexibility and support to colleagues reflecting their personal circumstances.

Our accident repair centres have remained open, with full social distancing throughout, to keep key workers' vehicles on the roads.

Society

We have continued to make a difference in the communities we serve through our £3.5 million Community Fund and by contributing £3.6 million to the ABI's Covid-19 Support Fund.

Since its launch in April, over £2 million from the Group's Community Fund has funded 13 charities supporting vulnerable people, and in addition we have provided 180 small local charities, nominated by our people, with grants of up to £5,000. In total the fund has supported over 100,000 households.

Today, the Group has announced it will allocate the remainder of its Community Fund to support recovery efforts focused on four prominent public policy challenges: social mobility, marginalised groups, food poverty and public health, as well as supporting Business in the Community's 'Build Back Responsibly' campaign.

In recognition of the commitment of all NHS key workers, we have provided free Green Flag breakdown cover and during H1 completed rescues in every part of the UK. We have also provided free home emergencies cover and personal possessions cover together with a fast track claims system.

We supported suppliers through accelerating payments and in Rescue, directly supporting small-to-medium sized enterprise roadside assistance firms.

We have not accessed the Government's furlough or other support schemes.

Business performance

In the half year we delivered £264.9 million of operating profit, a combined operating ratio of 90.3% and an annualised return on tangible equity of 19.9% (H1 2019: operating profit £274.3 million; combined operating ratio 92.5%; return on tangible equity 20.9%).

In-force policies of 14.6 million were 1.7% lower than H1 2019 (14.9 million), with continued growth in direct own brand in-force policies of 2.0% more than offset by lower Travel policies as packaged bank account volumes reduced and lower Motor and Home partner volumes reflecting previously announced partner exits. The growth in direct own brands compared to H1 2019 was driven by Green Flag, Commercial direct and Motor, despite some slowdown in growth in Q2 following Covid-19 disruption when we saw new business levels reduce but retention levels increase.

We achieved strong premium momentum in Q1 2020, growing 4.7% over Q1 2019 due to a positive motor performance, up 6.2%, alongside continued growth in Green Flag of 11.3% and Commercial of 10.2%. Following the impact of Covid-19 in Q2 average premiums reduced in Motor and new business sales in Green Flag slowed, delivering gross written premium for H1 2020 which was broadly in line with H1 2019.

Operating profit of £264.9 million was £9.4 million lower than the prior year due predominantly to higher major weather costs in H1 2020 partially offset by the change in the Ogden discount rate to minus 0.25% in H1 2019 (£16.9 million). The estimated impact of Covid-19 was broadly neutral, as lower claims costs in Motor were offset by higher claims costs in Travel, higher operating expenses following investment in initiatives to protect our customers, people and society, and lower investment return. Underlying profitability continued its progress towards our targeted, more sustainable current year profitability, with a reduction in prior-year reserve releases offset by increased current year operating profitability.

Costs of major weather incidents were £30.4 million in the first half of 2020 compared with benign conditions in H1 2019 (H1 2019: £nil).

Adjusting for normal weather and the Ogden discount rate, the combined operating ratio for H1 2020 was approximately 90.4% compared with 93.5% in H1 2019. This reduction of 3.1 percentage points was largely due to reduced claims frequency in Motor following the Covid-19 restrictions.

Motor performance

In H1 2020, Motor delivered an operating profit of £220.5 million and a combined operating ratio of 81.9% (H1 2019: £153.8 million and 95.1% respectively), these improvements from H1 2019 were largely due to Covid-19 restrictions reducing claims frequency alongside underlying progress on current-year profitability.

Covid-19 restrictions led to a 70% reduction in claims notifications in April, which has increased each month since then but remains below normal levels. Severity was higher than usual due to a number of factors including repair capacity across the market and increased credit hire durations. Considerable uncertainty remains over both the frequency and severity of accidents over the remainder of the year as customer behaviour changes.

Positive progress was made in increasing the quality of profitability, with an estimated 8 percentage point improvement in the underlying current year attritional loss ratio compared to the first half of 2019. This was delivered by underwriting and counter fraud initiatives introduced throughout 2019. We started recognising the benefits from these initiatives in the second half of 2019 meaning the 2020 full year improvement in the underlying current year loss ratio will be lower than in the first half of this year. Prior-year reserve releases continued to reduce as expected.

Motor delivered strong gross written premium growth of 6.2% in Q1 2020 compared to the same period in 2019. The reduction in new car sales and the number of young drivers entering the market following the implementation of lockdown reduced average premiums across Q2. This delivered broadly flat gross written premium across H1 2020 compared to H1 2019.

We continued to price for our view of underlying long-term claims inflation on new business, with some caps placed on renewal price increases in Q2 as the Group focused on delivering strong retention. Overall, risk-adjusted prices increased by 1.8%.

Motor grew in-force policies by 1.2% compared to H1 2019 and in-force policy count was higher than December 2019 driven by strong Churchill and Darwin growth demonstrating progress on our PCW strategy.

Home performance

In H1 2020 Home delivered an operating profit of £35.3 million and a combined operating ratio of 92.4% (2019: £71.1 million and 82.2% respectively). This was a strong result considering the exceptional performance in 2019, the £17.7 million of significant storm events in H1 2020 (H1 2019: £nil) and the reduction in prior-year reserve releases.

Normalised for weather, the Home combined operating ratio was approximately 94.2% compared to 89.3% in 2019, driven by reduced prior-year reserve releases, partially offset by an improved current-year loss ratio following actions taken on escape of water claims.

Home own brand in-force policies were stable at 1.8 million compared to H1 2019 and grew 0.6% across H1 2020 driven by improved competitiveness on PCWs, with Direct Line broadly flat.

This shift towards PCWs drove a reduction in risk mix and average premiums which led to a 2.5% reduction in gross written premium compared to H1 2019. In direct own brands, a 0.3% increase in risk-adjusted prices was more than offset by an improvement of 2.7% in risk mix.

Rescue and other personal lines performance

This division comprises Rescue, including our challenger brand Green Flag, as well as other personal lines products – Pet, Travel, Creditor and our mid-to-high-net-worth business, UK Select.

Rescue operating profit grew by £3.2 million to £24.0 million, compared to H1 2019, and reported a combined operating ratio of 78.1% reflecting a reduction in claims frequency following Covid-19 restrictions.

Other personal lines reported a loss of £40.2 million largely due to £25 million of claims costs in Travel due to the impact of Covid-19. In order to ensure we could support all our customers through the Covid-19 disruption we also trebled the number of our people working on Travel. Overall, Rescue and other personal lines reported a loss of £16.2 million in the first half of 2020 versus a profit of £17.5 million in H1 2019. The combined operating ratio was 111.3%.

Rescue and other personal lines gross written premium was £210.1 million, 3.0% lower than H1 2019 due to the impact of Covid-19 on customer shopping, while in-force policies fell 3.8% over the same period.

In Rescue, Green Flag delivered double digit growth in Q1 2020, growing in-force policies by 12.0% and gross written premium by 11.3% compared to Q1 2019. Following Covid-19 restrictions, Rescue experienced a material reduction in new business volumes due to fewer customers shopping, reducing Green Flag premium growth across H1 to 3.2%.

Since the beginning of July, as lockdown restrictions have started to ease, Green Flag policy sales and claims have returned to more normal levels.

Commercial performance

Within Commercial we have two main businesses, NIG and other and Commercial direct own brands. Commercial direct own brands include Direct Line for Business and commercial products sold under the Churchill brand primarily on PCWs.

Commercial delivered operating profit of £25.3 million in H1 2020 and a combined operating ratio of 94.9% (H1 2019: £31.9 million and 93.8% respectively). The £6.6 million reduction in operating profit was predominantly driven by the £12.7 million of major weather losses in H1 2020 (2019: £nil), partially offset by an improved current-year loss ratio due to pricing improvements. The impact of Covid-19 was broadly neutral with an estimated £10 million excess of usual claims costs in relation to business interruption, offset by reduced claims frequency during April and May.

Commercial gross written premium increased by 5.3% in H1 2020, with strong growth across both Commercial direct own brands and NIG and other. Direct own brands delivered double digit gross written premium growth in Q1 2020 which slowed in Q2 following the disruption of Covid-19. In-force policies increased by 2.7%, a lower rate than gross written premium, reflecting focus on improving technical pricing to support profitability.

Strategic update

Introduction

The Group aims to create a world where insurance is personal, inclusive and a force for good. We aim to do this by helping people carry on with their lives, giving them peace of mind, now and in the future - because that's how we believe we will secure long-term sustainability in the changing world ahead.

Our six strategic objectives set out a clear path for us to realise our potential. The first three aim to ensure that our products are easy to use and available everywhere:

- **Best at direct**: to be the UK's leading direct player because we anticipate our customers' needs and develop services and products they want to buy.
- **Win on PCWs**: to deliver a step change in our pricing and trading capability so that our leading PCW brands can win customers from our competitors.
- **Extend our reach**: to utilise our investments to win more customers through acquisitions and partnerships.

The second three are underlying skills which are designed to help us deliver great value and an excellent customer experience:

- **Technical edge**: to use our data, scale, skill and insight across claims, pricing and underwriting to deliver value to customers.
- **Nimble and cost efficient**: to transform into an agile, cost effective business to drive efficiency and simplicity for us and our customers.
- **Great people**: a home for empowered people who celebrate difference and challenge the status quo to deliver for our customers.

Core strengths that are hard to replicate

As a UK-focused company, we have the ability to be a deep specialist in a market unlike any other in the world, while the range of channels and products gives us real diversification and scale that many of our peers do not have. This lets us pivot as dynamics shift in the market and this flexibility has supported our track record of delivering good returns.

Across the business, we have a number of real strengths. First and foremost, we are a people business, which means we really care and have a passion to serve our customers. Secondly, we have a strong balance sheet with further opportunities to improve its effectiveness. And thirdly, we successfully combine strong brands and rich data because we are a direct player and have leading claims skills supported, for example, by our own accident repair centres. This combination is hard to replicate and we believe this provides a platform for real long-term value.

Investing in technology and new ways of working

While these core strengths persist today, we recognise that to succeed in the future we need to continue to change and we are on an ambitious transformation journey to increase the competitiveness of our business.

Like many data driven consumer markets, ours is digitising fast and our success will be predicated on combining great customer-focused brands with a strong technology foundation. Our journey has three overlapping phases, with each of our different parts of the business moving through these phases at a different pace.

The first has been building the key technology blocks, which is characterised by high investment expenditure. The run costs are being managed alongside careful expenditure on organisational change and on existing systems that are set to be phased out.

That technology is beginning to land and although there is still much to do in this ambitious and complex programme, we are now moving into the second phase: our business transformation. From this phase, we plan to improve our cost position by reducing double run-costs and improving efficiency. We also aim to increase further the accuracy and speed of our pricing and underwriting; improve our competitiveness and responsiveness to change; and enhance our customer experience.

Progress against strategic objectives and 2020 priorities

This period is probably one of the most disruptive we've seen in our lifetime. Overnight, customers changed their behaviour dramatically. We've seen an acceleration in digitalisation as customers quickly shifted online as well as indicating an appetite for more personalisation and flexibility on the products and services they buy.

Whilst there has been a recent acceleration, we knew that behavioural changes were coming and our strategy was built with this in mind. The combination of our technology transformation and our business transformation has enabled us to continue to meet the changing needs of our customers as we can adapt more quickly and continue to innovate in this market.

As a business we quickly adapted to remote working and our technology transformation continued at pace. We have made considerable progress in creating an organisation that is capable of change and rapidly adapting to customer demands, having increased the pace of technology drops during 2019 and into 2020, and we are increasingly confident in our ability to deliver technology change.

Strategic objectives	Why	Progress to date
Best at direct	A direct relationship with our customers provides an opportunity for growth by meeting a broader set of customer needs, and the foundation for future product and service innovation.	– Direct Line: Launched a new 'superhero' creative campaign highlighting the brand's unique propositions – Direct Line: Fractional products under development, including acquisition of Brolly announced – Green Flag: Delivered continued growth and exceptional claims Net Promoter Scores – Direct Line for business: New Van proposition launched on new platform
Win on PCWs	PCWs will continue to be the biggest channel for new business and therefore our primary route for growth opportunities.	– Churchill: Delivered growth in new business market share and Motor passed one and a half million policies milestone – Darwin: Launched on two more PCWs helping fuel rapid growth – Privilege Motor: All new business is now sold through the new platform
Extend our reach	Our new customer platforms make it easier for us to onboard new books of business. We will use this to explore inorganic growth opportunities through partnerships and acquisitions.	– Exploring inorganic growth opportunities as new systems make it easier to onboard new books of business
Technical edge	We aim to create a great experience for our customers and embed a sustainable competitive advantage by leveraging our strengths in repair, data and claims insight and management.	– Motor: Launched a new Counter Fraud operating system – Motor: Introduced new online claims registration for single vehicle accidents – Home: Expanded the online claims system – Green Flag: Launched a new claims system and updated the 'Rescue Me' app, driving greater volumes through this digital channel – Travel: Launched an online claims form for cancellation and curtailment claims
Nimble and cost efficient	We aim to bring our cost base in line with the market to compete more effectively, in particular through PCWs and partnerships. We will introduce new ways of working to better utilise our advantages within each product and channel.	– Agile and organisational change: Completed collective consultation on proposal to move away from functional structures – New ways of working further embedded and supporting faster pace of change in key areas – Site closures announced in Q1
Great people	As disruption in our market increases, we need to become brilliant at innovation and change. We can only do this by empowering and developing the best people.	– High employee engagement score in H1 – Delivered remote training for approximately 1,500 people on a range of transformation projects – Donated over £110,000 to Stand up to Cancer in this year's "Virtual Sprintathon"

H2 2020 priorities

Our 2020 priorities are all aligned to our six strategic objectives and in the second half of 2020 we will focus on continuing the development and roll-out of our technology change while gaining momentum on our business transformation.

Our plans for the second half of 2020 include:

- Moving towards launching Direct Line and Churchill motor new business onto our new platform.
- Embedding an enterprise agile operating model to increase pace and reduce the cost of change.
- Continuing to support our "Force for Good" initiatives, with our current estimate of the cost of this investment being £80-90 million for 2020.
- Getting our cost base on track to meet our 20% 2023 expense ratio target.

We know we have a very special business, but the world doesn't stand still so neither can we. I'm proud of the way our people have adapted to the challenges of remote working and continued to deliver change at pace which gives me great confidence for the future.

To be ahead we need to move quicker than our competitors, particularly given the economic uncertainty and dramatic changes in customer behaviour that Covid-19 has brought. We need to be able to respond quickly and creatively to reach customers in new ways and meet their changing needs - and that's what our business transformation is designed to help us to do.

Supporting our activities and central to the long-term sustainability of the business, we have deeply embedded our fundamental principles:

- Our values sit at the very heart of our everyday behaviours. They were created ground up and are a great representation of our identity.
- Our sustainability pillars bring environmental, social and governance ("**ESG**") factors into the heart of our strategic thinking, whether that's our customers, our people, our society, our planet or the importance of strong governance – they all play central roles in helping deliver our business in a sustainable way.

External factors

Regulation

We have continued to operate within a highly dynamic and evolving regulatory landscape, influenced by views and initiatives from several parties, including the UK Government, the FCA and the PRA. During the first half of 2020, both the FCA and the PRA have been focused on the impact of Covid-19.

At the start of the pandemic, the FCA set out its expectation for firms to consider the needs of customers and show flexibility as customer behaviour changes. The FCA has published guidance for firms to ensure that products continue to deliver value to customers, as well as measures that firms should put in place to help customers experiencing financial difficulty as a result of the coronavirus. The FCA also stated it would delay the majority of its work due to the pandemic but would prioritise where there is greater consumer harm. The outcome from the FCA Market Study On General Insurance Pricing Practices is still outstanding whilst the output of its continued work regarding vulnerable customers is expected to be published in winter 2020.

Prior to Covid-19, the PRA continued to focus generally on the pillars of its financial risk framework. During the pandemic, the PRA has focused on the potential financial impacts of Covid-19 and has performed industry-wide resilience testing. Recent regulatory interaction is returning to normal levels, with the PRA publishing its thematic feedback on firms' implementation plans for managing climate-related financial risks.

Covid-19

We are closely monitoring developments in connection with the spread of Covid-19, including guidance and directions provided by HM Government and public health advisers. Like all businesses, we are subject to the consequences of disruption to financial markets, supply chains, the business's general operations and its customers' behaviour, which over time could impact the performance of the Group. The further implications of the Covid-19 pandemic are uncertain and we monitor the situation on an ongoing basis. Further details on the potential risks and uncertainties associated with Covid-19 can be found on page 24.

Planet

Fundamentally we believe that embracing sustainable practices leads to a better corporate culture, more reliable products and greater long-term sustainability. We have long been conscious of our impact on the planet and we are on track to meet our 2020 targets which we set in 2017:

- 57% reduction in carbon emissions (Scope 1[1] and 2[1]) by the end of 2020 against a 2013 baseline. We are currently at a 67% reduction; already exceeding our target for the end of the year.
- 30% reduction in energy consumption by the end of 2020 against a 2013 baseline: we have already hit this target.

We now want to go further to protect our business from the impact of climate change and give back more to the planet than we take out. To help the business achieve this we are committing to set Science Based Targets[1], including our supply chain, that is at a minimum consistent with holding the global temperature rise to 2°C above pre-industrial levels. From this year, we will become a 100% carbon neutral business by offsetting our emissions by investing in high impact projects for the next three years whilst working towards reducing our emissions[2] over time. Finally, we aim to be TCFD compliant by the end of this year.

Notes:

1. See glossary on pages 48 to 50 for definitions.
2. Against 2019 baseline Scope 1, 2 and Scope 3 under our direct control.

Brexit

We prepared for the possibility of a disruptive Brexit. The UK left the EU on 31 January 2020 ("**Brexit**") and entered into a transition period such that there have been no substantive changes in practice to the trading and other arrangements between the UK and the EU, at least during the transition period which is due to last until 31 December 2020, unless extended. Nonetheless, the terms, if any, of any future trading relationship between the UK and the EU, and between the UK and other key countries, are not yet known and there remains uncertainty and at least the possibility of a disruptive end to the transition period.

Although we are predominantly a UK business, we do, for example, have exposure to financial markets and we import goods and services to fulfil insurance claims. We have been monitoring events carefully and have proactively taken steps to mitigate the likely impact on the Group to the extent we consider it to be appropriate and proportionate to do so, given the considerable uncertainties; however, in the event of a disruptive end to the transition period the Group would not be immune.

Dividend and capital management

In the light of significant uncertainty from the Covid-19 pandemic, during H1 the Group took the difficult decision to suspend the share buyback and cancel the final dividend announced with the 2019 full year results. The Board has now declared an interim dividend of 7.4 pence (2019: 7.2 pence) alongside a further special dividend of 14.4 pence to replace the cancelled 2019 final dividend. This reflects the Board's continued confidence in the Group's capital position and earnings, the financial performance in H1 2020, as well as some greater certainty around issues that led to the cancellation of the dividend in April.

The Group issued £260 million of Tier 2 debt in June 2020 in order to secure the Group's long-term finances, at a 4.0% coupon.

Strong capital generation during H1 reflecting the Group's performance during the period, alongside the issue of £260 million of Tier 2 debt, delivered a solvency capital ratio at 30 June 2020 of 213% before dividends and 192% after the interim and special dividend declared. The Group has outstanding Tier 2 debt issued in 2012 with nominal value of £250 million and a first call date during the first half of 2022. Excluding this debt, the Group's solvency ratio after dividends would be 173%.

Since the cancellation of the 2019 final dividend in April, there has been greater stability in the financial markets and increased certainty about claims costs on business lines negatively impacted by the pandemic, including travel and business interruption.

Nonetheless, whilst in normal circumstances, the Board would expect the Group to operate around the middle of its solvency capital ratio risk appetite range of 140% to 180%, the Board consider current circumstances to be exceptional. The uncertainty surrounding Covid-19, its impact on the wider economy, and other factors such as Brexit, have led the Board to conclude that at this time it is appropriate for the Company to take a cautious approach when considering liquidity and the distribution of solvency capital. The Board will keep the appropriate level of capital and liquidity under review as the pandemic and Brexit and their consequences, and other uncertainties, develop, including when reviewing the Group's 2020 full year results.

Outlook

- For 2020, we reiterate our target of a combined operating ratio of 93% to 95% normalised for weather and anticipate our restructuring costs of £60 million over 2019 and 2020 will be incurred in full as we strive to maximise the opportunity for operational efficiencies.
- We reiterate our targets of achieving a combined operating ratio of 93% to 95% normalised for weather in 2021 and over the medium term, and of improving the current-year contribution to operating profit to at least 50% by 2021, but acknowledge these will inevitably depend on the duration and uncertainties of the Covid-19 pandemic, and the pace of economic recovery and consequential impact on customer behaviour.
- We are reiterating our expense ratio target of 20% by 2023. Our trajectory to get there has been modestly delayed following the Covid-19 disruption and so we may not be able to achieve the £50m savings by 2021 as outlined at our Capital Markets Day in November 2019.
- The Group expects a net investment yield of approximately 1.8% in 2020.
- We reiterate our target of achieving at least a 15% return on tangible equity per annum over the long term.

PENNY JAMES

CHIEF EXECUTIVE OFFICER

FINANCE REVIEW

Performance

Operating profit[1]

	H1 2020 £m	H1 2019 £m
Underwriting profit	**143.6**	110.6
Instalment and other operating income	**80.0**	88.0
Investment return	**41.3**	75.7
Total operating profit	**264.9**	274.3
Of which:		
Current-year operating profit[1]	**141.7**	102.7
Prior-year reserve releases	**123.2**	171.6

Note:

1. See glossary on pages 48 to 50 for definitions and appendix A – Alternative performance measures on pages 51 to 54 for reconciliation to financial statement line items.

Operating profit decreased by £9.4 million to £264.9 million (H1 2019: £274.3 million), predominantly due to the major weather events in H1 partially offset by the change to the Ogden discount rate to minus 0.25% in H1 2019 (£16.9 million). Underlying trading saw an improvement in the quality of earnings with a reduction in prior-year reserve releases (£48.4 million) offset by improvements in current-year operating profit. The impact of the Covid-19 pandemic on total operating profit was broadly neutral, with lower current-year claims costs offset by lower instalment and other income, higher operating expenses and lower investment return.

The combined operating ratio was 90.3% (H1 2019: 92.5%). The current-year attritional loss ratio improved by 8.2 percentage points to 65.3% (H1 2019: 73.5%), due to reduced claims frequency in Motor following Covid-19 disruption alongside improvements in the underlying current-year loss ratio as trading actions continued to take effect. This was partially offset by a reduction in prior-year reserve releases.

The loss ratio relating to major weather events was 2.1% (H1 2019: nil), whilst the commission ratio remained steady. The expense ratio increased by 0.7 percentage points driven primarily by additional Covid-19 related expenses and higher insurance levies. Overall, the current-year combined operating ratio improved by 5.4 percentage points to 98.7%.

Underwriting profit increased by £33.0 million to £143.6 million primarily due to the favourable impact that the Covid-19 pandemic had on Motor and Rescue claims partially offset by a £48.4 million reduction in prior year reserve releases, the effect of the major weather events in early 2020 on Home and Commercial and Covid-19-related claims on travel and business interruption policies.

Instalment and other operating income decreased to £80.0 million (H1 2019: £88.0 million), due primarily to lower volumes relating to the Covid-19 pandemic impacting on referral income and vehicle recovery and repair services and a small reduction in instalment income.

Investment return was £41.3 million (H1 2019: £75.7 million), a decrease of £34.4 million, driven primarily by the economic effects of the Covid-19 pandemic alongside the non-repeat of gains in H1 2019. Realised losses were incurred as a result of the Group maintaining its investment discipline by selling positions downgraded outside of the Group's risk appetite and write downs in the valuation of the investment property portfolio.

Impact of Covid-19 on operating profit

The estimated impact of the Covid-19 pandemic on the Group's operating profit has been broadly neutral, with reductions in claims frequency during lockdown offset by higher travel and business interruption claims costs, higher operating expenses, lower instalment and other income and reduced investment return.

Motor, Rescue and Commercial benefited from reductions in claims frequency across the lockdown period, partially offset by an increase in severity in the claims that were registered. The Group experienced higher claims levels in its Travel business, and in business interruption for a small cohort of policies that were not written on the Group's standard wordings. Extending mobility provisions and business unoccupancy terms have also led to small increases in net insurance claims.

Additional costs associated with enabling the Group's office-based employees to work from home, and payments made directly to local charities supporting community groups affected by the Covid-19 pandemic and into the ABI's Covid-19 fund have led to an additional £8.6 million of operating expenses. Commission expenses have reduced due to reductions in profit share payments in relation to Creditor business.

In-force policies and gross written premium

In-force policies (thousands)

At	30 Jun 2020[1]	31 Mar 2020[1]	31 Dec 2019[1]	30 Sep 2019[1]	30 Jun 2019[1,2]
Direct own brands	**3,972**	3,944	3,921	3,910	3,909
Partnerships	**119**	121	122	127	133
Motor	**4,091**	4,065	4,043	4,037	4,042
Direct own brands	**1,782**	1,771	1,765	1,769	1,786
Partnerships	**814**	826	829	836	844
Home	**2,596**	2,597	2,594	2,605	2,630
Rescue	**3,380**	3,424	3,450	3,470	3,479
Travel	**3,567**	3,607	3,648	3,675	3,686
Pet	**152**	155	157	158	158
Other personal lines	**62**	63	122	123	123
Rescue and other personal lines	**7,161**	7,249	7,377	7,426	7,446
Of which: Green Flag direct	**1,070**	1,082	1,063	1,039	999
Direct own brands	**546**	547	541	535	531
NIG and other	**239**	238	234	234	233
Commercial	**785**	785	775	769	764
Total in-force policies	**14,633**	14,696	14,789	14,837	14,882
Of which: direct own brands	**7,370**	7,344	7,290	7,253	7,225

Notes:

1. Commercial direct own brands include Direct Line for Business and commercial products sold under the Churchill brand that were previously reported within NIG and other. Prior periods have been re-presented accordingly.
2. In-force policies, including direct own brands, as at 30 June 2019 have been restated to include 52,000 Green Flag policies omitted from previously reported amounts.

Total in-force policies reduced to 14.6 million (30 June 2019: 14.9 million), primarily due to small reductions in Rescue, Travel and Creditor business. Motor and Home in-force policies remained broadly steady. Own brands in-force policies grew to 7.4 million (30 June 2019: 7.2 million), with growth in Motor, Green Flag and Commercial direct own brands and Home broadly steady.

Gross written premium

	Q2 2020 £m	Q2 2019[1] £m	H1 2020 £m	H1 2019[1] £m
Direct own brands	**382.4**	399.0	**778.9**	771.6
Partnerships	**12.0**	14.5	**26.4**	28.9
Motor	**394.4**	413.5	**805.3**	800.5
Direct own brands	**97.2**	97.1	**193.6**	193.7
Partnerships	**41.1**	45.0	**82.5**	89.6
Home	**138.3**	142.1	**276.1**	283.3
Rescue	**41.0**	43.8	**81.0**	82.9
Travel	**32.1**	38.2	**71.3**	76.2
Pet	**18.1**	18.2	**36.4**	36.2
Other personal lines	**10.6**	10.9	**21.4**	21.2
Rescue and other personal lines	**101.8**	111.1	**210.1**	216.5
Of which: Green Flag direct	**19.5**	20.3	**39.2**	38.0
Direct own brands	**39.3**	38.0	**78.6**	73.6
NIG and other	**117.4**	116.5	**210.7**	201.2
Commercial	**156.7**	154.5	**289.3**	274.8
Total gross written premium	**791.2**	821.2	**1,580.8**	1,575.1
Of which: direct own brands	**538.4**	554.4	**1,090.3**	1,076.9

Note:

1. Commercial direct own brands include Direct Line for Business and commercial products sold under the Churchill brand that were previously reported within NIG and other. Prior periods have been re-presented accordingly.

Gross written premium of £1,580.8 million (H1 2019: £1,575.1 million) increased by 0.4% as the strong premium growth seen in Q1 was offset by Covid-19-related disruption in Q2. Increases in Motor and Commercial were partially offset by modest declines in Home and Rescue and other personal lines. Direct own brands gross written premium of £1,090.3 million (H1 2019: £1,076.9 million) increased by 1.2% driven by increases in Motor, Green Flag and Commercial direct own brands.

Motor

Motor in-force policies increased by 1.2% to 4.1 million with gross written premium also increasing by 0.6% to £805.3 million as favourable retention partially offset adverse new business sales in Q2 following Covid-19-related disruption.

Own brands in-force policies increased by 1.6% driven by strong new business in Churchill and increased retention rates across all brands partially offset by a reduction in new business in Direct Line as customer shopping behaviour was affected by the Covid-19 pandemic.

Motor risk-adjusted prices increased by 1.8% in H1 2020. Whilst the Group continued to reflect its view of claims inflation in new business pricing, some caps were placed on renewal price increases in Q2 as new business sales slowed and the Group focused on delivering strong retention. A reduction in new car sales and young drivers entering the market drove a reduction in the risk mix of 3.5% and a 1.2% fall in Motor average premium[1] in 2020.

Home

In-force policies for Home's direct own brands remained broadly stable year-on-year at 1.8 million policies, although direct own brands in-force policies grew steadily across H1 2020. Retention rates were up across all brands and on new business there has been a continued shift towards the PCW channel reflecting increased competitiveness.

Gross written premium was 2.5% lower at £276.1 million due primarily to continuing run-off of a number of partnership schemes. Own brands gross written premium was steady at £193.6 million.

Home own brand risk-adjusted prices increased by 0.3% as claims inflation was factored in, offset by other pricing actions. Risk mix improved by 2.7%, partially due to increased sales in the PCW channel, giving a reduction in average premium[2] of 2.4%.

Notes:

1. Average incepted written premium excluding IPT for Motor direct own brands (excluding Darwin and Privilege policies underwritten on the Group's new IT platform) for the year to 30 June 2020.
2. Average incepted written premium excluding IPT for Home direct own brands for the year to 30 June 2020.

Rescue and other personal lines

Rescue and other personal lines in-force policies reduced by 3.8% to 7.2 million, gross written premium also decreased by 3.0% to £210.1 million compared to H1 2019 with reductions across most products as a result of changes in customer shopping caused by the Covid-19 lockdown.

Green Flag Rescue saw strong trading in Q1 before the lockdown and experienced a steep decline in new business in April and May before returning to growth again in June. In-force policies grew by 7.1% to 1.1 million compared to H1 2019. Gross written premium increased by 3.2% to £39.2 million.

In-force policies for the Group's linked Rescue channel, where cover can be purchased with a Group Motor policy, reduced by 10% to 807,000, as new business suffered as a result of the pandemic including a pause in the sale of European cover. Rescue partnerships in-force policies reduced by 4.2%, where margins tend to be lower than for direct business, driven primarily by continued reductions in packaged bank account volumes.

Total Other personal lines (comprising Travel, Pet and other) in-force policies reduced by 4.7% to 3.8 million primarily due to lower packaged bank account volumes in Travel and a Creditor partnership ending at the end of 2019. Some small growth in Travel own brands was reversed in Q2 as the Group suspended Travel insurance sales as a result of the Covid-19 lockdown and changes to FCO advice on foreign travel. Pet in-force policies reduced by 3.8% in H1 2020 and insurance packages tailored for UK Select Home and Motor customers saw strong growth of 5.4% in Q1 and remained broadly stable in Q2, again due to the effect of the Covid-19 lockdown on customer shopping behaviour.

Gross written premium for total Other personal lines decreased by 3.4%.

Commercial

Commercial in-force policies increased by 2.7%, compared with H1 2019, to 785,000, with Commercial direct own brands and NIG and other both growing at similar rates.

Commercial direct own brands grew in-force policies by 2.8% supported by the launch of the van product and despite a slowdown in new business sales due to Covid-19 in Q2. Commercial products sold under the Churchill brand, although relatively small, have grown volumes by over 50% year-on-year driven by PCW sales. Gross written premium increased by 6.8% to £78.6 million with increases across all product lines driven by both increased volumes and premium rates.

NIG and other in-force policies numbers were 2.6% higher than in H1 2019 and gross written premium grew by 4.7% to £210.7 million, reflecting NIG's focus on underwriting discipline and underwriting margins.

Underwriting profit and combined operating ratio

	H1 2020	H1 2019
Underwriting profit (£ million)	**143.6**	110.6
Loss ratio	**59.0%**	61.9%
Commission ratio	**6.1%**	6.1%
Expense ratio	**25.2%**	24.5%
Combined operating ratio	**90.3%**	92.5%

The Group's combined operating ratio of 90.3% (H1 2019: 92.5%) improved by 2.2 percentage points primarily due to the reduction in the loss ratio due to reduced claims frequency following the Covid-19 lockdown alongside a change of the Ogden discount rate to minus 0.25% in H1 2019 (1.1 percentage points).

The loss ratio improved by 2.9 percentage points to 59.0% (H1 2019: 61.9%) following reduced claims frequency in Motor and Rescue as a result of the Covid-19 lockdown, alongside actions taken to improve the current-year loss ratio. This was partially offset by significant increases in Travel claims volumes due to the Covid-19 pandemic, higher major weather costs and a reduction in prior-year releases.

The commission ratio remained steady as commissions reduced slightly, offset by a small reduction in net earned premium.

The expense ratio increased to 25.2% driven by operating expenses excluding restructuring and one-off costs increasing £9.0 million to £372.0 million following investment in "Force for Good" initiatives, alongside a modest reduction in net earned premium.

Ratio analysis by division

	Notes	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total Group £m
For the period ended 30 June 2020						
Net earned premium	4	**740.4**	**277.8**	**213.2**	**243.0**	**1,474.4**
Net insurance claims	4	**401.8**	**162.2**	**179.3**	**125.7**	**869.0**
Prior-year reserve releases	21	**83.4**	**2.5**	**4.0**	**33.3**	**123.2**
Major weather events		**n/a**	**(17.7)**	**n/a**	**(12.7)**	**(30.4)**
Attritional net insurance claims		**485.2**	**147.0**	**183.3**	**146.3**	**961.8**
Loss ratio – current-year attritional		**65.5%**	**53.0%**	**86.0%**	**60.2%**	**65.3%**
Loss ratio – prior-year reserve releases		**(11.2%)**	**(0.9%)**	**(1.9%)**	**(13.7%)**	**(8.4%)**
Loss ratio – major weather events[1]		**n/a**	**6.4%**	**n/a**	**5.2%**	**2.1%**
Loss ratio – reported	4	**54.3%**	**58.5%**	**84.1%**	**51.7%**	**59.0%**
Commission ratio	4	**2.9%**	**6.8%**	**3.0%**	**17.7%**	**6.1%**
Expense ratio	4	**24.7%**	**27.1%**	**24.2%**	**25.5%**	**25.2%**
Combined operating ratio	4	**81.9%**	**92.4%**	**111.3%**	**94.9%**	**90.3%**
Current-year combined operating ratio		**93.1%**	**93.3%**	**113.2%**	**108.6%**	**98.7%**
For the period ended 30 June 2019						
Net earned premium	4	749.6	288.0	209.5	235.5	1,482.6
Net insurance claims	4	518.7	138.7	141.6	119.4	918.4
Prior-year reserve releases	21	106.1	20.7	5.3	39.5	171.6
Major weather events		n/a	n/a	n/a	n/a	n/a
Attritional net insurance claims		624.8	159.4	146.9	158.9	1,090.0
Loss ratio – current-year attritional		83.4%	55.3%	70.1%	67.5%	73.5%
Loss ratio – prior-year reserve releases		(14.2%)	(7.2%)	(2.5%)	(16.8%)	(11.6%)
Loss ratio – major weather events[1]		n/a	n/a	n/a	n/a	n/a
Loss ratio – reported	4	69.2%	48.1%	67.6%	50.7%	61.9%
Commission ratio	4	2.5%	7.6%	4.1%	17.5%	6.1%
Expense ratio	4	23.4%	26.5%	24.5%	25.6%	24.5%
Combined operating ratio	4	95.1%	82.2%	96.2%	93.8%	92.5%
Current-year combined operating ratio		109.3%	89.4%	98.7%	110.6%	104.1%

Note:

1. Home and Commercial claims for major weather events, including inland and coastal flooding and storms.

The movement in the current-year attritional loss ratio is an indicator of underlying accident year performance as it excludes prior-year reserve releases and claims costs from major weather events. The Group's current-year attritional loss ratio of 65.3% improved by 8.2 percentage points compared to H1 2019, due to trading actions taken across Motor and Commercial, alongside the reduction in claims frequency following the Covid-19 lockdown in Motor and Rescue, partially offset by the estimated impact of the pandemic on Travel and Commercial claims.

Prior-year reserve releases reduced to £123.2 million (H1 2019: £171.6 million), equivalent to 8.4% of net earned premium (H1 2019: 11.6%). Assuming current claims trends continue, in line with the Group's financial target to deliver at least 50% operating profits from the current-year, prior-year reserve releases are expected to continue to reduce further in future years, although they are expected to remain a significant contribution to profits.

The Group's current-year combined operating ratio improved by 5.4 percentage points to 98.7% (H1 2019: 104.1%) as the 8.2 percentage point improvement in the attritional loss ratio was partially offset by 2.1 percentage points of weather events in early 2020 and a 0.7 percentage point increase in the expense ratio due primarily to additional costs incurred in response to the Covid-19 pandemic.

Motor

The current-year attritional loss ratio in Motor improved by 17.9 percentage points to 65.5% (H1 2019: 83.4%). Motor claims frequency reduced significantly during the early stages of lockdown and, whilst there has been an increase since lockdown restrictions have been eased, frequency remained below expected levels. Higher levels of claims severity were experienced during the lockdown period following lengthening of repair times resulting in higher credit hire costs. The Group continued to assume its long-term underlying view of claims inflation in the range of 3% to 5%, albeit with higher levels of claims severity offset by lower frequency.

Prior-year reserve releases were £22.7 million lower year-on-year at £83.4 million as they continued to reduce in line with expectations.

Motor's reported combined operating ratio improved by 13.2 percentage points to 81.9% (H1 2019: 95.1%). Large improvements in the current-year attritional loss ratio were offset partially by increases in expense and commission ratios and a reduction in prior-year reserve releases.

Home

The current-year attritional loss ratio, excluding major weather event claims, improved by 2.3 percentage points to 53.0%, following actions taken on escape of water claims. Claims inflation remained within the Group's long-term expectations of 3% to 5%.

The commission ratio of 6.8% was 0.8 percentage points lower compared to H1 2019 as the effects of the weather events in early 2020 resulted in lower profit share payments to partners.

Home's combined operating ratio increased by 10.2 percentage points to 92.4% (H1 2019: 82.2%). This was driven primarily by weather events in the winter contributing 6.4 percentage points, with no weather events in H1 2019, and lower prior-year reserve releases contributing a further 6.3 percentage points, offset by improvements to the current-year attritional loss ratio and commission ratio. Normalised for weather, the combined operating ratio was 4.9 percentage points higher than H1 2019 at 94.2%[1] (H1 2019: 89.3%).

Rescue and other personal lines

The combined operating ratio for Rescue and other personal lines increased by 15.1 percentage points to 111.3% (H1 2019: 96.2%) due primarily to the elevated levels of travel claims registered following the change to the FCO travel advice at the beginning of the lockdown.

Rescue's combined operating ratio of 78.1% was 5.0 percentage points better than H1 2019's ratio of 83.1%, as it benefited from significant declines in claims volumes during the lockdown coupled with a decrease in claims severity as the lockdown restrictions were eased. Other personal lines combined operating ratio increased by 27.7 percentage points to 132.1%, due primarily to the increase in expected travel claims. The Group has currently provided for £25 million additional travel claims above planned levels, net of reinsurance, and has utilised an automatic reinstatement of its Travel reinsurance per the terms of the original policy.

Commercial

The current-year attritional loss ratio in Commercial improved by 7.3 percentage points to 60.2% as risk selection remained the priority alongside a reduction in claims frequency as a result of the Covid-19 pandemic, partially offset by a £10 million increase in Covid-19-related business interruption estimated claims on a minority of policies not written on the Group's standard wordings. Prior-year reserve releases were £6.2 million lower at £33.3 million, primarily due to a non-repeat of releases from disease perils in H1 2019.

The combined operating ratio for Commercial increased by 1.1 percentage points to 94.9% (H1 2019: 93.8%) as improvements to the current-year attritional loss ratio were more than offset by the reduction in prior-year reserve releases and the impact of the severe weather in early 2020.

Note:

1. See glossary on pages 48 to 50 for definitions and appendix A – Alternative performance measures on pages 51 to 54 for reconciliation to financial statement line items.

Operating expenses before restructuring and one-off costs

	Note	**H1 2020 £m**	H1 2019 £m
Staff costs[1]	10	**132.3**	134.1
IT and other operating expenses[1,2]	10	**100.2**	81.5
Marketing	10	**54.2**	59.3
Insurance levies[3]	10	**49.9**	46.9
Depreciation and amortisation[4]	10	**35.4**	41.2
Total operating expenses before restructuring and one-off costs		**372.0**	363.0

Notes:

1. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
2. IT and other operating expenses include professional fees and property costs.
3. Insurance levies were previously reported in other operating expenses. Comparative data for the period ended 30 June 2019 has been re-presented accordingly.
4. Includes depreciation on right-of-use assets of £7.2 million (H1 2019: £7.4 million).

Operating expenses before restructuring and one-off costs increased by £9.0 million to £372.0 million (H1 2019: £363.0 million) resulting in an increased expense ratio of 25.2% (H1 2019: 24.5%). The Group saw reductions in staff costs, marketing and depreciation and amortisation, and increases in IT and other operating expenses and insurance levies, where there have been increases in the Motor Insurers Bureau and the Financial Services Compensation Scheme levies.

Increases in IT and other operating expenses are due primarily to additional expenditure as part of the Group's response to the Covid-19 pandemic including costs associated with enabling home working for all office-based employees and charitable donations as well as a reduction in deferred acquisition costs due to the phasing of marketing expenditure.

Instalment and other operating income

	Note	H1 2020 £m	H1 2019 £m
Instalment income		**54.8**	56.3
Other operating income:			
Revenue from vehicle recovery and repair services[1]	7	**11.2**	14.4
Vehicle replacement referral income	7	**6.3**	9.0
Legal services income	7	**4.7**	5.3
Other income[1,2]	7	**3.0**	3.0
Other operating income	7	**25.2**	31.7
Total instalment and other operating income		**80.0**	88.0

Notes:

1. Revenue from vehicle recovery and repair services includes salvage income previously reported in other income. Comparative data for the period ended 30 June 2019 has been re-presented accordingly.
2. Other income primarily includes fee income from insurance intermediary services.

Instalment and other operating income decreased by £8.0 million, due primarily to lower volumes as a result of the Covid-19 pandemic impacting referral income and vehicle recovery and repair services and a 2.7% reduction in instalment income.

Investment return

	Note	H1 2020 £m	H1 2019 £m
Investment income		**64.8**	75.4
Hedging to a sterling floating rate basis		**(9.6)**	(12.1)
Net investment income		**55.2**	63.3
Net realised and unrealised (losses) / gains excluding hedging		**(13.9)**	12.4
Total investment return	6	**41.3**	75.7

Investment yields

	H1 2020	H1 2019
Investment income yield[1]	**2.1%**	2.5%
Net investment income yield[1]	**1.8%**	2.1%
Investment return yield[1]	**1.4%**	2.5%

Note:

1. See glossary on pages 48 to 50 for definitions and appendix A – Alternative performance measures on pages 51 to 54 for reconciliation to financial statement line items.

Total investment return decreased by £34.4 million to £41.3 million (H1 2019: £75.7 million). Investment income accounted for £10.6 million of this variance as a result of a reduction of assets under management following management actions to ensure liquidity by not reinvesting credit maturities or coupons between March and May 2020. Asset values were affected by the impact of Covid-19, and net realised and unrealised gains and losses excluding hedging were lower by £26.3 million compared to H1 2019. The fair value of investment property at 30 June 2020 was £10.3 million lower than at the start of the year (H1 2019: £0.7 million reduction in fair value) and realised losses on bond disposals were £3.6 million for H1 2020 compared to realised gains of £13.2 million in H1 2019.

The annualised investment income yield for H1 2020 reduced to 2.1% (H1 2019: 2.5%). The net investment income yield was lower at 1.8% (H1 2019: 2.1%)

The Group's investment strategy aims to deliver several objectives, which are summarised below:

- to ensure there is sufficient liquidity available within the investment portfolio to meet stressed liquidity scenarios;
- to match periodic payment orders ("**PPO**") and non-PPO liabilities in an optimal manner; and
- to deliver a suitable risk-adjusted investment return commensurate with the Group's risk appetite.

Investment holdings

At	30 Jun 2020 £m	31 Dec 2019 £m
Investment-grade credit[1]	**3,460.4**	3,676.8
High yield	**365.1**	390.8
Investment-grade private placements	**104.0**	104.0
Credit	**3,929.5**	4,171.6
Sovereign	**41.9**	99.8
Total debt securities	**3,971.4**	4,271.4
Infrastructure debt	**271.2**	278.1
Commercial real estate loans	**204.1**	205.7
Cash and cash equivalents[2]	**1,434.9**	896.3
Investment property	**281.4**	291.7
Available-for-sale equity investments[3]	**3.2**	–
Total investment holdings	**6,166.2**	5,943.2

Notes:

1. Asset allocation at 30 June 2020 includes investment portfolio derivatives, which have been included and have a mark-to-market liability value of £71.4 million included in investment grade credit (31 December 2019 mark-to-market asset value of £81.8 million). This excludes non-investment derivatives that have been used to hedge interest on subordinated debt and operational cash flows.
2. Net of bank overdrafts: includes cash at bank and in hand and money market funds.
3. Available-for-sale equity investments consist of an equity fund which is designated on initial recognition at fair value through other comprehensive income.

At 30 June 2020, total investment holdings of £6,166.2 million were 3.8% higher than at the start of the year, primarily reflecting the cash proceeds from the new £260 million twelve-year fixed Tier 2 debt issuance completed on 5 June 2020. Total debt securities were £3,971.4 million (31 December 2019: £4,271.4 million), of which 2.5% were rated as 'AAA' and a further 54.7% were rated as 'AA' or 'A'. The average duration at 30 June 2020 of total debt securities was 2.7 years (31 December 2019: 2.5 years).

At 30 June 2020, total unrealised gains, net of tax, on available-for-sale ("**AFS**") investments were £11.9 million (31 December 2019: £47.5 million).

Reconciliation of operating profit

	Notes	HY 2020 £m	HY 2019 £m
Motor	4	**220.5**	153.8
Home	4	**35.3**	71.1
Rescue and other personal lines	4	**(16.2)**	17.5
Commercial	4	**25.3**	31.9
Operating profit	4	**264.9**	274.3
Restructuring and one-off costs		**(15.0)**	–
Operating profit after restructuring and one-off costs	4	**249.9**	274.3
Finance costs	11	**(13.5)**	(13.0)
Profit before tax		**236.4**	261.3
Tax		**(43.8)**	(49.5)
Profit for the year attributable to the owners of the Company		**192.6**	211.8

Operating profit by segment

Motor, Home and Commercial divisions contributed to operating profit in H1 2020. The Rescue and other personal lines division saw an operating loss, primarily as a result of elevated travel claims following the Covid-19 pandemic. Motor operating profit increased as it saw the benefit of falling claims frequency without the full earned impact of changes to customer shopping behaviour on new business. Home and Commercial operating profit reduced primarily due to the weather events in early 2020 and lower prior-year reserve releases. Rescue operating profit of £24.0 million (H1 2019: £20.8 million) is included in the Rescue and other personal lines result.

Restructuring and one-off costs

The Group has incurred £15.0 million restructuring and one-off costs to support its cost reduction targets that were announced at its Capital Markets Day in November 2019, which in aggregate resulted in a cumulative total of £26.2 million incurred in H2 2019 and H1 2020, with a total of £60 million expected by the end of 2020. Operating profit as reported at H1 2019 included £2.6 million of costs within operating expenses that were subsequently reclassified as restructuring and other one-off costs in the second half of the year.

Finance costs

Finance costs increased by £0.5 million to £13.5 million (H1 2019: £13.0 million) due to interest payable on the recent £260 million debt raised in June 2020.

Effective corporation tax rate

The effective tax rate for H1 2020 was 18.5% (H1 2019: 18.9%), which is less than the standard rate due to the tax deduction for the Restricted Tier 1 coupon which is accounted for as a dividend, net of disallowable expenses. Both of these factors are broadly in line year-on-year, with the main difference being the deferred tax rate which was 17% last year but increased to 19% following the March 2020 Budget where the rate of corporation tax was maintained at 19%.

Earnings per share

Basic earnings per share decreased by 8.7% to 13.6 pence (H1 2019: 14.9 pence). Diluted earnings per share decreased by 8.8% to 13.4 pence (H1 2019: 14.7 pence) mainly reflecting the reduction in profit after tax.

Net asset value

At	Note	**30 Jun 2020 £m**	31 Dec 2019 £m
Net assets[1]	15	**2,756.5**	2,643.6
Goodwill and other intangible assets	15	**(741.2)**	(702.5)
Tangible net assets	15	**2,015.3**	1,941.1
Closing number of Ordinary Shares (millions)	15	**1,353.3**	1,366.6
Net asset value per share (pence)	15	**203.7**	193.4
Tangible net asset value per share (pence)	15	**148.9**	142.0

Note:

1. See glossary on pages 48 to 50 for definitions and appendix A – Alternative performance measures on pages 51 to 54 for reconciliation to financial statement line items.

Net assets at 30 June 2020 increased to £2,756.5 million (31 December 2019: £2,643.6 million) and tangible net assets increased to £2,015.3 million (31 December 2019: £1,941.1 million). The increases mainly reflect H1 2020 retained profit offset by the effects of the share buyback and reductions in available-for-sale reserves. There has been an increase in expenditure on intangible assets as the Group continued to invest in the business.

Balance sheet management

Capital management and the Group's dividend policy

The Group's dividend policy states:

"The Group aims to manage its capital efficiently and generate long-term sustainable value for shareholders, while balancing operational, regulatory, rating agency and policyholder requirements.

"The Group aims to grow its regular dividend in line with business growth.

"Where the Board believes that the Group has capital which is expected to be surplus to the Group's requirements for a prolonged period, it would intend to return any surplus to shareholders. In normal circumstances, the Board expects that a solvency capital ratio around the middle of its risk appetite range of 140% to 180% of the Group's solvency capital requirement ("**SCR**") would be appropriate and it will therefore take this into account when considering the potential for special distributions.

"In the normal course of events the Board will consider whether or not it is appropriate to distribute any surplus capital to shareholders once a year, alongside the full year results.

"The Group expects that one-third of the annual dividend will generally be paid in the third quarter as an interim dividend, and two-thirds will be paid as a final dividend in the second quarter of the following year. The Board may revise the dividend policy from time to time. The Company may consider a special dividend and/or a repurchase of its own shares to distribute surplus capital to shareholders."

The Board is very aware of the importance of dividends to shareholders and has declared an interim dividend of 7.4 pence (2019: 7.2 pence) alongside a further special dividend of 14.4 pence in order to replace the cancelled 2019 final dividend. This reflects the Board's continued confidence in the Group's capital position and earnings, as well as some greater certainty around issues that led to the cancellation of the dividend in April, including greater stability in the financial markets and increased certainty about claims costs on business lines negatively impacted by the pandemic, including travel and business interruption.

Nonetheless, whilst in normal circumstances, the Board would expect to operate as envisaged by its dividend policy, the Board consider current circumstances to be exceptional. The uncertainty surrounding Covid-19, its impact on the wider economy, and other factors such as Brexit, lead the Board to conclude that at this time it is appropriate for the Company to take a cautious approach when considering liquidity and the distribution of solvency capital. The Board will keep the appropriate level of capital and liquidity under review as the pandemic and Brexit and their consequences, and other uncertainties, develop, including when reviewing the Group's 2020 full year results and considering any distributions.

After dividends, the estimated solvency capital ratio was 192% as at 30 June 2020. The Group has outstanding Tier 2 debt issued in 2012 with nominal value of £250 million and a first call date during the first half of 2022. Excluding this debt, the Group's solvency ratio after dividends would be 173%.

The interim dividends are scheduled to be paid on 4 September 2020 to shareholders on the register on 14 August 2020. The ex-dividend date will be 13 August 2020.

Whilst it is not envisaged that the Board would need to, or be required to, exercise any power of cancellation of the interim dividends, the interim dividends are capable of being cancelled by the Board at any time before actual payment, and therefore they would not be payable, if at any stage the Board considers it necessary or appropriate to do so. This complies with the PRA's rules relating to the implementation of the Solvency II Directive (as it relates to regulated insurance companies) which in essence require any dividend to be capable of being cancelled if necessary or appropriate to do so for regulatory capital purposes.

Capital analysis

The Group is regulated under Solvency II requirements by the PRA on both a Group basis and for the Group's principal underwriter, U K Insurance Limited. In its results, the Group has estimated its Solvency II own funds, SCR and solvency capital ratio as at 30 June 2020.

Capital position

At 30 June 2020, the Group held a Solvency II capital surplus of £1.26 billion above its regulatory capital requirements, which was equivalent to an estimated solvency capital ratio of 192%, after the proposed interim dividend and the special interim dividend which represents a catch-up of the cancelled 2019 final dividend.

The Group's SCR and solvency capital ratio are as follows:

At	30 Jun 2020	31 Dec 2019
Solvency capital requirement (£ billion)	**1.39**	1.32
Capital surplus above solvency capital requirement (£ billion)	**1.26**	0.85
Solvency capital ratio post-capital distributions	**192%**	165%

Movement in capital surplus

At	30 Jun 2020 £bn	31 Dec 2019 £bn
Capital surplus at 1 January	**0.85**	0.89
Capital generation excluding market movements	**0.35**	0.60
Market movements	**(0.08)**	0.06
Capital generation	**0.27**	0.66
Change in solvency capital requirement	**(0.07)**	(0.06)
Surplus generation	**0.20**	0.60
Capital expenditure	**(0.07)**	(0.19)
Tier 2 debt issue	**0.26**	–
Cancellation of capital distribution[1]	**0.32**	–
Capital distribution – ordinary dividends[2]	**(0.10)**	(0.30)
Capital distribution – special dividends[2]	**(0.20)**	–
Capital distribution – share buyback	**–**	(0.15)
Net surplus movement	**0.41**	(0.04)
Capital surplus at 30 June 2020 / 31 December 2019	**1.26**	0.85

Notes:

1. Relates to the cancellation of the cash dividend (£197 million) and the suspension of share buyback (£120 million).
2. Foreseeable dividends included above are adjusted to exclude the expected dividend waivers in relation to shares held by the employee share trusts, which are held to meet obligations arising on the various share option awards.

In H1 2020, the Group's capital surplus increased by £0.41m after expected dividends. The impact of the cancellation of the 2019 final dividend and share buyback was £0.32bn. Capital surplus was also strengthened further by the issue of £0.26bn of Tier 2 debt in June. The Group generated £0.27 billion of Solvency II capital, offset by HY 2020 dividends of £0.30 billion and £0.07 billion of capital expenditure. The increase in capital expenditure reflects the significant investment the Group is making in building future capability through technology transformation. In 2020, the level of expenditure is expected to be approximately £150 million. Thereafter, annual expenditure levels are expected to reduce to around £100 million from 2021.

Change in solvency capital requirement

	2020 £bn
Solvency capital requirement at 1 January	**1.32**
Model and parameter changes	**0.04**
Exposure changes	**0.03**
Solvency capital requirement at 30 June	**1.39**

The Group's SCR has increased by £0.07 billion in the year. Model and parameter changes increased the SCR by £0.04 billion, reflecting increased credit spread and default volatility as a result of Covid-19; and increased motor premium volatility. Exposure changes, due to reduced investment return and increased investment risk; and a lower expected deferred tax asset, led to an increase in the SCR of £0.03 billion.

Scenario and sensitivity analysis

The following table shows the impact on the Group's estimated solvency capital ratio in the event of the following scenarios as at 30 June 2020. The impact on the Group's solvency capital ratio arises from movements in both the Group's SCR and own funds.

Scenario	Impact on solvency capital ratio	
	30 Jun 2020	31 Dec 2019
Deterioration of 2018/19 small bodily injury motor claims equivalent to that experienced in 2008/09	**(7pts)**	(7pts)
One-off catastrophe loss equivalent to the 1990 storm "Daria"	**(8pts)**	(9pts)
One-off catastrophe loss based on extensive flooding of the River Thames	**(8pts)**	(9pts)
Change in Solvency II reserving basis for PPOs to use a real discount rate of minus 1%[1]	**(10pts)**	(8pts)
100bps increase in credit spreads[2]	**(9pts)**	(9pts)
100bps decrease in interest rates with no change in the PPO real discount rate	**(2pts)**	1pt

Notes:

1. The PPO real discount rate used is an actuarial judgement which is reviewed annually based on the economic outlook for wage inflation relative to the EIOPA discount rate curve.
2. Only includes the impact on AFS assets (excludes illiquid assets such as infrastructure debt) and assumes no change to the SCR.

Own funds

The following table splits the Group's own funds by tier on a Solvency II basis.

At	**30 Jun 2020 £bn**	31 Dec 2019 £bn
Tier 1 capital before foreseeable capital distributions	**1.92**	1.80
Foreseeable capital distributions	**(0.30)**	(0.35)
Tier 1 capital – unrestricted	**1.62**	1.45
Tier 1 capital – restricted	**0.38**	0.37
Tier 1 capital	**2.00**	1.82
Tier 2 capital – subordinated debt	**0.54**	0.26
Tier 3 capital – deferred tax	**0.11**	0.09
Total own funds	**2.65**	2.17

During H1 2020, the Group's own funds increased from £2.17 billion to £2.65 billion. Tier 1 capital after foreseeable capital distributions represents 75% of own funds and 144% of the estimated SCR. Tier 2 capital relates solely to the Group's £0.54 billion subordinated Tier 2 notes. The amount of Tier 2 and Tier 3 capital permitted under the Solvency II regulations is 50% of the Group's SCR and of Tier 3 alone is less than 15%. Therefore, the Group currently has no ineligible capital. The maximum amount of Restricted Tier 1 capital permitted as a proportion of total Tier 1 capital under the Solvency II regulations is 20%. Restricted Tier 1 capital relates solely to the Tier 1 notes issued in 2017.

Reconciliation of IFRS shareholders' equity to Solvency II own funds

At	**30 Jun 2020 £bn**	31 Dec 2019 £bn
Total shareholders' equity	**2.76**	2.64
Goodwill and intangible assets	**(0.74)**	(0.70)
Change in valuation of technical provisions	**0.05**	(0.06)
Other asset and liability adjustments	**(0.15)**	(0.08)
Foreseeable capital distributions	**(0.30)**	(0.35)
Tier 1 capital – unrestricted	**1.62**	1.45
Tier 1 capital – restricted	**0.38**	0.37
Tier 1 capital	**2.00**	1.82
Tier 2 capital – subordinated debt	**0.54**	0.26
Tier 3 capital – deferred tax	**0.11**	0.09
Total own funds	**2.65**	2.17

Leverage

The Group's financial leverage increased by 5.3 percentage points and continued to remain conservative at 23.9% (2019: 18.6%). The increase was primarily due to an increase in subordinated debt following the issuance of £260 million of Tier 2 notes in June 2020.

At	30 Jun 2020 £m	31 Dec 2019 £m
Shareholders' equity	**2,756.5**	2,643.6
Tier 1 notes	**346.5**	346.5
Financial debt – subordinated debt	**517.9**	259.0
Total capital employed	**3,620.9**	3,249.1
Financial-leverage ratio[1]	**23.9%**	18.6%

Note:

1. Total IFRS financial debt and Tier 1 notes as a percentage of total IFRS capital employed.

Credit ratings

Moody's Investors Service provide insurance financial-strength ratings for U K Insurance Limited, the Group's principal underwriter. Moody's rate U K Insurance Limited as 'A1' for insurance financial strength (strong) with a stable outlook (reiterated on 14 July 2020).

Reserving

The Group makes provision for the full cost of outstanding claims from its general insurance business at the balance sheet date, including claims estimated to have been incurred but not yet reported at that date and claims handling costs. The Group considers the class of business, the length of time to notify a claim, the validity of the claim against a policy, and the claim value. Claims reserves could settle across a range of outcomes, and settlement certainty increases over time. However, for bodily injury claims the uncertainty is greater due to the length of time taken to settle these claims. The possibility of annuity payments for injured parties also increases this uncertainty.

The Group seeks to adopt a conservative approach to assessing liabilities, as evidenced by the favourable development of historical claims reserves. Reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal actuarial best estimate. This margin is set by reference to various actuarial scenario assessments and reserve distribution percentiles. It also considers other short and long-term risks not reflected in the actuarial inputs, as well as management's view on the uncertainties in relation to the actuarial best estimate.

The most common method of settling bodily injury claims is by a lump sum. When this includes an element of indemnity for recurring costs, such as loss of earnings or ongoing medical care, the settlement calculations apply the statutory discount rate (known as the Ogden discount rate) to reflect the fact that payment is made on a one-off basis rather than periodically over time. The discount rate increased from minus 0.75% to minus 0.25% for England and Wales in July 2019 but has remained at minus 0.75% in Scotland and at 2.5% in Northern Ireland.

The Group reserves its large bodily injury claims at the relevant discount rate for each jurisdiction, with the overwhelming majority now reserved at minus 0.25% as most will be settled under the law in England and Wales. There has been an ongoing reduction in large bodily injury exposures as a result of continued positive prior-year development of claims reserves, and a higher proportion of reserves being covered by reinsurance as a result of the decision to opt for a lower reinsurance attachment point from 2014 onwards.

If the claimant prefers, large bodily injury claims can be settled using a periodical payment order ("**PPO**"). This is an alternative way to provide an indemnity for recurring costs, making regular payments, usually for the rest of the claimant's life. These claims are reserved for using an internal discount rate, which is progressively unwound over time. As it is likely to take time to establish whether a claimant will prefer a PPO or a lump sum, until a settlement method is agreed, the Group makes assumptions about the likelihood that claimants will opt for a PPO.

The Group's prior-year reserve releases were £123.2 million (H1 2019: £171.6 million) with good experience in large bodily injury claims being a key contributor. On current year, the Covid-19 pandemic adversely affected the Group's reserves on Travel and Commercial business interruption whilst also leading to reduced claims frequency on Motor with a corresponding reduction in claims provisions.

Looking forward, the Group expects to continue setting its initial management best estimate conservatively. Assuming current claims trends continue, prior-year reserve releases are expected to continue to reduce further in future years, although they are expected to remain a significant contribution to profits.

Claims reserves net of reinsurance

At	30 Jun 2020 £m	31 Dec 2019 £m
Motor	**1,682.6**	1,799.1
Home	**288.6**	266.3
Rescue and other personal lines	**138.9**	88.5
Commercial	**519.7**	516.1
Total	**2,629.8**	2,670.0

Sensitivity analysis – the discount rate used in relation to PPOs and changes in the assumed Ogden discount rate
The table below provides a sensitivity analysis of the potential net impact of a change in a single factor (the internal discount rate used for PPOs and separately the Ogden discount rate) with all other assumptions left unchanged. Other potential risks beyond the ones described could have additional financial impacts on the Group.

	Increase / (decrease) in profit before tax[1,2]	
At	30 Jun 2020 £m	31 Dec 2019 £m
PPOs[3]		
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	**48.7**	48.5
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(66.8)**	(66.5)
Ogden discount rate[4]		
Impact of the Group reserving at a discount rate of 0.75% compared to minus 0.25% (2019: 0.75% compared to minus 0.25%)	**43.8**	53.3
Impact of the Group reserving at a discount rate of minus 1.25% compared to minus 0.25% (2019: minus 1.25% compared to minus 0.25%)	**(62.6)**	(75.0)

Notes:
1. These sensitivities are net of reinsurance and exclude the impact of taxation.
2. These sensitivities reflect one-off impacts at at the balance sheet date and should not be interpreted as predictions.
3. The sensitivities relating to an increase or decrease in the internal discount rate used for PPOs illustrate a movement in the time value of money from the assumed level of 0% for reserving. The PPO sensitivity has been calculated as the direct impact of the change in the internal discount rate with all other factors remaining unchanged.
4. Ogden discount rate sensitivity has been calculated as the direct impact of a permanent change in the discount rate in England and Wales with all other factors remaining unchanged. The Group will consider the statutory discount rate when setting its reserves but not necessarily provide on this basis, as was the case at the year ended 31 December 2018. This is intended to ensure that reserves are appropriate for current and potential future developments.

The PPO sensitivity above is calculated on the basis of a change in the internal discount rate used for the actuarial best estimate ("**ABE**") reserves as at 30 June 2020. It does not take into account any second order impacts such as changes in PPO propensity or reinsurance bad debt assumptions.

Principal risks and uncertainties

We carefully assess the principal risks facing us. Principal risks are defined as having a residual risk impact of £40 million or more on a 1-in-200 years basis, taking into account customer, financial and reputational impacts. Save as referred to in the non-exhaustive section below relating to the Covid-19 pandemic (immediately following the table of 'Principal risks'), the Group considers that the Risk profile remains broadly unchanged over the last six months and since the profile disclosed in the Annual Report and Accounts 2019 risk management section pages 54 to 55.

Principal risks
Insurance risk The risk of loss due to fluctuations in the timings, amount, frequency and severity of an insured event relative to the expectations at the time of underwriting. Insurance risk includes reserve, underwriting, distribution, pricing and reinsurance risks.
Market risk The risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. Key drivers of market risk are the sensitivity of the values of our assets to changes in credit spreads, and our exposure to losses as a result of changes in interest rate term structure or volatility.
Operational risk The risk of loss due to inadequate or failed internal processes or systems, human error or from external events. The principal risks within this category are information security, operational resilience, partnership contractual obligations, change, outsourcing and technology & infrastructure risks.
Regulatory and conduct risk The risks arising out of breaches of and/or changes to regulation, law, regulatory policy or legal or regulatory interpretation, or to supervisory expectations or approach, that have an adverse operational and financial impact as a result of reputational damage, regulatory or legal censure, fines or prosecutions, and any other type of non-budgeted operational risk or other losses, associated with our conduct and activities.
Credit risk The risk resulting from a default in cash inflows and/or changes in market value of issuers of securities, counterparties and any debtors to which the Group is exposed.
Strategic risk The risk of direct or indirect adverse effects resulting from strategies not being optimally chosen, implemented or adapted to changing conditions.

The Covid-19 pandemic has and will have far reaching impacts, including the responses of governments, regulators, customers and markets to the pandemic

The outbreak of Covid-19 spread rapidly globally and disrupted various markets, resulting in uncertainty about the development of the economies affected by the outbreak. The Group responded quickly to the initial period of unprecedented upheaval and uncertainty due to the Covid-19 virus, with staff operating effectively from home. The Group is entering the next phase as UK lockdown restrictions are altered.

The Group is affected by the Covid-19 outbreak through its direct and indirect impact on customers, counterparties, employees and other stakeholders of the Group, as a result of, among others, public health measures, such as business closings and restrictions on travel and gatherings. The exact consequences of the Covid-19 outbreak are highly uncertain and it is not possible to predict with any certainty the spread or duration of the pandemic or its full effect on global and local economies. There can be no assurances that the adverse impact of the outbreak will not lead to a tightening of liquidity conditions or funding uncertainty.

Covid-19 could, depending on the nature, length and severity of the disease, adversely impact the Group, including for example by way of increased claims and decreased financial performance of the Group's travel insurance business and other types of cover such as business interruption and employers' liability and public liability; it could impact the Group's investments and capital if investments decrease in value; it could adversely impact the Group's counter-parties, and their ability to fulfil their obligations to the Group, the Group's staff/employees/contractors and consultants, and their ability to assist the Group and therefore lead to the delay to or hindrance of IT and change programmes, and the Group's supply chain, and cause the fulfilment of claims to be delayed and/or be more costly if goods required to fulfil claims (e.g. household or motor goods/parts) cannot be obtained as readily as usual. The Group is also subject to the consequences of operational responses due to these types of events, including the large majority of its people working from home and changes in working practices or operating on a reduced service. Customer needs, preferences and/or behaviours may also evolve as a result of Covid-19, which could affect the nature of the Group's customer risk exposures.

The FCA may take other actions that it considers appropriate for the furtherance of its strategic objectives. On 1 May 2020 the FCA announced that, in the light of business interruption caused by Covid-19 and its awareness of legal uncertainty as regards whether commercial policyholders are covered by certain business interruption insurance policies, the FCA would seek an authoritative declaratory judgment from the English courts regarding the meaning and effect of some business interruption insurance policy wordings. The FCA has selected a sample of policy wordings written by eight defendant insurers that provide examples of certain business interruption issues the FCA wants reviewed by the courts in a test case, which has been heard by the court in July 2020. The Group has not been named as a defendant in this court process and at this stage interpretation of the Group's standard business interruption policy wordings in the context of the Covid-19 pandemic is not expected to be affected by the test case. How the Group deals with claims under policies written on the very small proportion of relevant policies written on non-standard wordings is also not expected to be affected by the test case.

As a result of the Covid-19 pandemic, and/or if further diseases emerge that give rise to similar macroeconomic effects, macroeconomic conditions may be adversely affected potentially resulting in an economic downturn in the countries in which the Group operates and the global economy more widely, which could materially adversely impact the business, results of operations, and financial condition of the Group.

Potential effects of Brexit

The UK left the EU ('Brexit') on 31 January 2020. At the date of this report there remains some uncertainty as to when the transition period will end; it is due to end on 31 December 2020, although it could yet be extended, albeit requiring a change to the law. There also remains uncertainty as to what, if any, trading agreement may or may not be agreed between the UK and EU to take effect subsequent to the transition period. There is also uncertainty as to what trading agreements may or may not be agreed with key non-EU countries to supersede such arrangements previously subject to EU trade agreements. Accordingly, there remains uncertainty as to the effect of Brexit on the Group.

If there is a smooth end to the transition period with an agreed future trading agreement between the UK and the EU (and other key countries), and accordingly without significant disruption to the UK economy and to business generally, then any adverse impact on the Group (if any) would also not be expected to be significant. If, however, trade discussions (or the failure of them) were to lead to significant disruption then the impact on the Group could correspondingly also be disruptive and potentially material.

Internal review

Following the EU referendum result in 2016, the Group established a Brexit Working Group comprising representatives from across the Group. It was identified that there was a risk that the UK could enter a prolonged period of reduced growth due to Brexit, potentially reducing insurance sales and the value of our investment portfolio. Whilst our operations are based mainly in the UK, Brexit-related issues which could impact adversely on the Group could include: changes to the value of sterling which impact claims and non-claims supplier costs; inflation; impacts on credit spreads which in turn could impact on the Group's investments and capital; recession; recruitment and retention of people; impacts on the speed of delivery and cost of goods and services required by the business including for fulfilling insurance claims made by customers, for example because of delays at borders caused by increased border regulations and by additional costs caused by increased tariffs and devaluation of sterling; availability of reinsurers authorised to write business in the UK; data transfers; the removal of the European Health Insurance Card ("**EHIC**") leading to greater reliance on travel insurance; travel disruption; increased use of Green Cards (internationally recognised certificates that act as proof of insurance, including in the EU); potential changes to direct and indirect tax; and the regulatory impact on our capital position.

Possible implications

The Group has proactively considered a variety of possible implications of a disruptive end to existing trading and other arrangements between the UK and the EU, including of a financial and operational nature; for example:

The Group's investment portfolio

The impact on the Group's investment portfolio and in particular credit spreads related to its debt securities and therefore Group solvency: A sensitivity analysis relating to credit spreads is provided in these interim results. The Group has also considered Brexit impacts in its Investment Committee, and further information is provided on the work of the Investment Committee in the Group's Annual Report & Accounts. A disruptive end to previous arrangements between the UK and EU could impact adversely on the Group's investments and therefore capital and the solvency capital coverage ratio and the appropriateness of paying dividends.

Procurement and supply chain

In particular as part of the Group's ability to deal with claims made under insurance policies, the Group needs to acquire a wide range of goods and services. A significant amount and spread of goods, for example such as car parts, are sourced from within the EU. The Group has been in discussion with principal suppliers who took steps to increase stocks within the UK in the event of a potential 'hard' Brexit leading to disruption at borders. However, in the event of a lack of appropriate trading arrangements with the EU (and other countries) following the transition period and for example in the event of the imposition of tariffs and quotas and border controls, the Group's ability to deal with claims in its normal ordinary course of business manner could be adversely impacted and there could be delays and extra costs.

The Republic of Ireland

The Group has a small amount of business in the Republic of Ireland, servicing a small Irish part of a UK partner's wider business. The Group had obtained approval in principle from the Central Bank of Ireland for the establishment of a formal third country branch in the Republic of Ireland, in order to be able to continue with this business post a 'hard' no-deal Brexit, should that have become necessary. It remains to be seen whether similar arrangements will be needed at the end of the transition period.

Crisis management

The Group has also been focusing on Brexit from a potential crisis management perspective, with the objective of maintaining operational resilience in the event of a disruptive Brexit and with a view to being able to react better to events as they unfold, including during and following the transition period.

Emerging risks

The Group's definition of emerging risks is new or developing risks which are often difficult to quantify; they are also usually highly uncertain and external to the Group. Emerging risks are identified by management and the latest information is maintained within an Emerging Risk Register. Each emerging risk is owned by a business subject matter expert and members of the second line of defence provide challenge and oversight of activity taking place. The Group reports emerging risks to the Board Risk Committee for review and challenge. The Group's emerging risks processes aim to:

– identify emerging risks on a timely basis;
– manage emerging risks proactively;
– mitigate the impact of emerging risks which could affect the delivery of the strategic plan; and
– reduce the uncertainty and volatility of our business's results.

The Group considers its main emerging risks to be:

Climate change

The Group recognises that climate change potentially poses material long-term financial risks to the business, and is receiving increased scrutiny from regulators and investors. Climate change risks can be divided into three categories: physical, transition, and liability risks, all of which can manifest themselves through a range of existing risks within the material risk register, including insurance, market, operational, strategic and reputational risks.

– Physical risks are the direct risks which arise from weather-related events, including the potential to affect both the frequency and severity of natural catastrophe and other weather-related events in the UK. These are not only financial risks but also risks arising from the operational impacts of weather events; for example, having to vacate an office due to flooding, as happened to the Group in 2015.
– Transitional risks arise because efforts to mitigate against climate change are driving a transition towards a lower-carbon economy, which creates risks and opportunities. For example:
  - whilst insuring electric vehicles does not fundamentally change the business model, electric vehicles have their own unique risk profile, and pose different challenges to motor underwriters, accident repair centres, and to rescue products;
  - increased operating costs due to potential increase in carbon costs and regulatory burden is also likely to impact all participants in the industry. The Group monitors its own impact on the climate and has an established environmental management programme; and
  - the Group's business depends on the strength of its brands and its reputation with customers and distributors and, as consumers become more aware and educated of climate change and environmental issues, research shows that they are putting their faith in brands that take their corporate responsibility seriously.
– Liability risks arise when parties, who have suffered losses from climate change, seek to recover from those they believe may have been responsible. There is some potential exposure to liability risk through commercial liability insurance. There are two types of coverage that may have an elevated exposure to climate liability risk: pollution covers on agricultural insurance, and professional indemnity covers. Both of these are heavily reinsured.

In addition to the above risks, the impacts of potential physical, transition and liability risks arising in the wider economy can also have an indirect impact on the investment portfolio through their influence on the value of assets. The Group's largest asset portfolios are focused on corporate bonds. During 2018, the Group approved a significant new investment initiative which incorporates a greater focus on indices weighted by environmental, social and governance factors, which tilt the composition of the portfolio towards higher holdings and weightings of issuers with strong environmental, social and governance scores.

The risks and impacts of climate change are wide ranging. The Group is focusing increasingly on climate change, with related risk management activity including the monitoring of climate change through the Emerging Risk process, the formation of a Climate Change working group, and commencing the implementation of the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures which the Group aims to implement by the end of 2020.

Technological developments change consumer needs for insurance

In the near term, the Group expects data to emerge as a key area of innovation, as insurers learn to access and use new sources of customer data to improve their understanding of risk and improve customer journeys; the Group also expects a greater focus on transparency and fairness; new car technology including automated driving and electric vehicles will also continue to develop as a new area for the Group to understand and compete in; and finally, the Group expects price comparison websites to use digital technology and data to continue to build their role with customers. These changes could significantly affect the size and nature of the insurance market and the role of insurers.

The Group believes leveraging the capabilities it is developing through new platforms and building on these to extend its in-house pricing and underwriting and data integration capabilities will support it in responding to these changes. The Group has also started working groups to look at how to capitalise on these changes through what it believes may be its inherent customer journey and claims data advantages across all channels. The Group is also continuing to focus on its objective of delivering a sustainable cost base that supports a competitive position, in particular through price comparison websites, brokers and partnerships and looking at new ways of working with the aim of providing greater flexibility to compete effectively across a wide range of products and channels.

Potential UK recession
Prior to the Covid-19 pandemic striking in Q1 2020, the most likely potential trigger of a UK recession would have been from a disorderly exit of the UK from the EU.

In the light of the Covid-19 pandemic, in Q1 2020, according the Office of National Statistics, UK GDP decreased by 2.2%, the biggest fall since Q3 1979. The Bank of England has commented that the UK is expected to see its sharpest recession on record and estimated that if the lockdown was eased in June, the economy would shrink 14% for 2020.

In addition, the UK could enter a prolonged period of reduced growth if Brexit negotiations were to break down without any deal being agreed with the EU, potentially reducing insurance sales and the value of our investment portfolio. In a complete separation from the EU and its legal rules, free movement of goods, capital, services and labour could cease.

Whilst the Group's operations are based mainly in the UK, management continues to monitor implications surrounding Brexit negotiations, and their uncertain outcomes, including: the consequences of higher than expected claims inflation; potential increases in UK credit spreads; recruitment and retention of people; potential changes to direct and indirect tax; and the regulatory impact on the Group's capital position.

The Group is actively considering all aspects of Brexit and has a working group to monitor developments to help the Group respond accordingly. Furthermore, the investment portfolio is positioned relatively defensively; however, if the UK recession were to worsen significantly, further steps could be taken such as moving the portfolio further towards defensive sectors or increasing further the allocation to cash.

Changes to traditional insurance business models
Changes to traditional insurance business models was reported as an emerging risk in the Group's 2019 Annual Report & Accounts. This is still considered to be an emerging risk, however the risk profile has not changed significantly since 31 December 2019.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2020

	Notes	**6 months 2020 £m unaudited**	6 months 2019 £m unaudited	Full year 2019 £m audited
Gross earned premium	5	**1,585.3**	1,590.3	3,202.6
Reinsurance premium	5	**(110.9)**	(107.7)	(217.7)
Net earned premium	5	**1,474.4**	1,482.6	2,984.9
Investment return	6	**41.3**	75.7	134.6
Instalment income		**54.8**	56.3	114.0
Other operating income	7	**25.2**	31.7	66.2
Total income		**1,595.7**	1,646.3	3,299.7
Insurance claims	8	**(738.2)**	(845.5)	(1,917.3)
Insurance claims (payable to) / recoverable from reinsurers	8	**(130.8)**	(72.9)	69.7
Net insurance claims	8	**(869.0)**	(918.4)	(1,847.6)
Commission expenses	9	**(89.8)**	(90.6)	(211.5)
Operating expenses (including restructuring and one-off costs)	10	**(387.0)**	(363.0)	(704.9)
Total expenses		**(476.8)**	(453.6)	(916.4)
Finance costs	11	**(13.5)**	(13.0)	(26.0)
Profit before tax		**236.4**	261.3	509.7
Tax charge	12	**(43.8)**	(49.5)	(89.8)
Profit for the year attributable to owners of the Company		**192.6**	211.8	419.9
Earnings per share:				
Basic (pence)	14	**13.6**	14.9	29.5
Diluted (pence)	14	**13.4**	14.7	29.2

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	6 months 2020 £m unaudited	6 months 2019 £m unaudited	Full year 2019 £m audited
Profit for the period	**192.6**	211.8	419.9
Other comprehensive (loss) / income			
Items that will not be reclassified subsequently to the income statement:			
Actuarial loss on defined benefit pension scheme	**–**	–	(7.3)
Tax relating to item that will not be reclassified	**0.2**	–	1.3
	0.2	–	(6.0)
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges	**(0.3)**	–	(0.7)
Fair value (loss) / gain on AFS investments	**(46.1)**	90.4	118.1
Less: realised net losses / (gains) on AFS investments included in the income statement	**3.6**	(13.2)	(16.5)
Tax relating to items that may be reclassified	**6.9**	(13.1)	(17.3)
	(35.9)	64.1	83.6
Other comprehensive (loss) / income for the year net of tax	**(35.7)**	64.1	77.6
Total comprehensive income for the year attributable to owners of the Company	**156.9**	275.9	497.5

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2020

	Notes	30 Jun 2020 £m unaudited	31 Dec 2019 £m audited
Assets			
Goodwill and other intangible assets		**741.2**	702.5
Property, plant and equipment		**142.0**	143.4
Right-of-use assets		**142.6**	149.2
Investment property		**281.4**	291.7
Reinsurance assets	16	**1,048.2**	1,251.3
Current tax assets		**1.4**	–
Deferred acquisition costs		**175.6**	176.2
Insurance and other receivables		**869.0**	846.5
Prepayments, accrued income and other assets		**123.3**	120.2
Derivative financial instruments		**16.1**	121.5
Retirement benefit asset		**9.7**	9.7
Financial investments	17	**4,521.3**	4,673.4
Cash and cash equivalents	18	**1,500.0**	948.6
Total assets		**9,571.8**	9,434.2
Equity			
Shareholders' equity		**2,756.5**	2,643.6
Tier 1 notes	19	**346.5**	346.5
Total equity		**3,103.0**	2,990.1
Liabilities			
Subordinated liabilities	20	**517.9**	259.0
Insurance liabilities	21	**3,589.9**	3,819.6
Unearned premium reserve		**1,501.5**	1,506.0
Borrowings	18	**65.1**	52.3
Derivative financial instruments		**77.3**	30.5
Provisions		**80.8**	74.3
Trade and other payables, including insurance payables		**480.7**	478.1
Lease liabilities		**155.5**	164.4
Deferred tax liabilities		**0.1**	9.6
Current tax liabilities		**–**	50.3
Total liabilities		**6,468.8**	6,444.1
Total equity and liabilities		**9,571.8**	9,434.2

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Share capital £m	Employee trust shares £m	Capital reserves £m	Available-for-sale revaluation reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Shareholders' equity £m	Tier 1 notes (note 19) £m	Total equity £m
Balance at 1 January 2019 (audited)	150.0	(35.2)	1,450.0	(36.8)	0.8	1,029.4	2,558.2	346.5	2,904.7
Profit for the year	–	–	–	–	–	419.9	419.9	–	419.9
Other comprehensive loss	–	–	–	84.3	(0.7)	(6.0)	77.6	–	77.6
Dividends and appropriations paid (note 13)	–	–	–	–	–	(420.7)	(420.7)	–	(420.7)
Shares acquired by employee trusts	–	(10.4)	–	–	–	–	(10.4)	–	(10.4)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	18.4	18.4	–	18.4
Shares distributed by employee trusts	–	15.4	–	–	–	(15.4)	–	–	–
Tax on share-based payments	–	–	–	–	–	0.6	0.6	–	0.6
Balance at 31 December 2019 (audited)	150.0	(30.2)	1,450.0	47.5	0.1	1,026.2	2,643.6	346.5	2,990.1
Profit for the year	**–**	**–**	**–**	**–**	**–**	**192.6**	**192.6**	**–**	**192.6**
Other comprehensive income	**–**	**–**	**–**	**(35.6)**	**(0.3)**	**0.2**	**(35.7)**	**–**	**(35.7)**
Dividends and appropriations paid (note 13)	**–**	**–**	**–**	**–**	**–**	**(8.3)**	**(8.3)**	**–**	**(8.3)**
Share redemption	**(1.1)**	**–**	**1.1**	**–**	**–**	**–**	**–**	**–**	**–**
Shares cancelled through buyback	**–**	**–**	**–**	**–**	**–**	**(30.0)**	**(30.0)**	**–**	**(30.0)**
Shares acquired by employee trusts	**–**	**(14.9)**	**–**	**–**	**–**	**–**	**(14.9)**	**–**	**(14.9)**
Credit to equity for equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**9.0**	**9.0**	**–**	**9.0**
Shares distributed by employee trusts	**–**	**8.8**	**–**	**–**	**–**	**(8.8)**	**–**	**–**	**–**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**	**–**	**0.2**
Balance at 30 June 2020 (unaudited)	**148.9**	**(36.3)**	**1,451.1**	**11.9**	**(0.2)**	**1,181.1**	**2,756.5**	**346.5**	**3,103.0**

	Share capital £m	Employee trust shares £m	Capital reserves £m	Available-for-sale revaluation reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Shareholders' equity £m	Tier 1 notes (note 19) £m	Total equity £m
Balance at 1 January 2019 (audited)	150.0	(35.2)	1,450.0	(36.8)	0.8	1,029.4	2,558.2	346.5	2,904.7
Profit for the year	–	–	–	–	–	211.8	211.8	–	211.8
Other comprehensive profit	–	–	–	64.1	–	–	64.1	–	64.1
Dividends and appropriations paid (note 13)	–	–	–	–	–	(313.8)	(313.8)	–	(313.8)
Shares acquired by employee trusts	–	(0.5)	–	–	–	–	(0.5)	–	(0.5)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	10.0	10.0	–	10.0
Shares distributed by employee trusts	–	11.6	–	–	–	(11.6)	–	–	–
Tax on share-based payments	–	–	–	–	–	0.5	0.5	–	0.5
Balance at 30 June 2019 (unaudited)	150.0	(24.1)	1,450.0	27.3	0.8	926.3	2,530.3	346.5	2,876.8

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2020

	Notes	**6 months 2020 £m unaudited**	6 months 2019[1] £m unaudited	Full year 2019 £m audited
Net cash generated from operating activities before investment of insurance assets		**50.8**	50.6	88.2
Cash generated from investment of insurance assets		**368.9**	364.4	373.9
Net cash generated from operating activities		**419.7**	415.0	462.1
Cash flows used in investing activities				
Purchases of goodwill and other intangible assets		**(59.4)**	(83.7)	(175.7)
Purchases of property, plant and equipment		**(6.2)**	(6.4)	(11.9)
Net cash used in investing activities		**(65.6)**	(90.1)	(187.6)
Cash flows used in financing activities				
Dividends and appropriations paid	13	**(8.3)**	(313.8)	(420.7)
Finance costs (including lease interest)		**(13.0)**	(13.2)	(26.4)
Principal element of lease payments		**(6.5)**	(6.6)	(13.1)
Purchase of employee trust shares		**(14.9)**	(0.5)	(10.4)
Proceeds on issue of subordinated Tier 2 notes		**257.2**	–	–
Share buyback		**(30.0)**	–	–
Net cash generated from / (used in) financing activities		**184.5**	(334.1)	(470.6)
Net increase / (decrease) in cash and cash equivalents		**538.6**	(9.2)	(196.1)
Cash and cash equivalents at the beginning of the year	18	**896.3**	1,092.4	1,092.4
Cash and cash equivalents at the end of the period	18	**1,434.9**	1,083.2	896.3

Note:

1. Presentational amendments included £0.2 million of ‘Proceeds on disposal of property, plant and equipment’ previously presented separately, are now presented within ‘Net cash generated from operating activities before investment of insurance assets’ on the condensed consolidated cash flow statement.

Corporate information

Direct Line Insurance Group plc is a public limited company registered in England and Wales (company number 02280426).

The address of the registered office is Churchill Court, Westmoreland Road, Bromley BR1 1DP, England.

1. General information

The financial information for the year ended 31 December 2019 and included in the condensed consolidated financial statements does not constitute statutory accounts as defined in S.434 of the Companies Act 2006 but has been abridged from the statutory accounts for that year which have been delivered to the Registrar of Companies. The independent auditor's report on the Group accounts for the year ended 31 December 2019 is unqualified, does not draw attention to any matters by way of emphasis and does not include a statement under S.498(2) or (3) of the Companies Act 2006.

2. Accounting polices

Basis of preparation

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The unaudited condensed consolidated financial statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union.

Going concern

The Group has sufficient financial resources to meet its financial needs, including managing a mature portfolio of insurance risk. The Directors believe the Group is well positioned to manage its business risks successfully in the current economic climate. The Finance review on pages 11 to 23 describes the Group's capital management strategy, including the capital actions taken in the last six months to ensure the continued strength of the balance sheet. The Group's financial position is also covered in that section, including a commentary on cash and investment levels, reserves, currency management, insurance liability management, liquidity and borrowings.

The Directors have assessed the principal risks of the Group over the duration of the planning cycle and have considered potential impacts of the Covid-19 pandemic using, in particular, two stress scenarios that considered the impacts of variations in the restrictions and regulations and economic recovery period on the future profitability, liquidity and solvency of the Group. The first scenario was based on the Bank of England's illustrative scenario for economic outlook, published in May 2020, which assumes a sharp contraction and a similarly fast recovery in the economy. The second scenario was based on the effects of the pandemic being more severe and having a longer economic impact before the economy recovers to pre-pandemic levels. The key judgement applied to both is the likely time period of the restrictions and the impact on customer behaviour. The results of the stress impacts on the Group's solvency did not result in a breach of risk appetite in any year covered by the scenarios (2020 to 2022). Therefore, having made due enquiries, the Directors reasonably expect that the Group has adequate resources to continue in operational existence for at least 12 months from 3 August 2020 (the date of approval of the condensed consolidated financial statements). Accordingly, the Directors have adopted the going concern basis in preparing the condensed consolidated financial statements.

Accounting policies and developments

The Group's accounting policies, presentation and methods of computation that are followed in the preparation of condensed consolidated financial statements are the same as applied in the Group's latest annual audited financial statements.

The Group has adopted a number of new amendments to International Financial Reporting Standards and International Accounting Standards that became effective for the Group for the first time during 2020. However, these have had no impact on the condensed consolidated financial statements.

The Group adopted IFRS 16 'Leases' for the first time in 2019 on a fully retrospective basis.

In September 2019, the IASB issued 'Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7' which, although not mandatory for the Group until 2020, was also adopted in 2019.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. Critical accounting judgements and key sources of estimation uncertainty

Full details of critical accounting judgements and key sources of estimation uncertainty used in applying the Group's accounting policies are outlined on pages 167 to 168 of the Annual Reports & Accounts 2019. The judgements and assumptions involved in the Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition have been reviewed by the Board in light of the potential impacts of the Covid-19 pandemic and are discussed below.

3.1 Impairment provisions – financial assets

The Group's financial assets are classified as available-for-sale ("**AFS**") or held-to-maturity ("**HTM**") debt securities or loans and receivables. The Group makes a judgement that financial assets are impaired when there is objective evidence that an event or events since the initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset. The performance of the Group's financial assets is closely monitored and, since the

Covid-19 pandemic began to affect financial markets, the financial markets have seen large amounts of volatility. The Group's investment strategy limits exposure to individual asset classes and the amount of illiquid investments held.

The majority of the Group's financial assets are classified as AFS (30 June 2020: £3,938.8 million; 31 December 2019: £4,085.6 million). Impairment losses and exchange differences arising from translating the amortised cost of foreign currency monetary AFS financial assets are recognised in the income statement. Other changes in fair value are recognised in a separate component of equity. No impairments have been recognised in the AFS portfolio in respect of Covid-19, however should the decline in asset values in the period from 1 January 2020 to 30 June 2020 have been recognised in the income statement on the basis of the criteria explained on page 167 of the 2019 Annual Report & Accounts, this would have resulted in a loss of £38.2 million (year ended 31 December 2019: loss £4 million).

The Group has a small portfolio of investments classified as HTM (30 June 2020: £104.0 million; 31 December 2019: £104.0 million). These assets are measured at amortised cost and there have been no impairment losses as a result of Covid-19.

The Group has a small portfolio of investments classified as loans and receivables, comprising infrastructure debt and commercial real estate loans (total 30 June 2020: £475.3 million; 31 December 2019: £483.8 million). In relation to the Group's commercial real estate loan portfolio, some loan interest income and loan amortisation payments have been deferred in H1 with repayments for all loan interest agreed over the next 12 months and for amortisation over the next 12 to 24 months. There have been no impairment losses for either infrastructure or commercial real estate loans as a result of Covid-19 included in the condensed consolidated financial statements for the six months ending 30 June 2020, and the Group will continue to monitor developments accordingly.

3.2 Impairment provisions – intangible assets

The Group applies judgement in assessing whether there are indicators of impairment to intangible assets. Intangible assets (excluding goodwill) were £527.0 million at 30 June 2020 (31 December 2019: £488.3 million). The economic benefits associated with the intangible assets will continue to be assessed throughout the development cycle of each programme and it has been concluded that there were no indicators of impairments to the assets in development. Therefore, no impairment losses have been reported in the condensed consolidated financial statements for the six months ending 30 June 2020 as a result of Covid-19.

3.3 General insurance: outstanding claims provisions and related reinsurance recoverables

General insurance claims provisions are £3,589.9 million at 30 June 2020 (31 December 2019: £3,819.6 million) and reinsurance recoverables are £960.1 million at 30 June 2020 (31 December 2019: £1,149.6 million).

At the beginning of the pandemic, as lockdown commenced, there was considerable uncertainty relating to the claims reserves required for Travel and Commercial business interruption and the risks surrounding those estimates. At the half year, the position is clearer, but still subject to material risk.

The Group has booked claims reserves for Travel of £25 million net of reinsurance at 30 June 2020. The claims data continues to be closely monitored, in line with ongoing developments in official advice.

The impact from the pandemic on business interruption is expected to be limited. Pandemic cover is not provided for under the Group's standard wordings, which account for approximately 99.5% of these policies. For the remaining approximately 0.5%, not written on the Group's standard wordings, the Group currently estimates claims costs of approximately £10 million as at 30 June 2020.

For Motor business, the impact of the pandemic has been favourable. Claims frequency has reduced as the number of journeys fell significantly during lockdown. However, this was partially offset by increased claims severity. As the economy reopens and restrictions are eased, there is uncertainty about how quickly these factors will revert to their longer-term trends.

There have been no other significant changes to the principles or assumptions of these critical accounting judgements and key sources of estimation uncertainty during the six months to 30 June 2020.

4. Segmental analysis

The table below analyses the Group's revenue and results by reportable segment for the period ended 30 June 2020.

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	**Total Group £m**
Gross written premium	805.3	276.1	210.1	289.3	**1,580.8**
Gross earned premium	813.7	290.6	214.8	266.2	**1,585.3**
Reinsurance premium	(73.3)	(12.8)	(1.6)	(23.2)	**(110.9)**
Net earned premium	740.4	277.8	213.2	243.0	**1,474.4**
Investment return	27.4	4.3	1.5	8.1	**41.3**
Instalment income	40.2	9.7	1.4	3.5	**54.8**
Other operating income	18.9	0.1	4.9	1.3	**25.2**
Total income	826.9	291.9	221.0	255.9	**1,595.7**
Insurance claims	(255.8)	(169.9)	(198.2)	(114.3)	**(738.2)**
Insurance claims (payable to) / recoverable from reinsurers	(146.0)	7.7	18.9	(11.4)	**(130.8)**
Net insurance claims	(401.8)	(162.2)	(179.3)	(125.7)	**(869.0)**
Commission expenses	(21.4)	(19.0)	(6.4)	(43.0)	**(89.8)**
Operating expenses	(183.2)	(75.4)	(51.5)	(61.9)	**(372.0)**
Total expenses	(204.6)	(94.4)	(57.9)	(104.9)	**(461.8)**
Operating profit / (loss)	**220.5**	**35.3**	**(16.2)**	**25.3**	**264.9**
Restructuring and one-off costs					**(15.0)**
Operating profit after restructuring and one-off costs					**249.9**
Finance costs					**(13.5)**
Profit before tax					**236.4**
Underwriting profit / (loss)	**134.0**	**21.2**	**(24.0)**	**12.4**	**143.6**
Loss ratio	54.3%	58.5%	84.1%	51.7%	**59.0%**
Commission ratio	2.9%	6.8%	3.0%	17.7%	**6.1%**
Expense ratio	24.7%	27.1%	24.2%	25.5%	**25.2%**
Combined operating ratio	**81.9%**	**92.4%**	**111.3%**	**94.9%**	**90.3%**

4. Segmental analysis continued

The table below analyses the Group's revenue and results by reportable segment for the period ended 30 June 2019.

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total Group £m
Gross written premium	800.5	283.3	216.5	274.8	1,575.1
Gross earned premium	822.5	300.3	210.5	257.0	1,590.3
Reinsurance premium	(72.9)	(12.3)	(1.0)	(21.5)	(107.7)
Net earned premium	749.6	288.0	209.5	235.5	1,482.6
Investment return	49.9	9.3	3.1	13.4	75.7
Instalment income	41.4	10.3	1.3	3.3	56.3
Other operating income	25.6	0.3	5.2	0.6	31.7
Total income	866.5	307.9	219.1	252.8	1,646.3
Insurance claims	(452.8)	(138.8)	(141.5)	(112.4)	(845.5)
Insurance claims (payable to) / recoverable from reinsurers	(65.9)	0.1	(0.1)	(7.0)	(72.9)
Net insurance claims	(518.7)	(138.7)	(141.6)	(119.4)	(918.4)
Commission expenses	(19.0)	(21.9)	(8.5)	(41.2)	(90.6)
Operating expenses	(175.0)	(76.2)	(51.5)	(60.3)	(363.0)
Total expenses	(194.0)	(98.1)	(60.0)	(101.5)	(453.6)
Operating profit	153.8	71.1	17.5	31.9	274.3
Finance costs					(13.0)
Profit before tax					261.3

	Motor	Home	Rescue and other personal lines	Commercial	Total Group
Underwriting profit	36.9	51.2	7.9	14.6	110.6
Loss ratio	69.2%	48.1%	67.6%	50.7%	61.9%
Commission ratio	2.5%	7.6%	4.1%	17.5%	6.1%
Expense ratio	23.4%	26.5%	24.5%	25.6%	24.5%
Combined operating ratio	95.1%	82.2%	96.2%	93.8%	92.5%

4. Segmental analysis continued

The table below analyses the Group's revenue and results by reportable segment for the year ended 31 December 2019 (audited).

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total Group £m
Gross written premium	1,651.6	586.6	436.0	528.9	3,203.1
Gross earned premium	1,653.2	598.8	427.4	523.2	3,202.6
Reinsurance premium	(145.5)	(25.2)	(2.2)	(44.8)	(217.7)
Net earned premium	1,507.7	573.6	425.2	478.4	2,984.9
Investment return	88.6	16.7	5.6	23.7	134.6
Instalment income	83.8	20.5	2.8	6.9	114.0
Other operating income	51.3	0.6	11.1	3.2	66.2
Total income	1,731.4	611.4	444.7	512.2	3,299.7
Insurance claims	(1,086.8)	(276.2)	(285.2)	(269.1)	(1,917.3)
Insurance claims recoverable from reinsurers	43.5	7.8	0.8	17.6	69.7
Net insurance claims	(1,043.3)	(268.4)	(284.4)	(251.5)	(1,847.6)
Commission expenses	(39.9)	(55.7)	(27.2)	(88.7)	(211.5)
Operating expenses	(345.6)	(136.7)	(94.0)	(117.4)	(693.7)
Total expenses	(385.5)	(192.4)	(121.2)	(206.1)	(905.2)
Operating profit	302.6	150.6	39.1	54.6	546.9
Restructuring and one-off costs					(11.2)
Operating profit after restructuring and one-off costs					535.7
Finance costs					(26.0)
Profit before tax					509.7

	Motor	Home	Rescue and other personal lines	Commercial	Total Group
Underwriting profit	78.9	112.8	19.6	20.8	232.1
Loss ratio	69.3%	46.8%	66.9%	52.7%	61.9%
Commission ratio	2.6%	9.7%	6.4%	18.5%	7.1%
Expense ratio	22.9%	23.8%	22.1%	24.5%	23.2%
Combined operating ratio	94.8%	80.3%	95.4%	95.7%	92.2%

5. Net earned premium

	6 months 2020 £m	6 months 2019 £m	Full year 2019 £m audited
Gross earned premium:			
Gross written premium	**1,580.8**	1,575.1	3,203.1
Movement in unearned premium reserve	**4.5**	15.2	(0.5)
	1,585.3	1,590.3	3,202.6
Reinsurance premium paid and payable:			
Premium payable	**(97.2)**	(87.0)	(215.9)
Movement in reinsurance unearned premium reserve	**(13.7)**	(20.7)	(1.8)
	(110.9)	(107.7)	(217.7)
Total	**1,474.4**	1,482.6	2,984.9

6. Investment return

	6 months 2020 £m	6 months 2019 £m	Full year 2019 £m audited
Investment income:			
Interest income from debt securities	**49.6**	55.5	108.4
Interest income from cash and cash equivalents	**2.2**	4.8	7.9
Interest income from infrastructure debt	**3.2**	3.6	7.0
Interest income from commercial real estate loans	**3.3**	3.3	6.9
Interest income	**58.3**	67.2	130.2
Rental income from investment property	**6.5**	8.2	16.2
	64.8	75.4	146.4
Net realised (losses) / gains:			
Available-for-sale debt securities	**(3.6)**	13.2	16.5
Derivatives	**(6.3)**	46.3	(9.5)
Investment property	**–**	–	(0.7)
	(9.9)	59.5	6.3
Net unrealised losses:			
Derivatives	**(3.3)**	(58.4)	(12.6)
Investment property	**(10.3)**	(0.8)	(5.5)
	(13.6)	(59.2)	(18.1)
Total	**41.3**	75.7	134.6

The table below analyses the realised and unrealised gains and losses on derivative instruments included in investment return.

	Realised	**Unrealised**	Realised	Unrealised
	6 months 2020 £m	**6 months 2020 £m**	6 months 2019 £m	6 months 2019 £m
Derivative (losses) / gains:				
Foreign exchange forward contracts[1]	**(17.2)**	**(113.7)**	15.7	(33.0)
Associated foreign exchange risk	**21.5**	**100.7**	32.7	(30.6)
Net gains / (losses) on foreign exchange forward contracts	**4.3**	**(13.0)**	48.4	(63.6)
Interest rate swaps[1]	**(17.9)**	**(39.4)**	(7.7)	(41.9)
Associated interest rate risk on hedged items	**7.3**	**49.1**	5.6	47.1
Net (losses) / gains on interest rate derivatives	**(10.6)**	**9.7**	(2.1)	5.2
Total	**(6.3)**	**(3.3)**	46.3	(58.4)

Note:

1. Foreign exchange forward contracts are measured at fair value through profit and loss and interest rate swaps are designated as hedging instruments.

6. Investment return continued

	Realised	Unrealised
	Full year 2019 £m audited	Full year 2019 £m audited
Derivative losses:		
Foreign exchange forward contracts[1]	(56.8)	103.4
Associated foreign exchange risk	53.4	(123.8)
Net losses on foreign exchange forward contracts	(3.4)	(20.4)
Interest rate swaps[1]	(16.8)	(33.6)
Associated interest rate risk on hedged items	10.7	41.4
Net (losses) / gains on interest rate derivatives	(6.1)	7.8
Total	(9.5)	(12.6)

Note:

1. Foreign exchange forward contracts are measured at fair value through profit and loss and interest rate swaps are designated as hedging instruments.

7. Other operating income

	6 months 2020 £m	6 months 2019 £m	Full year 2019 £m audited
Revenue from vehicle recovery and repair services[1]	**11.2**	14.4	28.3
Vehicle replacement referral income	**6.3**	9.0	19.1
Legal services income	**4.7**	5.3	11.3
Other income[1,2]	**3.0**	3.0	7.5
Total	**25.2**	31.7	66.2

Notes:

1. Revenue from vehicle recovery and repair services includes salvage income previously reported in other income. Comparative data for the period ended 30 June 2019 has been re-presented accordingly.
2. Other income includes mainly fee income from insurance intermediary services.

8. Net insurance claims

	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	6 months 2020 £m	**6 months 2020 £m**	**6 months 2020 £m**	6 months 2019 £m	6 months 2019 £m	6 months 2019 £m
Current accident year claims paid	**409.5**	**–**	**409.5**	479.9	–	479.9
Prior accident year claims paid	**558.4**	**(58.7)**	**499.7**	586.9	(13.9)	573.0
Decrease in insurance liabilities	**(229.7)**	**189.5**	**(40.2)**	(221.3)	86.8	(134.5)
Total	**738.2**	**130.8**	**869.0**	845.5	72.9	918.4

	Gross	Reinsurance	Net
	Full year 2019 £m audited	Full year 2019 £m audited	Full year 2019 £m audited
Current accident year claims paid	1,232.9	(0.2)	1,232.7
Prior accident year claims paid	870.7	(25.1)	845.6
Decrease in insurance liabilities	(186.3)	(44.4)	(230.7)
Total	1,917.3	(69.7)	1,847.6

Claims handling expenses[1] for the period ended 30 June 2020 of £93.5 million (30 June 2019: £100.1 million, 31 December 2019: £202.9 million) have been included in the claims figures above.

Note

1. Includes costs in respect of low value leases of £0.1 million (30 June 2019: £0.1 million, 31 December 2019: £0.3 million).

9. Commission expenses

	6 months 2020 £m	6 months 2019 £m	Full year 2019 £m audited
Commission expenses	**87.6**	82.3	171.2
Expenses incurred under profit participations	**2.2**	8.3	40.3
Total	**89.8**	90.6	211.5

10. Operating expenses

	6 months 2020 £m	6 months 2019 £m	Full year 2019 £m audited
Staff costs[1,2]	**142.3**	134.1	267.3
IT and other operating expenses[2,3,4]	**105.2**	81.5	163.4
Marketing	**54.2**	59.3	113.9
Insurance levies[4]	**49.9**	46.9	81.5
Depreciation and amortisation[5]	**35.4**	41.2	78.8
Total operating expenses (including restructuring and one-off costs)	**387.0**	363.0	704.9
Of which restructuring and one-off costs	**15.0**	–	11.2
Total excluding restructuring and one-off costs	**372.0**	363.0	693.7

Notes:

1. Restructuring and one-off costs of £15.0 million (31 December 2019: £11.2 million) are included as follows: staff costs of £10.0 million (31 December 2019: £5.8 million) and other operating expenses of £5.0 million (31 December 2019: £5.4 million).
2. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
3. IT and other operating expenses include professional fees and property costs.
4. Insurance levies were previously reported in other operating expenses. Comparative data for the period ended 30 June 2019 has been re-presented accordingly.
5. Includes depreciation on right-of-use assets of £7.2 million (30 June 2019: £7.4 million, 31 December 2019: £14.2 million).

11. Finance costs

	6 months 2020 £m	6 months 2019 £m	Full year 2019 £m audited
Interest expense on subordinated liabilities	**12.2**	11.5	23.1
Net interest received on designated hedging instrument[1]	**(1.8)**	(1.7)	(3.4)
Unrealised (gains) / losses on designated hedging instrument[1]	**(1.2)**	(1.4)	0.1
Unrealised losses / (gains) on associated interest rate risk on hedged item[1]	**0.9**	1.0	(0.8)
Amortisation of arrangement costs and discount on issue of subordinated liabilities	**0.2**	0.2	0.3
Interest expense on lease liabilities	**3.2**	3.4	6.7
Total	**13.5**	13.0	26.0

Note:

1. As described in note 20, on 27 April 2012 the Group issued subordinated guaranteed dated notes with a nominal value of £500 million at a fixed rate of 9.25%. On the same date, the Group also entered into a 10-year designated hedging instrument to exchange the fixed rate of interest on the notes for a floating rate of 3-month LIBOR plus a spread of 706 basis points, which increased to 707 basis points with effect from 29 July 2013. On 8 December 2017, the Group redeemed £250 million nominal value of the notes. On 5 June 2020, the Group issued subordinated Tier 2 notes at a fixed rate of 4.0%. The notes have a redemption date of 5 June 2032 and may be redeemed at the option of the Group commencing on 5 December 2031 until the maturity date.

12. Tax charge

	6 months 2020 £m	6 months 2019 £m	Full year 2019 £m audited
Current taxation:			
Charge for the period	**46.3**	51.9	101.9
Over provision in respect of the prior period	**–**	(0.3)	(1.1)
	46.3	51.6	100.8
Deferred taxation:			
Credit for the period	**(2.5)**	(1.9)	(5.4)
Over provision in respect of the prior period	**–**	(0.2)	(5.6)
	(2.5)	(2.1)	(11.0)
Current taxation	**46.3**	51.6	100.8
Deferred taxation	**(2.5)**	(2.1)	(11.0)
Tax charge for the period	**43.8**	49.5	89.8

13. Dividends and appropriations

	6 months 2020 £m	6 months 2019 £m	Full year 2019 £m audited
Amounts recognised as distributions to equity holders in the period:			
2018 final dividend of 14.0 pence per share paid on 16 May 2019	**–**	191.8	191.8
2019 first interim dividend of 7.2 pence per share paid on 6 September 2019	**–**	–	98.6
2018 special dividend of 8.3 pence per share paid on 16 May 2019	**–**	113.7	113.7
	–	305.5	404.1
Coupon payments in respect of Tier 1 notes[1]	**8.3**	8.3	16.6
	8.3	313.8	420.7

Note:

1. Coupon payments on the Tier 1 notes issued in December 2017 are treated as an appropriation of retained profits and, accordingly, are accounted for when paid.

Following the cancellation of the dividend as announced on 8 April 2020, no dividends were paid during the period ended 30 June 2020. For the period ended 30 June 2019, the trustees of the employee share trusts waived their entitlement to dividends on shares held to meet obligations arising on the Long-Term Incentive Plan, Deferred Annual Incentive Plan and Restrictive Share Plan awards, which reduced the total dividends paid by £1.1 million.

14. Earnings per share

Earnings per share is calculated by dividing earnings attributable to the owners of the Company less coupon payments in respect of Tier 1 notes by the weighted average number of Ordinary Shares during the year.

Basic

Basic earnings per share is calculated by dividing the earnings attributable to the owners of the Company less coupon payments in respect of Tier 1 notes by the weighted average number of Ordinary Shares during the period, excluding Ordinary Shares held as employee trust shares.

	6 months 2020 £m	6 months 2019 £m	Full year 2019 £m audited
Earnings attributable to owners of the Company	**192.6**	211.8	419.9
Coupon payments in respect of Tier 1 notes	**(8.3)**	(8.3)	(16.6)
Profit for the calculation of earnings per share	**184.3**	203.5	403.3
Weighted average number of Ordinary Shares (millions)	**1,355.6**	1,366.5	1,367.2
Basic earnings per share (pence)	**13.6**	14.9	29.5

14. Earnings per share continued

Diluted

Diluted earnings per share is calculated by dividing the earnings attributable to the owners of the Company less coupon payments in respect of Tier 1 notes by the weighted average number of Ordinary Shares during the period adjusted for the dilutive potential Ordinary Shares. The Company has share options and contingently issuable shares as categories of dilutive potential Ordinary Shares.

	6 months 2020 £m	6 months 2019 £m	Full year 2019 £m audited
Earnings attributable to owners of the Company	**192.6**	211.8	419.9
Coupon payments in respect of Tier 1 notes	**(8.3)**	(8.3)	(16.6)
Profit for the calculation of earnings per share	**184.3**	203.5	403.3
Weighted average number of Ordinary Shares (millions)	**1,355.6**	1,366.5	1,367.2
Effect of dilutive potential of share options and contingently issuable shares (millions)	**16.6**	14.4	15.3
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	**1,372.2**	1,380.9	1,382.5
Diluted earnings per share (pence)	**13.4**	14.7	29.2

15. Net assets per share and return on equity

Net asset value per share is calculated as total shareholders' equity (which excludes Tier 1 notes) divided by the number of Ordinary Shares at the end of the period excluding shares held by employee share trusts.

Tangible net asset value per share is calculated as total shareholders' equity less goodwill and other intangible assets divided by the number of Ordinary Shares at the end of the period excluding shares held by employee share trusts.

The table below analyses net asset and tangible net asset value per share.

	30 June 2020 £m	Full year 2019 £m audited
Net assets	**2,756.5**	2,643.6
Goodwill and other intangible assets[1]	**(741.2)**	(702.5)
Tangible net assets	**2,015.3**	1,941.1
Number of Ordinary Shares (millions)	**1,364.6**	1,375.0
Shares held by employee share trusts (millions)	**(11.3)**	(8.4)
Closing number of Ordinary Shares (millions)	**1,353.3**	1,366.6
Net asset value per share (pence)	**203.7**	193.4
Tangible net asset value per share (pence)	**148.9**	142.0

Note:

1. The increase in goodwill and other intangible assets for the period ended 30 June 2020 is primarily comprised of additional capitalised software development costs.

Return on equity

The table below details the calculation of return on equity.

	6 months 2020 £m	6 months 2019 £m	Full year 2019 £m audited
Earnings attributable to owners of the Company	**192.6**	211.8	419.9
Coupon payments in respect of Tier 1 notes	**(8.3)**	(8.3)	(16.6)
Profit for the calculation of return on equity	**184.3**	203.5	403.3
Annualised profit for the calculation of return on equity[1]	**368.6**	407.0	403.3
Opening shareholders' equity	**2,643.6**	2,558.2	2,558.2
Closing shareholders' equity	**2,756.5**	2,530.3	2,643.6
Average shareholders' equity	**2,700.1**	2,544.3	2,600.9
Return on equity for period	**6.8%**	8.0%	15.5%
Return on equity annualised	**13.7%**	16.0%	15.5%

Note:

1. Profit has been annualised using the profit for the period ended 30 June 2020 (2019: period ended 30 June 2019).

16. Reinsurance assets

	30 June 2020 £m	Full year 2019 £m audited
Reinsurers' share of general insurance liabilities	**1,002.1**	1,190.1
Impairment provision[1]	**(42.0)**	(40.5)
Total excluding reinsurers' unearned premium reserves	**960.1**	1,149.6
Reinsurers' unearned premium reserve	**88.1**	101.7
Total	**1,048.2**	1,251.3

Note:

1. Impairment provision relates to reinsurance debtors, allowing for the risk that reinsurance assets may not be collected, or where the reinsurer's credit rating has been significantly downgraded and may have difficulty in meeting its obligations.

17. Financial investments

	30 June 2020 £m	Full year 2019 £m audited
Available-for-sale debt securities		
Corporate	**3,839.7**	3,925.6
Supranational	**21.4**	31.3
Local government	**35.8**	29.2
Sovereign	**41.9**	99.5
Total	**3,938.8**	4,085.6
Held to maturity debt securities		
Corporate	**104.0**	104.0
Total debt securities	**4,042.8**	4,189.6
Total debt securities		
Fixed interest rate[1]	**4,019.7**	4,166.5
Floating interest rate	**23.1**	23.1
Total	**4,042.8**	4,189.6
Loans and receivables		
Infrastructure debt	**271.2**	278.1
Commercial real estate loans	**204.1**	205.7
Total loans and receivables	**475.3**	483.8
Available-for-sale equity investments[2]	**3.2**	–
Total	**4,521.3**	4,673.4

Notes:

1. The Group swaps a fixed interest rate for a floating rate of interest on its US Dollar and Euro corporate debt securities by entering into interest rate derivatives. The hedged amount at 30 June 2020 was £985.4 million (31 December 2019: £955.8 million).
2. Available-for-sale equity investments consist of an equity fund which is designated on initial recognition at fair value through other comprehensive income.

18. Cash and cash equivalents and borrowings

	30 June 2020 £m	Full year 2019 £m audited
Cash at bank and in hand	**237.4**	223.1
Short-term deposits with credit institutions[1]	**1,262.6**	725.5
Cash and cash equivalents	**1,500.0**	948.6
Bank overdrafts[2]	**(65.1)**	(52.3)
Cash and bank overdrafts[3]	**1,434.9**	896.3

Notes:

1. This represents money market funds.
2. Bank overdrafts represent short-term timing differences between transactions posted in the records of the Group and transactions flowing through the accounts at the bank.
3. Cash and bank overdrafts disclosure note is included for the purposes of the condensed consolidated cash flow statement.

The effective interest rate on short-term deposits with credit institutions for the period ended 30 June 2020 was 0.46% (31 December 2019: 0.79%) and average maturity was 10 days (31 December 2019: 10 days).

19. Tier 1 notes

	30 June 2020 £m	Full year 2019 £m audited
Tier 1 notes	**346.5**	346.5

On 7 December 2017, the Group issued £350 million of fixed rate perpetual Tier 1 notes with a coupon rate of 4.75% per annum.

The Group has an optional redemption date of 7 December 2027. If the notes are not repaid on that date, a fixed rate of interest per annum will be reset. The notes are direct, unsecured and subordinated obligations of the issuer ranking pari passu and without any preference amongst themselves.

The Tier 1 notes are treated as a separate category within equity and the coupon payments are recognised outside of the profit after tax result and directly in shareholders' equity.

The Group has the option to cancel the coupon payment; this becomes mandatory if the Solvency Condition[1] is not met at the time of or following coupon payment, non-compliance with the SCR, non-compliance with the minimum capital requirement, where the Group has insufficient distributable reserves or where the relevant regulator requires the coupon payment to be cancelled.

Note:

1. All payments shall be conditional upon the Group being solvent at the time of payment and immediately after payment. The Issuer will be solvent if (i) it is able to pay its debts owed to senior creditors as they fall due and (ii) its assets exceed its liabilities.

20. Subordinated liabilities

	30 June 2020 £m	Full year 2019 £m audited
Subordinated guaranteed dated notes	**517.9**	259.0

£250 million 9.25% subordinated Tier 2 noted due 2042

Subordinated guaranteed dated notes with a nominal value of £500 million were issued on 27 April 2012 at a fixed rate of 9.25%. On the same date, the Group also entered into a 10-year designated hedging instrument to exchange the fixed rate of interest for a floating rate of 3-month LIBOR plus a spread of 706 basis points which was credit value adjusted to 707 basis points with effect from 29 July 2013.

On 8 December 2017, the Group repurchased £250 million nominal value of the subordinated guaranteed dated notes for a purchase price of £330.1 million including accrued interest of £2.7 million and associated transaction costs of £0.6 million.

The remaining notes, with a nominal value of £250 million, have a redemption date of 27 April 2042 with the option to repay the notes on 27 April 2022. If the notes are not repaid on that date, the rate of interest will be reset at a rate of the 6-month LIBOR plus 7.91%.

The Group has the option, in certain circumstances, to defer interest payments on the notes but to date has not exercised this right.

The notes are unsecured, subordinated obligations of the Group, and rank pari passu without any preference among themselves. In the event of a winding-up or of bankruptcy, they are to be repaid only after the claims of all other senior creditors have been met.

£260 million 4.0% subordinated Tier 2 notes due 2032

On 5 June 2020, the Group issued subordinated Tier 2 notes at a fixed rate of 4.0%. The notes have a redemption date of 5 June 2032 and may be redeemed at the option of the Group commencing on 5 December 2031 until the maturity date.

The Group has the option, in certain circumstances, to defer interest payments on the notes. The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and will rank pari passu and without any preference among themselves. In the event of a winding-up or liquidation of the issuer, the notes will be subordinated to the claims of all senior creditors and will rank at least pari passu with the claims of holders of other Tier 2 capital.

21. Insurance liabilities

Movements in gross and net insurance liabilities

	Gross £m	Reinsurance £m	Net £m
Claims reported	3,001.0	(809.8)	2,191.2
Incurred but not reported	924.9	(295.4)	629.5
Claims handling provision	80.0	–	80.0
At 1 January 2019 (audited)	4,005.9	(1,105.2)	2,900.7
Cash paid for claims settled in the year	(2,103.6)	25.3	(2,078.3)
Increase / (decrease) in liabilities:			
Arising from current-year claims	2,311.3	(169.2)	2,142.1
Arising from prior-year claims	(394.0)	99.5	(294.5)
At 31 December 2019 (audited)	3,819.6	(1,149.6)	2,670.0
Claims reported	2,916.0	(829.3)	2,086.7
Incurred but not reported	825.4	(320.3)	505.1
Claims handling provision	78.2	–	78.2
At 31 December 2019 (audited)	3,819.6	(1,149.6)	2,670.0
Cash paid for claims settled in the year	**(967.9)**	**58.7**	**(909.2)**
Increase / (decrease) in liabilities:			
Arising from current-year claims	**1,064.2**	**(72.0)**	**992.2**
Arising from prior-year claims	**(326.0)**	**202.8**	**(123.2)**
At 30 June 2020	**3,589.9**	**(960.1)**	**2,629.8**
Claims reported	**2,780.5**	**(800.6)**	**1,979.9**
Incurred but not reported	**731.2**	**(159.5)**	**571.7**
Claims handling provision	**78.2**	**–**	**78.2**
At 30 June 2020	**3,589.9**	**(960.1)**	**2,629.8**

Movement in prior-year net insurance liabilities by operating segment

	6 months 2020 £m	6 months 2019 £m	Full year 2019 £m audited
Motor	**(83.4)**	(106.1)	(180.5)
Home	**(2.5)**	(20.7)	(41.4)
Rescue and other personal lines	**(4.0)**	(5.3)	(7.6)
Commercial	**(33.3)**	(39.5)	(65.0)
Total	**(123.2)**	(171.6)	(294.5)

22. Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

For disclosure purposes, fair value measurements are classified as level 1, 2 or 3 based on the degree to which fair value is observable.

- Level 1 financial assets are measured in whole or in part by reference to published quotes in an active market. In an active market quoted prices 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.
- Level 2 financial assets and liabilities are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. These are assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, or financial assets with fair values based on broker quotes or assets that are valued using the Group's own models whereby the majority of assumptions are market-observable.
- Level 3 fair value measurements used for investment properties, held-to-maturity debt securities, available-for-sale equity investments, infrastructure debt and commercial real estate loans are those derived from a valuation technique that includes inputs for the asset that are unobservable.

These classifications remain unchanged from those outlined on page 208 of the Annual Report & Accounts 2019.

22. Fair Value continued

Comparison of carrying value to fair value of financial instruments and assets carried at fair value

The following table compares the carrying value and the fair value of financial instruments and other assets where the Group discloses a fair value.

At 30 June 2020	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m
Assets held at fair value:					
Investment property	**281.4**	–	–	281.4	**281.4**
Derivative assets	**16.1**	–	16.1	–	**16.1**
Available-for-sale debt securities (note 17)	**3,938.8**	41.9	3,896.9	–	**3,938.8**
Available-for-sale equity investments (note 17)	**3.2**	–	–	3.2	**3.2**
Other financial assets:					
Held-to-maturity debt securities (note 17)	**104.0**	–	14.2	91.7	**105.9**
Infrastructure debt (note 17)	**271.2**	–	–	268.5	**268.5**
Commercial real estate loans (note 17)	**204.1**	–	–	194.9	**194.9**
Total assets held at fair value	**4,818.8**	**41.9**	**3,927.2**	**839.7**	**4.808.8**
Liabilities held at fair value:					
Derivative liabilities	**77.3**	–	77.3	–	**77.3**
Other financial liabilities:					
Subordinated liabilities (note 20)	**517.9**	–	556.7	–	**556.7**
Total liabilities held at fair value	**595.2**	**–**	**634.0**	**–**	**634.0**

At 31 December 2019 (audited)	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m
Assets held at fair value:					
Investment property	291.7	–	–	291.7	291.7
Derivative assets	121.5	–	121.5	–	121.5
Available-for-sale debt securities (note 17)	4,085.6	99.5	3,986.1	–	4,085.6
Other financial assets:					
Held-to-maturity debt securities (note 17)	104.0	–	14.1	94.0	108.1
Infrastructure debt (note 17)	278.1	–	–	285.6	285.6
Commercial real estate loans (note 17)	205.7	–	–	203.0	203.0
Total assets held at fair value	5,086.6	99.5	4,121.7	874.3	5,095.5
Liabilities held at fair value:					
Derivative liabilities	30.5	–	30.5	–	30.5
Other financial liabilities:					
Subordinated liabilities (note 20)	259.0	–	297.8	–	297.8
Total liabilities held at fair value	289.5	–	328.3	–	328.3

Differences arise between carrying value and fair value where the measurement basis of the assets or liabilities is not fair value (e.g. assets and liabilities carried at amortised cost). Fair values of the following assets and liabilities approximate their carrying values:

- insurance and other receivables;
- cash and cash equivalents;
- borrowings; and
- trade and other payables including insurance payables (excluding provisions).

The movements in assets held at fair value and classified as level 3 in the fair value hierarchy are within investment property and equity investments. There were no changes in the categorisation of assets between levels 1, 2 and 3 for assets and liabilities held by the Group since 31 December 2019.

22. Fair Value continued

The table below shows the unobservable inputs used by the Group in the fair value measurement of its investment property.

30 June 2020	Fair value £m	Valuation technique	Unobservable input	Range (weighted average)
Investment property	277.4[1]	Income capitalisation	Equivalent yield	3.50 % - 7.81% (average 4.89%)
			Estimated rental value per square foot	£1.81 - £32.97 (average £12.22)
Equity investment	3.2	An equity fund which is valued based on external valuation reports received from the fund manager		

Note:
1. The methodology of valuation reflects commercial property held within U K Insurance Limited.

The table below analyses the movement in assets classified as level 3 in the fair value hierarchy.

	Investment property £m	Equity investment £m
At 31 December 2019 (audited)	291.7	–
Additions	–	3.0
(Decrease) / increase in fair value in the period	(10.3)	0.2
At 30 June 2020	281.4	3.2

23. Related party transactions

During the first half of 2020, there have been no related party transactions that have materially affected the financial position or results for the period. There have been no changes to the nature of the related party transactions as disclosed in note 43 on page 209 of the Annual Report and Accounts for the year ended 31 December 2019.

GLOSSARY

Term	Definition and explanation
Actuarial best estimate ("ABE")	The probability-weighted average of all future claims and cost scenarios. It is calculated using historical data, actuarial methods and judgement. A best estimate of reserves will therefore normally include no margin for optimism or, conversely, caution.
Assets under management ("AUM")	This represents all assets managed or administered by or on behalf of the Group, including those assets managed by third parties.
Available-for-sale ("AFS") investment	Available-for-sale investments are non-derivative financial assets that are designated as such, or are not classified as loans and receivables, held-to-maturity, or financial assets at fair value through profit or loss.
Average written premium	The total written premium at inception divided by the number of policies.
Capital	The funds invested in the Group, including funds invested by shareholders and in Tier 1 notes. In addition, subordinated loan capital in the Group's balance sheet is classified as Tier 2 capital for Solvency II purposes.
Carbon emissions	**Scope 1** – covers direct emissions from owned or controlled sources, including fuels used in office buildings, accident repair centres and owned vehicles. **Scope 2** – covers indirect emissions from the generation or purchased electricity, steam, heating and cooling of office buildings and accident repair centres. **Scope 3** – includes all other indirect emissions that occur in the Company's value chain such as waste disposal, business travel and staff commuting.
Claims frequency	The number of claims divided by the number of policies per year.
Claims handling provision (provision for losses and loss-adjustment expense)	Funds the Group sets aside to meet the estimated cost of settling claims and related expenses that the Group considers it will ultimately need to pay.
Combined operating ratio	The sum of the loss, commission and expense ratios. The ratio measures the amount of claims costs, commission and operating expenses, compared to net earned premium generated. A ratio of less than 100% indicates profitable underwriting. **Normalised combined operating ratio** adjusts loss and commission ratios for weather and changes to the Ogden discount rate. (See page 51 alternative performance measures.)
Commission expenses	Payments to brokers, partners and PCWs for generating business.
Commission ratio	The ratio of commission expense divided by net earned premium. (See page 51 alternative performance measures.)
Company	Direct Line Insurance Group plc.
Current-year attritional loss ratio	The loss ratio for the current accident year, excluding the movement of claims reserves relating to previous accident years and claims relating to major weather events. (See page 51 alternative performance measures.)
Current-year combined operating ratio	This is calculated using the combined operating ratio less movement in prior-year reserves. (See page 51 alternative performance measures.)
Current-year normalised operating profit	This is calculated using the normalised operating profit adjusted for prior-year reserve movements. (See page 51 alternative performance measures.)
Direct own brands	Direct own brands include Home and Motor under the Direct Line, Churchill, Darwin and Privilege brands, Rescue under the Green Flag brand and Commercial under the Direct Line for Business and Churchill brands.
Earnings per share	The amount of the Group's profit after deduction of the Tier 1 coupon payments allocated to each Ordinary Share of the Company.
Expense ratio	The ratio of operating expenses divided by net earned premium. (See page 51 alternative performance measures.)
Finance costs	The cost of servicing the Group's external borrowings and includes the interest on right-of-use assets.
Financial Conduct Authority ("FCA")	The independent body responsible for regulating the UK's financial services industry.
Financial leverage ratio	Tier 1 notes and financial debt (subordinated guaranteed dated notes) as a percentage of total capital employed.
Gross written premium	The total premiums from contracts that were accepted during the period.
Group (or "Direct Line Group")	Direct Line Insurance Group plc and its subsidiaries.
Incremental borrowing rate ("IBR")	The rate of interest that a lessee would have to pay to borrow over a similar term and security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Term	Definition and explanation
Incurred but not reported ("IBNR")	Funds set aside to meet the cost of claims for accidents that have occurred, but have not yet been reported to the Group. This includes an element of uplift on the value of claims reported.
In-force policies	The number of policies on a given date that are active and against which the Group will pay, following a valid insurance claim.
Insurance liabilities	This comprises insurance claims reserves and the claims handling provision, which the Group maintains to meet current and future claims.
International Accounting Standards Board ("IASB")	A not-for-profit public interest organisation that is overseen by a monitoring board of public authorities. It develops IFRS standards that aim to make worldwide markets transparent, accountable and efficient.
Investment income yield	The income earned from the investment portfolio, recognised through the income statement during the period divided by the average assets under management ("**AUM**"). This excludes unrealised and realised gains and losses, impairments, and fair value adjustments. The average AUM derives from the period's opening and closing balances for the total Group. (See page 51 alternative performance measures.)
Investment return	The investment return earned from the investment portfolio, including unrealised and realised gains and losses, impairments and fair value adjustments.
Investment return yield	The investment return divided by the average AUM. The average AUM derives from the period's opening and closing balances. (See page 51 alternative performance measures.)
Loss ratio	Net insurance claims divided by net earned premium. (See page 51 alternative performance measures.)
Management's best estimate	These reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal ABE.
Net asset value	The difference between the Group's total assets and total liabilities, calculated by subtracting total liabilities (including Tier 1 notes) from total assets.
Net earned premium	The element of gross earned premium less reinsurance premium ceded for the period where insurance cover has already been provided.
Net insurance claims	The cost of claims incurred in the period less any claims costs recovered under reinsurance contracts. It includes claims payments and movements in claims reserves.
Net investment income yield	This is calculated in the same way as investment income yield but includes the cost of hedging. (See page 51 alternative performance measures.)
Ogden discount rate	The discount rate set by the Lord Chancellor and used by courts to calculate lump sum awards in bodily injury cases.
Operating expenses	These are the expenses relating to business activities excluding restructuring and one-off costs. (See page 51 alternative performance measures.)
Operating profit	The pre-tax profit that the Group's activities generate, including insurance and investment activity, but excluding finance costs, restructuring and one-off costs. **Normalised operating profit** is operating profit adjusted for weather and changes to the Ogden discount rate. (See page 52 alternative performance measures.)
Periodic payment order ("PPO")	These are claims payments as awarded under the Courts Act 2003. PPOs are used to settle some large personal injury claims. They generally provide a lump-sum award plus inflation-linked annual payments to claimants who require long-term care.
Prudential Regulation Authority ("PRA")	The PRA is a part of the Bank of England. It is responsible for regulating and supervising insurers and financial institutions in the UK.
Reinsurance	Contractual arrangements where the Group transfers part or all of the accepted insurance risk to another insurer.
Reserves	Funds that have been set aside to meet outstanding insurance claims and IBNR claims.
Restructuring costs	These are costs incurred in respect of the business activities where the Group has a constructive obligation to restructure its activities
Return on equity	This is calculated by dividing the profit attributable to the owners of the Company after deduction of the Tier 1 coupon payments by average shareholders' equity for the period.
Return on tangible equity ("RoTE")	This is adjusted profit after tax divided by the Group's average shareholders' equity less goodwill and other intangible assets. Profit after tax is adjusted to exclude restructuring and one-off costs and to include the Tier 1 coupon payments. It is stated after charging tax using the UK standard rate of 19% and for 2019 it is stated after charging tax using the effective income tax rate of 18.9%. (See page 52 alternative performance measures.)
Right-of-use ("ROU") asset	A lessee's right to use an asset over the life of a lease, calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received.

Term	Definition and explanation
Science-based targets ("SBT")	Science-based targets are a set of goals developed by a business to provide it with a clear route to reduce greenhouse gas emissions. An emissions reduction target is defined as 'science-based' if it is developed in line with the scale of reductions required to keep global warming below 2°C from pre-industrial levels.
Scope 1, Scope 2, Scope 3	Please refer to the glossary definition for carbon emissions on page 48
Solvency II	The capital adequacy regime for the European insurance industry, which became effective on 1 January 2016. It establishes capital requirements and risk management standards. It comprises three pillars: Pillar I, which sets out capital requirements for an insurer; Pillar II, which focuses on systems of governance; and Pillar III, which deals with disclosure requirements.
Solvency capital ratio	The ratio of Solvency II own funds to the solvency capital requirement.
Tangible equity	This shows the equity excluding Tier 1 notes and intangible assets for comparability with companies who have not acquired businesses or capitalised intangible assets. (See page 52 alternative performance measures.)
Tangible net assets per share	This shows the equity excluding Tier 1 notes and intangible assets for comparability with companies who have not acquired businesses or capitalised intangible assets. (See page 52 alternative performance measures.)
Underwriting result profit / (loss)	The profit or loss from operational activities, excluding investment return and other operating income. It is calculated as net earned premium less net insurance claims and total expenses, excluding restructuring and one-off costs.

APPENDIX A – ALTERNATIVE PERFORMANCE MEASURES

The Group has identified Alternative Performance Measures ("**APMs**") in accordance with the European Securities and Markets Authority's published Guidelines. The Group uses APMs to improve comparability of information between reporting periods and reporting segments, by adjusting for either uncontrollable or one-off costs which impact the IFRS measures, to aid the user of the report in understanding the activity taking place across the Group. These APMs are contained within the main narrative sections of this document, outside of the condensed consolidated financial statements and notes, and may not necessarily have standardised meanings for ease of comparability across peer organisations.

Further information is presented below, defined in the glossary and reconciled to the most directly reconcilable line items in the financial statements and notes. Note 4 on pages 35 to 37 of the condensed consolidated financial statements presents a reconciliation of the Group's business activities on a segmental basis to the condensed consolidated income statement. All note references in the table below are to the notes to the condensed consolidated financial statements on pages 28 to 47.

Group APM	Closest equivalent IFRS measure	Definition and / or reconciliation	Rationale for APM
Combined operating ratio	Profit before tax	Combined operating ratio is defined in the glossary on page 48 and is reconciled in note 4 on page 35.	This is a measure of underwriting profitability and excludes non-insurance income, whereby a ratio of less than 100% represents an underwriting profit and a ratio of more than 100% represents an underwriting loss.
Commission ratio	Commission expense	Commission ratio is defined in the glossary on page 48 and is reconciled in note 4 on page 35.	Expresses commission expense, in relation to net earned premium.
Current-year attritional loss ratio	Net insurance claims	Current-year attritional loss ratio is defined in the glossary on page 48 and is reconciled to the loss ratio (discussed below) on page 15.	Expresses claims performance in the current accident year in relation to net earned premium.
Current-year combined operating ratio	Profit before tax	Current-year combined operating ratio is defined in the glossary on page 48 and is reconciled on page 15.	This is a measure of underwriting profitability, excluding the effect of prior-year reserve movements.
Current-year normalised operating profit ratio	Profit before tax	Current-year normalised operating profit ratio is defined in the glossary on page 48 and reconciled on page 53.	Expresses a relationship between current-year normalised operating profit and normalised operating profit.
Expense ratio	Total expenses	Expense ratio is defined in the glossary on page 48 and is reconciled in note 4 on page 35.	Expresses underwriting and policy expenses in relation to net earned premium.
Investment income yield	Investment income	Investment income yield is defined in the glossary on page 49 and is reconciled on page 52.	Expresses a relationship between the investment income and the associated opening and closing assets adjusted for portfolio hedging instruments.
Investment return yield	Investment return	Investment return yield is defined in the glossary on page 49 and is reconciled on page 52.	Expresses a relationship between the investment return and the associated opening and closing assets net of any associated liabilities.
Loss ratio	Net insurance claims	Loss ratio is defined in the glossary on page 49 and is reconciled in note 4 on page 35.	Expresses claims performance in relation to net earned premium.
Net investment income yield	Investment income	Net investment income yield is defined in the glossary on page 49 and is reconciled on page 52.	Expresses a relationship between the investment income and the associated opening and closing assets adjusted for portfolio hedging instruments.
Normalised combined operating ratio	Profit before tax	Combined operating ratio is defined in the glossary on page 48 and reconciled on page 53.	This is a measure of underwriting profitability, excluding the effects of weather, Ogden discount rate changes and restructuring and one-off costs and excluding non-insurance income, whereby a ratio of less than 100% represents an underwriting profit and a ratio of more than 100% represents an underwriting loss.
Operating expenses	Total expenses	Operating expenses are defined in the glossary on page 49 and reconciled in note 4 on page 35.	This shows the expenses relating to business activities excluding restructuring and one-off costs.

Group APM	Closest equivalent IFRS measure	Definition and / or reconciliation	Rationale for APM
Operating profit	Profit before tax	Operating profit is defined in the glossary on page 49 less restructuring and one-off costs and reconciled in note 4 on page 35.	This shows the underlying performance (before tax and excludes finance costs and restructuring and one-off costs) of the business activities.
Return on tangible equity	Return on equity	Return on tangible equity is defined in the glossary on page 49 and is reconciled on page 54.	This shows performance against a measure of equity that is more easily comparable to that of other companies.
Tangible equity	Equity	Tangible equity is defined in the glossary on page 50 and is reconciled on page 54.	This shows the equity excluding Tier 1 notes and intangible assets for comparability with companies who have not acquired businesses or capitalised intangible assets.
Tangible net assets per share	Net assets per share	Tangible net assets per share is defined in the glossary on page 50 and is reconciled in note 15 on page 42.	This shows the equity excluding Tier 1 notes and intangible assets per share for comparability with companies who have not acquired businesses or capitalised intangible assets.
Underwriting profit	Profit before tax	Underwriting profit is defined in the glossary on page 50 and is reconciled in note 4 on page 35.	This shows underwriting performance calculated as net earned premium less net claims and operating expenses, excluding restructuring and one-off costs.

Investment income and return yields[1]

	Notes[2]	**H1 2020 £m**	H1 2019 £m
Investment income	6	**64.8**	75.4
Hedging to a sterling floating rate basis[3]	6	**(9.6)**	(12.1)
Net investment income		**55.2**	63.3
Net realised and unrealised (losses) / gains excluding hedging		**(13.9)**	12.4
Investment return	6	**41.3**	75.7
Opening investment property		**291.7**	322.1
Opening financial investments		**4,673.4**	4,737.8
Opening cash and cash equivalents		**948.6**	1,154.4
Opening borrowings		**(52.3)**	(62.0)
Opening derivatives asset[4]		**81.8**	11.8
Opening investment holdings		**5,943.2**	6,164.1
Closing investment property		**281.4**	321.4
Closing financial investments	17	**4,521.3**	4,657.6
Closing cash and cash equivalents	18	**1,500.0**	1,139.6
Closing borrowings	18	**(65.1)**	(56.4)
Closing derivatives liability[4]		**(71.4)**	(63.1)
Closing investment holdings		**6,166.2**	5,999.1
Average investment holdings		**6,054.7**	6,081.6
Investment income yield		**2.1%**	2.5%
Net investment income yield		**1.8%**	2.1%
Investment return yield		**1.4%**	2.5%

Notes:
1. See glossary on page 49 for definitions.
2. See notes to the condensed consolidated financial statements.
3. Includes net realised and unrealised losses of derivatives in relation to AUM.
4. See footnote 1 on page 18 (Investment holdings).

Normalised combined operating ratio[1]

	Home H1 2020	Home H1 2019	**Commercial H1 2020**	Commercial H1 2019	**Total H1 2020**	Total H1 2019
Loss ratio	**58.5%**	48.1%	**51.7%**	50.7%	**59.0%**	61.9%
Commission ratio	**6.8%**	7.6%	**17.7%**	17.5%	**6.1%**	6.1%
Expense ratio	**27.1%**	26.5%	**25.5%**	25.6%	**25.2%**	24.5%
Combined operating ratio	**92.4%**	82.2%	**94.9%**	93.8%	**90.3%**	92.5%
Effect of weather						
Loss ratio	**1.9%**	7.7%	**(1.5%)**	4.3%	**0.1%**	2.2%
Commission ratio	**(0.1%)**	(0.6%)	**–**	–	**–**	(0.1%)
Combined operating ratio normalised for weather	**94.2%**	89.3%	**93.4%**	98.1%	**90.4%**	94.6%
Effect of Ogden discount rate						
Loss ratio	**–**	–	**–**	(0.4%)	**–**	(1.1%)
Combined operating ratio normalised for weather and Ogden discount rate	**94.2%**	89.3%	**93.4%**	97.7%	**90.4%**	93.5%

Note:
1. See glossary on page 48 for definition.

Normalised operating profit[1]

	Total H1 2020 £m	Total H1 2019 £m
Operating profit	**264.9**	274.3
Effect of:		
Ogden discount rate	**–**	16.9
Normalised weather – claims	**(1.5)**	(32.4)
Normalised weather – profit share	**0.4**	1.7
Normalised operating profit	**263.8**	260.5
Prior-year adjustments		
Prior-year reserve movement	**123.2**	171.6
Ogden discount rate	**–**	16.9
Prior-year normalised operating profit	**123.2**	188.5
Current-year normalised operating profit	**140.6**	72.0
Current-year normalised operating profit ratio	**53.3%**	27.6%

Note:
1. See glossary on page 49 for definition.

Operating expenses[1]

	Note[2]	**H1 2020 £m**	H1 2019 £m
Operating expenses (including restructuring and one-off costs)	10	**387.0**	363.0
Less restructuring and one-off costs		**(15.0)**	–
Operating expenses		**372.0**	363.0

Notes:
1. See glossary on page 49 for definition.
2. See notes to the condensed consolidated financial statements.

Return on tangible equity[1]

	H1 2020 £m	H1 2019 £m
Profit before tax	**236.4**	261.3
Add back restructuring and one-off costs	**15.0**	–
Coupon payments in respect of Tier 1 notes	**(8.3)**	(8.3)
Adjusted profit before tax	**243.1**	253.0
Tax charge	**–**	(49.5)
Tax charge (using the UK standard tax rate of 19%)	**(46.2)**	
Adjusted profit after tax	**196.9**	203.5
Annualised adjusted profit after tax	**393.8**	407.0
Opening shareholders' equity	**2,643.6**	2,558.2
Opening goodwill and other intangible assets	**(702.5)**	(566.8)
Opening shareholders' tangible equity	**1,941.1**	1,991.4
Closing shareholders' equity	**2,756.5**	2,530.3
Closing goodwill and other intangible assets	**(741.2)**	(629.3)
Closing shareholders' tangible equity	**2,015.3**	1,901.0
Average shareholders' tangible equity[2]	**1,978.2**	1,946.2
Return on tangible equity annualised	**19.9%**	20.9%

Notes:

1. See glossary on page 49 for definition.
2. Mean average of opening and closing balances.

ADDITIONAL INFORMATION

We confirm that to the best of our knowledge:

1. the condensed consolidated financial statements, which have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of Direct Line Insurance Group plc and the undertakings included in the consolidation taken as a whole as required by Disclosure and Transparency Rule 4.2.4R;

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

- Disclosure and Transparency Rule 4.2.7R being an indication of important events that have occurred during the first six months of the current 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 financial year; and
- Disclosure and Transparency Rule 4.2.8R being related parties transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the entity during that period, and any changes in the related parties transactions described in the last Annual Report & Accounts that could do so.

Signed on behalf of the Board

PENNY JAMES
CHIEF EXECUTIVE OFFICER
3 August 2020

TIM HARRIS
CHIEF FINANCIAL OFFICER
3 August 2020

LEI: 213800FF2R23ALJQOP04

INDEPENDENT REVIEW REPORT TO DIRECT LINE INSURANCE GROUP PLC

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 2020 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 23. 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.

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 Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

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

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and 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 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, UK
3 August 2020