Direct Line Insurance Group plc
Half Year Report 2016

2 August 2016

Direct Line Group's Half Year Report relates to the six months ended 30 June 2016 and contains information to the date of publication. Income statement comparisons are to 1H 2015, in-force policy numbers are to 30 June 2015 and balance sheet comparisons are to 31 December 2015, unless otherwise stated.

Financial highlights

- Gross written premium for ongoing operations[1] 3.9% higher, with strong growth in Motor in-force policies (up 2.5%) and premium rates (up 9.5%)
- Combined operating ratio[1] from ongoing operations continued to be strong at 89.6%, 0.2pts higher, including Flood Re levy impact of 1.6pts. Motor current-year attritional loss ratio[1] improved by 1.0pt
- Operating profit from ongoing operations decreased £12.2m to £323.6m, after £18.5m lower investment gains
- Return on tangible equity[1,2] of 23.1% (1H 2015: 21.2%). Profit before tax decreased £16.5m to £298.5m (1H 2015: £315.0m)
- Interim dividend per share of 4.9 pence (1H 2015: 4.6 pence) and special interim dividend of 10.0 pence per share
- Post dividends, the Group's estimated Solvency II capital[3] coverage ratio was 184% (pre-dividends: 199%)

Strategic and operational highlights

- Continued investment in brand differentiation through enhancements and initiatives to Direct Line and Churchill propositions. In-force policies for Motor and Home own brands up 3.0%, with strong customer retention. Growth in Green Flag direct and Commercial direct
- Extension agreed with RBS of the Home and Private Insurance partnership for a further three years. This encapsulates an innovative proposition in the market to support the RBS customer-led strategy
- Well prepared for UK's referendum on EU membership, immediate investment volatility actively managed and no operational impact
- Maintains combined operating ratio expectation for 2016 in the range of 93% to 95% for ongoing operations, assuming normal annual weather. If current trends continue, the ratio is expected to be towards the lower end of this range, reflecting improved trading and higher than expected prior-year reserve releases

Paul Geddes, CEO of Direct Line Group, commented

"I am pleased with our results over the first half of 2016, as we delivered an excellent performance against a very strong comparator from the previous year. We have generated operating profits of over £320m in spite of weaker investment markets and the addition of the new Flood Re levy. Our customers continued to respond well to the refreshed propositions of our brands, which is reflected in another increase in the number of our own brands policies. Together, this demonstrates the benefits of the improvements we have made to strengthen our business.

"Although there remains a range of uncertainties in the macro-economic environment, we gain confidence from the strength of this performance, the transformation of the business and the approval of our partial internal model. These factors enabled us to increase the interim dividend to 4.9p and to declare an additional special interim dividend of 10.0p, representing a total payout to shareholders of £204.9m."

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Notes:

1. See glossary on page 38 for definitions
2. See appendix A – Alternative performance measures on page 39 for reconciliation to financial statement line items
3. Estimates based on the Group's Solvency II partial internal model output for 30 June 2016

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", "anticipates", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "plans", "predicts", "projects", "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 a number of 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, the Group's combined operating ratio, prior-year reserve releases, cost reduction, investment income yield, net realised and unrealised gains, results from the Run-off segment, restructuring and other one-off costs, 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 or are beyond the Group's control.

Forward-looking statements are not guarantees of 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, UK domestic and global economic business conditions, the result of the referendum on the UK's withdrawal from the European Union, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities (including changes related to capital and solvency requirements or the Ogden discount rate), the impact of competition, currency changes, inflation and deflation, the timing impact and other uncertainties of future acquisitions, disposals, joint ventures or combinations within relevant industries, as well as the impact of tax and other legislation and other regulation 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 as a result of new information, future events or otherwise, unless required to do so by applicable law or regulation. Nothing in this document should be construed as a profit forecast.

Inside information

Prior to publication, this document contained inside information for the purposes of Article 7 of European Union Regulation 596/2014.

Financial summary

	1H 2016 £m	1H 2015 £m	Change
Ongoing operations:			
In-force policies (thousands)	**15,736**	16,174	(2.7%)
Gross written premium	**1,613.1**	1,552.0	3.9%
Net earned premium	**1,479.9**	1,440.5	2.7%
Underwriting profit	**154.2**	153.2	0.7%
Investment return	**91.0**	109.8	(17.1%)
Instalment and other operating income	**78.4**	72.8	7.7%
Operating profit – ongoing operations	**323.6**	335.8	(3.6%)
Run-off	**23.6**	38.3	(38.4%)
Restructuring and other one-off costs	**(30.3)**	(40.4)	25.0%
Operating profit	**316.9**	333.7	(5.0%)
Finance costs	**(18.4)**	(18.7)	(1.6%)
Profit before tax	**298.5**	315.0	(5.2%)
Tax	**(62.6)**	(68.4)	(8.5%)
Profit from discontinued operations, net of tax	**–**	181.2	n/a
Profit after tax	**235.9**	427.8	(44.9%)
Of which ongoing operations	**244.2**	252.9	(3.4%)
Key metrics – ongoing operations			
Current-year attritional loss ratio[1]	**68.5%**	69.1%	0.6pts
Loss ratio[1]	**53.4%**	54.2%	0.8pts
Commission ratio[1]	**10.9%**	11.6%	0.7pts
Expense ratio[1], including Flood Re levy	**25.3%**	23.6%	(1.7pts)
Combined operating ratio[1]	**89.6%**	89.4%	(0.2pts)
Adjusted diluted earnings per share[2] (pence)	**17.6**	16.7	5.4%
Return on tangible equity annualised	**23.1%**	21.2%	1.9pts
Key metrics			
Investment income yield annualised[2]	**2.5%**	2.4%	0.1pts
Investment return annualised[2]	**2.8%**	3.1%	(0.3pts)
Basic earnings per share (pence)	**17.2**	16.5	4.2%
Return on equity annualised	**17.8%**	23.2%	(5.4pts)
Capital coverage[3] – estimated	**184%**	n/a	n/a
Dividend per share – regular interim (pence)	**4.9**	4.6	6.5%
– special interim[4] (pence)	**10.0**	27.5	n/a
– total (pence)	**14.9**	32.1	n/a
	30 Jun 2016	31 Dec 2015	Change
Net asset value per share – total Group (pence)	**195.1**	192.2	1.5%
Tangible net asset value per share – total Group (pence)	**155.5**	153.8	1.1%

Notes:

1. A reduction in the ratio represents an improvement and positive change as a proportion of net earned premium, while an increase in the ratio represents a deterioration and negative change.
2. See glossary on page 38 for definitions and appendix A – Alternative performance measures on page 39 for reconciliation to financial statement line items
3. See note 3 on page 1 and adjusted for interim and special interim dividends
4. The special interim dividend of 27.5 pence per share, following the sale of the Group's former Italian and German operations, was paid on 24 July 2015.

Business update

Overview

Direct Line Group (the "**Group**") achieved good profitability in 1H 2016 with a return on tangible equity of 23.1%, while making progress on delivering its strategy. The focus remained on brand differentiation, operating efficiency and disciplined underwriting. The continued investment in own brands supported growth of 3.0% in in-force policies across Home and Motor. Gross written premium increased by 3.9% mainly due to Motor, partially offset by a reduction in Home partnerships. Total in-force policies for ongoing operations reduced by 2.7% since 30 June 2015, due primarily to partner volumes in Rescue and other personal lines.

Underwriting performance was strong with a combined operating ratio of 89.6% delivering an underwriting profit of £154.2m. An improvement in the current-year attritional loss ratio for ongoing operations of 0.6pts to 68.5% and releases from the prior year which increased by £21.0m were offset by the annual cost of the Flood Re levy of £24.0m and £13.0m of higher claims from major weather events. Operating profit from ongoing operations reduced £12.2m to £323.6m driven primarily by £18.5m lower investment gains. Profit before tax reduced by £16.5m to £298.5m reflecting the lower ongoing operating profit and particularly high run-off result in 1H 2015.

Strategic update

As set out previously, the Group's strategy is to make insurance much easier and better value for our customers. This strategy is set out across three pillars: to be a great retailer; to be a smart and efficient manufacturer; and to lead and disrupt the market. These pillars are supported by the key enablers of data and technology, culture and capability and risk and capital management.

Great retailer

The Group continues to differentiate its brands. In 1H 2016, the Group introduced its Direct Line Home Plus customers to a three hour emergency plumber service. This new service improves the experience for customers, and gives the brand a point of difference in the market. This proposition follows a number of Direct Line product enhancements such as the removal of amendment fees, seven day car repair service, an eight hour turnaround to despatch certain lost or damaged household goods and guaranteed hire car as standard on comprehensive motor policies.

Work continued on improving the Group's trading capabilities on price comparison websites ("**PCWs**"), helping to lead to strong new business sales for own brands. The Churchill brand continues its refresh, with the "Lollipoppers" campaign to put more lollipop men and women on the streets nationwide and improve the safety of children on their school run.

Improving customer experience remains a key target and the Group is increasingly using webchat and social media to seek to differentiate itself and build rapport with customers.

Smart and efficient manufacturer

The Group and RBS have agreed to extend their successful Home and Private Insurance relationship for a further three years until October 2020. The Group has a strong shared heritage with RBS and is pleased to have agreed this extension, including an innovative proposition in the market with three year fixed pricing, system investment and development of digital capability to support the RBS customer-led strategy.

The digital and proposition investments will enable the Group to offer RBS customers tailored products in a way that is clear and helpful, irrespective of whether they are accessed through branch, phone or web platforms.

The Group continues to support RBS with rescue and travel products sold to packaged account customers. The provision of these services beyond the current contract term will be subject to a market review, in which the Group expects to participate.

The Group has also agreed a contract extension for its Nationwide travel agreement which covers Flex and FlexPlus packaged bank accounts. This ensures that the Group continues to support Nationwide customers through until the end of 2018.

The Group continues with operational efficiency improvements. Despite business growth, the Group expects to deliver total costs for 2016 slightly lower than the level in 2015, including absorbing the Flood Re levy.

Lead and disrupt the market

Commercial continued to receive recognition for its products and services. For the second year running, NIG, Commercial's broker business, won recognition for its eTrading platform, TheHub. The division continues to develop this platform to help brokers trade more efficiently. Additionally, Direct Line for Business won recognition for its Landlord product from a leading mortgage magazine for the fourth year in a row.

Commercial also continued to import relevant Personal Lines pricing capabilities, in particular for van insurance which helped lead to growth in Direct Line for Business and NIG.

The Group's telematics policy count grew 17%, and it now has over half a billion miles of driving data. Furthermore, the Group is building partnerships across a range of stakeholders in the car industry, aiming to position it at the forefront of car safety technology and education. For example, the Group is a member of the MOVE_UK consortium, which was established with a grant from the UK government sponsored Innovate UK, and is set to trial driverless technology in real world conditions in Greenwich, London. This reflects the Group's ambition to be at the forefront of influencing industry developments and to be able to react to changes to the risks it insures.

Key enablers

The Group is using technology beyond just the sales experience; for example, the car repair web portal and SMS text update services delivered benefits to its customers, reduced call volumes and improved efficiency. Furthermore, testing associated with the implementation of the next generation of customer systems has continued.

The Group has a complex and challenging change programme, and is still working to improve the performance and efficiencies of its IT systems across the board.

UK secession from the European Union

The Group was well prepared for the UK's referendum on the EU and has actively managed the impacts from the current volatile financial markets. The Group is a UK-based business underwriting risks within the UK, and it is business as usual for day-to-day operations. The Group is well-placed operationally given its business model and UK market position; however, it is too early to quantify future implications on the wider economy, for example asset prices.

Regulatory update

The Group received approval from the Prudential Regulation Authority ("**PRA**") for the use of its Group partial internal model in June 2016, successfully concluding a multi-year project. The Group will, from now on, report its Solvency II coverage based on its partial internal model.

The Insurance Act 2015 will come into effect in August 2016, which represents a significant change to commercial insurance contract law. The business has been working through the requirements of the Act over the past 12 months and expects to deliver these appropriately for customers and brokers.

Dividends and capital management

The Board has resolved to pay an interim dividend of 4.9 pence per share, an increase on 1H 2015 (4.6 pence), in line with the Group's aim to grow the regular dividend annually in real terms, where appropriate.

As has been its practice in the past, where the Board believes the Group has capital which is expected to be surplus to the Group's requirements for a prolonged period, it would intend to return the excess to shareholders.

In future, the Board has decided that in the normal course of events it will consider whether or not it is appropriate to pay a special dividend only once a year, alongside the full-year results. In doing this, the Group will harmonise its major capital management decisions with its planning process and its full-year earnings.

The Board has considered the risk appetite range of the Group under its Solvency II partial internal model and considers that the appropriate range, which should enable it to meet its operational, regulatory and rating agency requirements, is 140% to 180% of its solvency capital requirement.

The Board has also resolved to pay a special interim dividend of 10.0 pence per share, following the approval of, and transition to, the Group's Solvency II partial internal model. After deducting the interim and special interim dividends, the Group's estimated Solvency II capital coverage ratio was 184% (pre-dividends: 199%).

Consistent with this new approach, the Board will now consider whether or not there is capital surplus to the Group's requirements for a prolonged period and hence whether or not there is any scope for a special dividend in conjunction with the Preliminary Results Announcement for 2016.

Outlook

The Group maintains its combined operating ratio expectation for 2016 in the range of 93% to 95% for ongoing operations, assuming a normal annual level of weather claims. If current trends continue throughout the second half, the Group expects the ratio for the full year to be towards the lower end of this range, reflecting improved trading and higher than expected prior-year reserve releases in the first half of the year.

Finance review

Performance

Operating profit – ongoing operations

	1H 2016 £m	1H 2015 £m
Underwriting profit	154.2	153.2
Investment return	91.0	109.8
Instalment and other operating income	78.4	72.8
Operating profit	323.6	335.8

Underwriting profit was stable at £154.2m with an improvement in the current-year attritional loss ratio of 0.6pts and releases from the prior year up by £21.0m, offset by the Flood Re levy and £13.0m of higher claims costs from major weather events in Home. The investment return reduced to £91.0m (1H 2015: £109.8m) primarily due to £18.5m lower net realised and unrealised gains. Operating profit from ongoing operations reduced £12.2m to £323.6m driven primarily by increased operating expenses, which included the Flood Re levy of £24.0m, and lower investment gains.

In-force policies and gross written premium

In-force policies – ongoing operations (thousands)

At	30 Jun 2016	31 Mar 2016	31 Dec 2015	30 Sep 2015	30 Jun 2015
Own brands	3,541	3,487	3,459	3,441	3,435
Partnerships	238	244	248	252	251
Motor total	3,779	3,731	3,707	3,693	3,686
Own brands	1,743	1,729	1,719	1,696	1,696
Partnerships	1,660	1,677	1,699	1,725	1,755
Home total	3,403	3,406	3,418	3,421	3,451
Of which Nationwide and Sainsbury's	724	724	719	721	727
Rescue	3,670	3,805	3,932	3,997	4,034
Other personal lines	4,224	4,275	4,356	4,361	4,374
Rescue and other personal lines	7,894	8,080	8,288	8,358	8,408
Direct Line for Business	424	419	407	401	387
NIG and other	236	234	248	247	242
Commercial	660	653	655	648	629
Total	15,736	15,870	16,068	16,120	16,174

Gross written premium – ongoing operations

	2Q 2016 £m	2Q 2015 £m	1H 2016 £m	1H 2015 £m
Own brands	362.9	332.5	694.3	635.2
Partnerships	26.7	24.4	56.0	48.1
Motor total	389.6	356.9	750.3	683.3
Own brands	96.3	97.0	191.6	193.9
Partnerships	104.1	110.8	211.6	223.9
Home total	200.4	207.8	403.2	417.8
Of which Nationwide and Sainsbury's	50.1	51.1	105.0	106.6
Rescue	42.5	42.7	81.9	80.6
Other personal lines	58.4	57.1	115.8	114.2
Rescue and other personal lines	100.9	99.8	197.7	194.8
Direct Line for Business	27.1	25.1	53.0	49.0
NIG and other	117.3	115.9	208.9	207.1
Commercial	144.4	141.0	261.9	256.1
Total	835.3	805.5	1,613.1	1,552.0

Total in-force policies for ongoing operations have reduced by 2.7% since 30 June 2015. This was due primarily to a decline in partner volumes in the Rescue and other personal lines division. Continued in-force policy growth was experienced in Motor, Home's own brands, Green Flag direct and Commercial direct. Gross written premium of £1,613.1m increased by 3.9% mainly due to continued growth in Motor, which was partially offset by a reduction in Home partnerships.

Motor

Effect on premium income of changes in price, and risk and business mix[1] – total

Change versus same quarter in previous year	2Q 2016	1Q 2016	4Q 2015
Change in price	9.5%	9.4%	7.7%
Change in risk and business mix[1]	(3.3%)	(1.5%)	(1.0%)

Total Motor in-force policies increased by 2.5% in a market in which the demand for new cars has grown. Motor's own brands grew by 3.1% with customer retention remaining at strong levels. The Direct Line brand has been performing well in the direct market with new business volumes rising, following investment in its propositions and competitive pricing. Pricing initiatives have helped maintain Motor's own brands competitiveness on PCWs, while improving margins. Motor's risk-adjusted prices increased by 9.5% compared with 2Q 2015, of which a large proportion reflected claims inflation. Motor gross written premium increased by 9.8% as the Direct Line brand performed well.

Home

Effect on premium income of changes in price, and risk and business mix – own brands

Change versus same quarter in previous year	2Q 2016	1Q 2016	4Q 2015
Change in price	(0.3%)	(2.3%)	(3.0%)
Change in risk and business mix	(5.1%)	(2.2%)	(2.6%)

In-force policies for Home's own brands increased by 2.8% as own brands' propositions continued to perform well in the market, while partnership policies reduced by 5.4%. However, across the 2Q 2016 Home's total in-force policies displayed signs of stability. Retention continued at strong levels, while the division continued to focus on customer experience.

Overall the market experienced relatively stable prices, following a period of significant deflation. Home's own brands risk-adjusted prices were broadly stable compared with 2Q 2015. Risk and business mix decreased by 5.1% due in part to increases in new business sales through both direct and PCWs, through the success of our propositions, and changes in the PCW journey. These factors, together with better risk analytics, have led to reduced average premium, but coupled with satisfactory profitability. The division is growing new business, particularly online both direct and via PCWs following investment in propositions and PCW customer journey improvements. Gross written premium was 3.5% lower primarily due to partners which declined by 5.5%, while own brands reduced by 1.2%.

Rescue and other personal lines

Rescue and other personal lines experienced a reduction in in-force policies of 6.1% primarily related to partner volumes reflecting lower packaged bank account volumes. Gross written premium for Rescue and other personal lines grew by 1.5%. Rescue gross written premium increased by 1.6%, mainly due to Green Flag direct sales. Growth in Travel, partially offset by a reduction in Pet, led to an overall increase in gross written premium in other personal lines of 1.4%.

Commercial

Commercial in-force policies increased 4.9% driven by Commercial direct, which were partially offset by lower broker policy volumes, as the division balanced volumes and profit in a competitive market. The increase in gross written premium of 2.3% reflected growth in Commercial direct, in particular Landlord and Van products. Direct Line for Business's Landlord product benefited from an increase in buy-to-let properties ahead of changes in stamp duty. Gross written premium for NIG and other increased by 0.9% reflecting premium rate increases.

Note:

1. See glossary on page 38 for definition

Underwriting profit – ongoing operations

	1H 2016	1H 2015
Underwriting profit (£m)	154.2	153.2
Loss ratio	53.4%	54.2%
Commission ratio	10.9%	11.6%
Expense ratio[1]	25.3%	23.6%
Combined operating ratio	89.6%	89.4%

The combined operating ratio for ongoing operations was broadly stable at 89.6%. The expense ratio increase of 1.7pts, was broadly offset by improvements in the loss and commission ratios. The Group achieved a combined operating ratio normalised for weather of approximately 91% (1H 2015: approximately 92%). The Group maintains its combined operating ratio expectation for 2016 in the range of 93% to 95% for ongoing operations, assuming a normal annual level of weather claims. If current trends continue throughout the second half, the Group expects the ratio for the full year to be towards the lower end of this range, reflecting improved trading and higher than expected prior-year reserve releases in the first half of the year.

The loss ratio improvement of 0.8pts included a higher contribution from prior-year reserve releases. The reduction in the commission ratio of 0.7pts primarily reflected lower payments to partners, particularly in Home, following profit commission adjustments. The Group's expense ratio increased by 1.7pts primarily due to the cost of the Flood Re levy.

Current-year attritional loss ratio – ongoing operations

	1H 2016	1H 2015
Reported loss ratio	53.4%	54.2%
Prior-year reserve releases	16.0%	14.9%
Major weather events – Home[2]	(0.9%)	–
Current-year attritional loss ratio[3]	68.5%	69.1%

The movement in the current-year attritional loss ratio is a key indicator of underlying accident year performance as it excludes prior-year reserve movements and claims costs from major weather events in the Home division. The Group's current-year attritional loss ratio decreased by 0.6pts to 68.5% with improvements in Motor, Home and Commercial following price rises, partially offset by a deterioration in Rescue and other personal lines.

Prior-year reserve releases from ongoing operations continued to be significant at £236.1m (1H 2015: £215.1m) and were equivalent to 16.0% of net earned premium (1H 2015: 14.9% of net earned premium). Reserve releases were higher than expected in 1H 2016 as the Group experienced some reserve releases from the storms in late 2015. Prior-year reserve releases, while remaining significant, are expected to reduce in future years.

Notes:

1. Includes Flood Re levy in 1H 2016 of £24.0m
2. Home claims from major weather events, including inland and coastal flooding and storms.
3. See page 9 for reconciliation to financial statement line items

Analysis by division

	Notes[1]	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total ongoing £m
1H 2016						
Combined operating ratio		92.3%	80.9%	92.7%	95.0%	89.6%
Net insurance claims	4	416.1	137.7	121.4	115.1	790.3
Prior-year reserve releases	20	134.0	60.6	7.5	34.0	236.1
Major weather events		n/a	(13.0)	n/a	n/a	(13.0)
Attritional net insurance claims		550.1	185.3	128.9	149.1	1,013.4
Net earned premium	4	650.3	411.7	194.8	223.1	1,479.9
Current-year attritional loss ratio		84.6%	45.0%	66.2%	66.8%	68.5%
Commission ratio	4	2.6%	22.2%	4.9%	19.4%	10.9%
Expense ratio	4	25.7%	25.3%	25.5%	24.0%	25.3%
1H 2015						
Combined operating ratio		91.4%	80.8%	91.0%	98.8%	89.4%
Net insurance claims	4	378.1	162.0	117.6	123.0	780.7
Prior-year reserve releases / (increases)	20	145.5	38.2	(1.2)	32.6	215.1
Attritional net insurance claims		523.6	200.2	116.4	155.6	995.8
Net earned premium	4	611.5	421.9	189.5	217.6	1,440.5
Current-year attritional loss ratio		85.6%	47.5%	61.4%	71.5%	69.1%
Commission ratio	4	2.9%	22.8%	5.5%	19.5%	11.6%
Expense ratio	4	26.7%	19.6%	23.4%	22.8%	23.6%

By division, the combined operating ratio reduced in Commercial and was broadly stable in Home, while it increased in Motor and Rescue and other personal lines.

Motor

The combined operating ratio for the Motor division increased by 0.9pts due to a higher loss ratio, partially offset by an improved expense ratio. The loss ratio increase was mainly due to a lower contribution from prior-year reserve releases, while the current-year attritional loss ratio reduced partly due to improved trading on higher net earned premium. Prior-year reserve releases primarily related to large bodily injury claims.

Most claims trends were broadly in line with expectations. Motor continued to experience stable claims trends on large and small bodily injury, and recent accident years have been developing as expected. Claims inflation has been currently trending around the top of its long-term inflation expectations, primarily due to inflation on damage claims from increased repair costs and the benefit to customers of investment in propositions, including guaranteed hire car.

Home

In Home, the combined operating ratio was broadly stable at 80.9% following an improved loss ratio, including higher prior-year reserve releases, which was broadly offset by an increase in the expense ratio primarily due to the Flood Re levy. The current-year attritional loss ratio, excluding major weather event claims, improved by 2.5pts reflecting benefits from disciplined underwriting and lower claims handling costs. Home's overall claims inflation has been running at the lower end of the long-term average.

The weather in 1H 2016 was benign compared with the long-term average, with £13.0m of claims costs from major weather events (1H 2015: £nil). Prior-year reserve releases were higher at £60.6m, including some releases in respect of the storms and floods in 4Q 2015.

Rescue and other personal lines

The combined operating ratio for Rescue and other personal lines increased 1.7pts to 92.7% due principally to an increase in the expense ratio in Rescue. The loss and commission ratios remained broadly stable, while the current-year attritional loss ratio increased 4.8pts due to a one-time premium adjustment in Pet. This was offset by prior-year releases in Travel. The expense ratio increased 2.1pts partially due to the phasing of marketing expenditure and other costs in Rescue.

Note:

1. See notes to the condensed consolidated financial statements

Commercial

The Commercial combined operating ratio improved 3.8pts to 95.0%. The improvement in the combined operating ratio was primarily due to a 4.9pts improvement in the loss ratio from better underwriting performance with lower claims from large losses and weather. The current-year attritional loss ratio improved by 4.7pts reflecting the same underlying trends. Normalising for claims from weather and large claims, the combined operating ratio was approximately 98%. The commission ratio was broadly stable, while the expense ratio increased 1.2pts due to the timing of marketing expenditure.

Total costs – ongoing operations

	Note[1]	1H 2016 £m	1H 2015 £m
Staff costs		137.2	125.0
Marketing		62.6	58.6
Depreciation		15.0	14.9
Amortisation and impairment of other intangible assets		30.0	30.9
Other operating expenses, including Flood Re levy		129.8	110.3
Operating expenses – total ongoing	4	374.6	339.7
Claims handling expenses		87.0	98.6
Total costs		461.6	438.3

Total costs for ongoing operations increased by £23.3m to £461.6m due to the Flood Re levy of £24.0m. The Group continues with operational efficiency improvements. Despite business growth, the Group expects to deliver total costs for 2016 slightly lower than the level in 2015, including absorbing the Flood Re levy.

Instalment and other operating income – ongoing operations

	1H 2016 £m	1H 2015 £m
Instalment income	51.4	48.4
Other operating income:		
Vehicle replacement referral income	6.8	5.8
Revenue from vehicle recovery and repair services[2]	9.4	7.6
Other income	10.8	11.0
Total other operating income	27.0	24.4
Total	78.4	72.8

Instalment and other operating income from ongoing operations increased by £5.6m, with increased instalment payments from higher Motor gross written premium.

Investment return – ongoing operations

	2Q 2016 £m	2Q 2015 £m	1H 2016 £m	1H 2015 £m
Investment income	41.6	41.7	82.7	83.0
Net realised and unrealised gains	16.0	16.3	8.3	26.8
Total investment return	57.6	58.0	91.0	109.8

Against a background of volatile debt markets in 1H 2016, including the impact of the recent UK's referendum on European Union membership in June, the Group generated stable investment income of £82.7m. During 1H 2016, the Group recognised net realised and unrealised gains of £8.3m reversing the losses experienced in 1Q 2016 of £7.7m (1H 2015: gains £26.8m). Following 1Q 2016, where high-yield securities incurred some realised losses, notably as a result of disposals of holdings in the energy sector, 2Q 2016 has seen strong performance with no realised losses recognised in the income statement and an uplift in valuation of the assets.

Notes:

1. See note to the condensed consolidated financial statements
2. Vehicle recovery includes post-accident and pay-on-use recovery. Repair services constitute the provision of non-insurance related services.

The available-for-sale reserve value increased to £61.6m compared with £5.4m at 31 December 2015. The increase in the available-for-sale reserve has been driven by sovereign spreads tightening by more than credit spreads widening in core investment credit. Overall, net realised gains on non-property investments for 2016 are expected to be significantly lower than in recent years. Investment properties are valued at fair value and are subject to potential volatility as a result of changes in the macro-economic environment.

Investment yields – continuing operations

	1H 2016	1H 2015
Investment income yield	2.5%	2.4%
Investment return yield	2.8%	3.1%

The investment income yield for continuing operations for 1H 2016 was 2.5%, in line with the expectation previously referred to for FY 2016. Portfolio initiatives approved by the Board at the end of 2015 continue to be implemented. Allocations were reached in new global credit and segregated financial subordinated debt mandates, together with a 2% increase in the allocation to high yield. At the same time, the Group reduced its exposure to securitised credit. Additionally, the Group has commenced investment in a commercial real estate loan book.

Based on current yield curves and market expectations following the UK's referendum, the Group continues to expect investment income yield of 2.5% in 2016. However, assuming a base rate reduction of 0.25% towards the end of 2016, the Group is revising its forecast to 2.4% for 2017.

Investment holdings – total Group

At	30 Jun 2016 £m	31 Dec 2015 £m
Corporate[1]	3,583.7	3,815.0
Supranational	99.5	140.1
Local government[1]	21.6	104.9
Investment-grade credit	3,704.8	4,060.0
Investment-grade private placements	60.0	13.5
High yield[1]	358.9	327.4
Credit	4,123.7	4,400.9
Securitised credit[1]	317.5	350.8
Sovereign	456.6	442.7
Total debt securities	4,897.8	5,194.4
Infrastructure debt	342.7	329.6
Cash and cash equivalents[2]	989.7	947.3
Commercial real estate	17.7	–
Investment property	348.6	347.4
Total Group	6,596.5	6,818.7

At 30 June 2016, total investment holdings of £6,596.5m were 3.3% lower than at the start of the year reflecting operating cash flows and dividends paid. Total debt securities were £4,897.8m (31 December 2015: £5,194.4m), of which 12.0% were rated as 'AAA' and a further 58.7% were rated as 'AA' or 'A'. Corporate, supranational and local government debt securities account for 56.2% of the total portfolio. The average duration at 30 June 2016 of total debt securities was 2.4 years (31 December 2015: 2.3 years).

The Group holds investment property to provide long-term cash flows to match the cash flows of its liabilities. The investment property portfolio is a segregated mandate focused on the prime sector of the market and is not a retail property fund. The portfolio is diversified by region, lease duration and type and its book value, based on independent valuations, is currently £52m higher than acquisition cost.

Notes:

1. Asset allocation at 30 June 2016 includes investment portfolio derivatives, which have been netted and have a mark-to-market liability value of £257.5m, split £244.7m in corporate and £12.8m in securitised credit (31 December 2015: mark-to-market liability value of £45.7m, split £40.0m in corporate debt securities and £0.4m in local government and £5.3m in securitised credit). This excludes non-investment derivatives that have been used to hedge subordinated debt, operational cash flows and the disposal of the International division in 2015. The liability has significantly increased compared with 31 December 2015 due to the recent decline in the value of Sterling against the US Dollar. The increase in derivative liability closely matches the upward movement in the Sterling value of the Group's US Dollar denominated securities.
2. Net of bank overdrafts and including term deposits with financial institutions with maturities exceeding three months.

Derivatives are permitted only for risk mitigation and efficient portfolio management within the investment portfolio. Derivatives used include interest rate swaps, for example to hedge exposure to US Dollar interest rate movements, and forward currency contracts to hedge assets denominated in US Dollars back to Sterling. Separately, interest rate swaps have also been used to change the interest rate liability on the Group's debt issuance to a floating rate basis.

Operating profit – ongoing operations

	1H 2016 £m	1H 2015 £m
Motor	168.8	181.0
Home	101.5	104.4
Rescue and other personal lines	23.4	26.4
Commercial	29.9	24.0
Total ongoing	**323.6**	335.8

All divisions were profitable in 1H 2016 with reduced operating profits in Personal Lines, partially offset by the Commercial division which reported an increase.

Reconciliation of operating profit

	1H 2016 £m	1H 2015 £m
Operating profit – ongoing operations	**323.6**	335.8
Run-off	23.6	38.3
Restructuring and other one-off costs	(30.3)	(40.4)
Operating profit	**316.9**	333.7
Finance costs	(18.4)	(18.7)
Profit before tax	**298.5**	315.0
Tax	(62.6)	(68.4)
Profit from discontinued operations, net of tax	–	181.2
Profit after tax	**235.9**	427.8

Run-off

The Run-off segment generated a profit of £23.6m in 1H 2016 compared with £38.3m in 1H 2015. The reduction in the result followed lower prior-year reserve releases from large bodily claims. It is currently expected that the Run-off segment will continue to contribute positively to operating profit in future years, albeit at a lower level than in 2015.

Restructuring and other one-off costs

Restructuring and other one-off costs for 1H 2016 of £30.3m (1H 2015: £40.4m) were primarily associated with downsizing to a new Bristol office and exit of the existing property.

Over the three year period 2015 to 2017, the Group expects cumulative restructuring and other one-off costs to continue to offset the operating profit from the Run-off segment.

Finance costs

Finance costs remained stable at £18.4m (1H 2015: £18.7m).

Taxation

The effective tax rate in 1H 2016 was 21.0% (1H 2015: 21.7%), which was higher than the standard UK corporation tax rate of 20.0% (1H 2015: 20.25%) driven primarily by disallowable expenses.

Discontinued operations

On 29 May 2015, the Group completed the sale of its International division, which comprised its Italian and German operations, to Mapfre, S.A. Accordingly, this division was treated as discontinued operations. The gain on disposal of £167.1m was included in profit after tax from discontinued operations of £181.2m in 1H 2015. Operating profit included £29.9m of realised net gains on available-for-sale investments reclassified through the income statement on disposal. Further details on discontinued operations are presented in note 5 to the condensed consolidated financial statements, see pages 27 and 28.

Profit for the period and return on tangible equity

Profit for the period of £235.9m (1H 2015: £427.8m) reflected a significant decrease on 1H 2015 following the gain on disposal of the Group's International division on 29 May 2015.

Return on tangible equity increased to 23.1% (1H 2015: 21.2%) as the £8.7m reduction in profit after tax from ongoing operations (1H 2015: £252.9m) was more than offset by a reduction in the average shareholders' tangible equity following the sale of the Group's International division.

Earnings per share

Basic earnings per share of 17.2 pence increased 4.2% (1H 2015: 16.5 pence). This increase in basic earnings per share, despite the reduction in profit after tax, derives mainly from the 11-for-12 share consolidation approved by shareholders on 29 June 2015.

Adjusted diluted earnings per share increased by 5.4% to 17.6 pence reflecting a reduction in the weighted average number of Ordinary Shares, partially offset by a reduction in profit after tax from ongoing operations.

Dividends

The Board has resolved to pay an interim dividend for the Company for 2016 of £67.4m in aggregate, representing 4.9 pence per share, an increase on the regular interim dividend for 2015 of 4.6 pence.

In addition, the Board has resolved to pay a special interim dividend of 10.0 pence per share, following the approval of, and transition to, the Group's Solvency II partial internal model.

Both the regular and special interim dividends will be paid on 9 September 2016 to shareholders on the register on 12 August 2016. The ex dividend date will be 11 August 2016.

Net asset value

At	30 Jun 2016 £m	31 Dec 2015 £m
Net assets	2,668.8	2,630.0
Goodwill and other intangible assets	(541.4)	(524.8)
Tangible net assets	2,127.4	2,105.2
Net assets per share (pence)	195.1	192.2
Tangible net assets per share (pence)	155.5	153.8

The net asset value at 30 June 2016 increased to £2,668.8m (31 December 2015: £2,630.0m) and tangible net asset value increased to £2,127.4m (31 December 2015: £2,105.2m). These increases reflected the profit in 1H 2016 and a rise in the available-for-sale reserve, partially offset by the payment of the 2015 final and second special interim dividends and the growth in intangible software assets.

Financial management

Capital management

Capital management policy

The Group seeks to manage its capital efficiently, maintaining an appropriate level of capitalisation and solvency, while aiming to grow its regular dividend annually in real terms, where appropriate.

As has been its practice in the past, where the Board believes the Group has capital which is expected to be surplus to the Group's requirements for a prolonged period, it would intend to return the excess to shareholders.

In future, the Board has decided that in the normal course of events it will consider whether or not it is appropriate to pay a special dividend only once a year, alongside the full year results. In doing this, the Group will harmonise its major capital management decisions with its planning process and its full-year earnings.

Solvency II

Solvency II is the new solvency framework implemented on 1 January 2016 as the capital adequacy regime for the European insurance industry. It establishes a set of EU-wide capital requirements and risk management standards with the aim of increasing protection for policyholders. The Group is regulated by the PRA on both a Group basis and, for the Group's principal underwriter, U K Insurance Limited ("**UKI**"), on a solo basis.

At 1 January 2016, the Group (including UKI) assessed its capital requirements using the standard formula. UKI had its internal economic capital model approved for use as its internal model by the PRA in June 2016. UKI has calculated its capital requirement using its internal model, which forms part of a Group-wide partial internal model.

The Board has considered the risk appetite range of the Group under its Solvency II partial internal model and considers that the appropriate range, which should enable it to meet its operational, regulatory and rating agency requirements, is 140% to 180% of its solvency capital requirement.

Sensitivity analysis

The following table shows sensitivities estimated based on assessed impact of scenarios at 31 December 2015, as applied to the Group's solvency ratio at 30 June 2016.

Scenario	Impact on solvency ratio
Motor premium rate reduction of 10%	(15pts)
Motor bodily injury deterioration equivalent to accident years 2008 and 2009	(7pts)
Increase in periodic payment order propensity by 10pts	(10pts)
One-off catastrophe loss equivalent to 1990 storm	(9pts)
One-off catastrophe loss equivalent to 2007 floods	(16pts)
100bps increase in credit spreads	(6pts)
100bps increase in interest rates	(6pts)

Capital position

At 30 June 2016, the Group held a capital surplus of approximately £1.1bn after foreseeable dividends and above its estimated Solvency II regulatory capital requirements on the Group's partial internal model basis. This was equivalent to an estimated capital coverage ratio of 184%.

As at	30 Jun[1] 2016 £bn
Solvency capital requirement – estimated	1.4
Capital surplus above solvency capital requirement – estimated	1.1
Capital coverage ratio – estimated	184%

Note:

1. See note 3 on page 1

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

As at	30 Jun[1] 2016 £bn
Tier 1 capital before foreseeable dividends	2.0
Foreseeable dividends	(0.2)
Tier 1 capital	1.8
Tier 2 capital	0.6
Tier 3 capital	0.1
Own funds	2.5

Tier 1 capital after foreseeable dividends represents approximately 73% of own funds and 135% of the estimated solvency capital requirement. Tier 2 capital relates solely to the Group's £0.5bn subordinated debt issue in 2012. The amount of Tier 2 and 3 capital permitted under the Solvency II Regulations is 50% of the Group's solvency capital requirement, and of Tier 3 is 15%. Therefore, the Group's maximum qualifying Tier 2 and 3 capacity is approximately £0.7bn.

Reconciliation of IFRS shareholders' equity to Solvency II own funds

As at	30 Jun[1] 2016 £bn
Shareholders' equity	2.7
Goodwill and intangible assets	(0.5)
Change in valuation of technical provisions	0.1
Other asset and liability adjustments	(0.3)
Foreseeable dividends	(0.2)
Tier 1 capital	1.8
Tier 2 capital: subordinated debt	0.6
Tier 3 capital: deferred tax	0.1
Total eligible own funds to meet solvency capital requirement	2.5

Leverage

As at	30 Jun 2016 £m	31 Dec 2015 £m
Shareholders' equity	2,668.8	2,630.0
Financial debt – subordinated guaranteed dated notes	551.2	521.1
Total capital employed	3,220.0	3,151.1
Financial-leverage ratio[2]	17.1%	16.5%

During the 1H 2016, the leverage increased 0.6pts to 17.1% due primarily to the payment of final and special dividends for 2015.

Credit ratings

Standard & Poor's and Moody's Investors Service provide insurance financial-strength ratings for UKI. UKI is currently rated 'A' (strong) with a stable outlook by Standard & Poor's and 'A2' (good) with a stable outlook by Moody's.

Notes:

1. See note 3 on page 1
2. Total financial debt as a percentage of total capital employed

Principal risks and uncertainties

The Group carries out a robust assessment of the principal risks facing it in the current and future financial years. Principal risks are defined as having a residual risk impact of £40m or more on profit before tax or net asset value on a one-in-200 years basis, taking into account customer, financial and reputational impacts. The Group believes that the risk profile remains broadly unchanged over the last six months, since the profile disclosed in the Annual Report & Accounts 2015, page 28.

Material 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 underwriting, reserve, distribution, pricing and reinsurance risks. The Group faces the risk that future claims on business written could be materially different from expectations resulting in losses. The risk of understatement of reserves arises from the random nature of claims, data issues and operational failures. Distribution risk is that a material change in the volume of business written may result in losses or reduced profitability. Incorrect pricing with market supply and demand could result in the potential loss of market share or profitability. Furthermore, the inappropriate selection or placement of reinsurance arrangements could render the transfer of risk inappropriate or ineffective.
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. Market risk includes spread, interest rate and property risks. The Group is exposed to fluctuations in the value of assets or the income from its investment portfolio. The value of assets and investments are sensitive to changes in credit spreads above the risk-free interest rate. Asset values are sensitive to changes in interest rates. Property risk arises as a result of sensitivity of assets to market prices of property.
Credit risk The risk of loss resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which the Group is exposed. Credit risk includes concentration and counterparty default risks. Concentration risk arises from inadequately diversified portfolios of assets or obligations. The Group partners with many suppliers, in particular reinsurance, and has many investment counterparties. The failure of any of these parties could result in a financial loss. Counterparty risk arises from unexpected default by, or deterioration in the credit standing of, counterparties and debtors.
Operational risk The risk of loss due to inadequate or failed internal processes, people, systems or from external events. Operational risk includes information security, IT and business continuity, outsourcing, financial reporting, model, partnership contractual obligations, change, and technology and infrastructure risks. Information security risk covers the potential loss of, or corruption to, data or intellectual property. Business continuity risk, including reputational risk, relates to the failure to recover from major external or internal events, resulting in a delay or inability to deliver services to customers. There is also the risk that an outsourcing arrangement may fail to deliver services to expected levels. The financial reporting misstatement risk derives from the potential material misstatement, misrepresentation or untimely delivery of financial information or regulatory returns. There are potential adverse consequences from inadequate, incorrect, ineffective or misused model outputs and reports for decision making, product design or for customer offerings. Partnership contractual obligations risk arises from the potential loss from contractual obligations not being delivered for business partners. The Group has a substantial portfolio of change underway which could result in conflicting priorities and failure to deliver strategic outcomes. Technology and infrastructure risk is that the IT infrastructure is insufficient to deliver the Group strategy.
Regulatory and conduct risk The risks leading to reputational damage, regulatory or legal censure, fines or prosecutions and other types of non-budgeted operational risk losses associated with the Group's conduct and activities. Regulatory and conduct risk includes compliance risk. Compliance risk is the potential loss from regulatory or legal censure, fines or prosecutions. Conduct risk is the failure to treat customers appropriately or failure by employees to behave with integrity. Regulatory risk arises from changes in law and regulations (including changes of interpretation) not identified, interpreted or adopted correctly.
Strategic risk The risk of direct or indirect adverse impact on the earnings, capital, or value of the business as a result of the strategies not being optimally chosen, implemented or adapted to changing conditions. Strategic risk includes strategy implementation and formulation risks. These are the risks of failing to formulate an appropriate strategy to deliver strategic objectives.

Emerging risks

The Group's definition of emerging risk is newly developing or changing risks that are often difficult to quantify, but may materially affect the business. Emerging risks are further defined as highly uncertain risks that are external to the business. The Group records emerging risks within an Emerging Risk Register. These are reported to the Risk Management Committee and Board Risk Committee for review, challenge, approval, and feed into the Board's strategic planning process. The Group's emerging risks processes aim to:

- Achieve 'first mover advantage' by recognising risks and associated opportunities early
- Reduce the uncertainty and volatility of the Group's results
- Manage emerging risks proactively

The Group considers its main emerging risks to be:

Emerging risks
Technological change in driving habits reduce consumer need for motor insurance New car technologies, such as crash-prevention technologies and driverless cars, could significantly affect the size and nature of the insurance market, and the role of insurers.
Changes to traditional insurance business models New market entrants and changes in consumer expectations could result in significant changes to the structure of the general insurance market and require the Group to update its business model.
UK economy The UK could enter a prolonged period of recession following the country's referendum vote on European Union membership. A recession could, for example, reduce insurance sales and the value of the investment portfolio, whilst potentially increasing levels of insurance fraud.
Climate change Climate change could increase the frequency of severe weather events in the UK, in particular claims costs associated with flooding.

Condensed consolidated income statement

For the six months ended 30 June 2016

	Notes	6 months 2016 £m	6 months 2015 £m	Full year 2015 £m (audited)
Gross earned premium	6	1,579.5	1,535.8	3,110.1
Reinsurance premium	6	(99.6)	(95.3)	(189.2)
Net earned premium	6	1,479.9	1,440.5	2,920.9
Investment return	7	92.7	111.5	198.1
Instalment income		51.4	48.4	100.1
Other operating income	8	27.0	24.4	50.7
Total income		1,651.0	1,624.8	3,269.8
Insurance claims	9	(738.9)	(816.7)	(1,829.3)
Insurance claims recoverable from reinsurers	9	(29.4)	73.0	162.4
Net insurance claims	9	(768.3)	(743.7)	(1,666.9)
Commission expenses	10	(160.8)	(166.9)	(319.3)
Operating expenses	11	(405.0)	(380.5)	(738.5)
Total expenses		(565.8)	(547.4)	(1,057.8)
Operating profit		316.9	333.7	545.1
Finance costs	12	(18.4)	(18.7)	(37.6)
Profit before tax		298.5	315.0	507.5
Tax charge	13	(62.6)	(68.4)	(108.3)
Profit from continuing operations, net of tax		235.9	246.6	399.2
Profit from discontinued operations, net of tax	5	–	181.2	181.2
Profit for the period attributable to owners of the Company		235.9	427.8	580.4
Earnings per share:				
Continuing operations:				
Basic (pence)	15	17.2	16.5	27.9
Diluted (pence)	15	17.0	16.3	27.6
Total Group:				
Basic (pence)	15	17.2	28.6	40.6
Diluted (pence)	15	17.0	28.3	40.1

Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2016

	6 months 2016 £m	6 months 2015 £m	Full year 2015 £m (audited)
Profit for the period	235.9	427.8	580.4
Other comprehensive income / (loss)			
Items that will not be reclassified subsequently to the income statement:			
Actuarial gain on defined benefit pension scheme	–	–	6.7
Tax relating to items that will not be reclassified	–	–	(1.6)
	–	–	5.1
Items that may be reclassified subsequently to the income statement:			
Exchange differences on translation of foreign operations	–	14.4	14.4
Cash flow hedges	0.9	(1.7)	(1.4)
Fair value gain / (losses) on available-for-sale investments	76.7	(48.9)	(100.5)
Less: realised net gains on available-for-sale investments included in the income statement	(8.2)	(47.9)	(44.3)
Tax relating to items that may be reclassified	(12.2)	24.9	34.6
	57.2	(59.2)	(97.2)
Other comprehensive income / (loss) for the period net of tax	57.2	(59.2)	(92.1)
Total comprehensive income for the period attributable to owners of the Company	293.1	368.6	488.3

Condensed consolidated balance sheet

As at 30 June 2016

	Notes	30 Jun 2016 £m	31 Dec 2015 £m (audited)
Assets			
Goodwill and other intangible assets		541.4	524.8
Property, plant and equipment		185.1	186.3
Investment property		348.6	347.4
Reinsurance assets	17	958.2	1,011.4
Current tax assets		0.1	0.1
Deferred acquisition costs		205.8	203.8
Insurance and other receivables		1,073.3	955.8
Prepayments, accrued income and other assets		112.8	110.9
Derivative financial instruments		93.3	19.6
Retirement benefit asset		13.1	13.1
Financial investments	18	5,515.7	5,614.6
Cash and cash equivalents	19	1,055.1	963.7
Assets held for sale		9.6	5.1
Total assets		10,112.1	9,956.6
Equity		2,668.8	2,630.0
Liabilities			
Subordinated liabilities		551.2	521.1
Insurance liabilities	20	4,249.7	4,524.5
Unearned premium reserve		1,510.1	1,476.6
Borrowings	19	65.4	61.3
Derivative financial instruments		300.1	46.4
Trade and other payables including insurance payables		682.5	656.5
Deferred tax liabilities		41.0	29.9
Current tax liabilities		43.3	10.3
Total liabilities		7,443.3	7,326.6
Total equity and liabilities		10,112.1	9,956.6

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2016

	Notes	Share capital £m	Employee trust shares £m	Capital reserves £m	Revaluation reserve £m	Non-distributable reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Total shareholders equity £m
Balance at 1 January 2015		150.0	(13.6)	1,450.0	115.6	124.9	(13.1)	996.7	2,810.5
Profit for the period		–	–	–	–	–	–	580.4	580.4
Other comprehensive loss		–	–	–	(110.2)	–	13.0	5.1	(92.1)
Dividends		–	–	–	–	–	–	(666.0)	(666.0)
Transfer to non-distributable reserve		–	–	–	–	28.0	–	(28.0)	–
Shares acquired by employee trusts		–	(17.8)	–	–	–	–	–	(17.8)
Credit to equity for equity-settled share-based payments		–	–	–	–	–	–	12.1	12.1
Shares distributed by employee trusts		–	11.0	–	–	–	–	(11.0)	–
Tax on share-based payments		–	–	–	–	–	–	2.9	2.9
Balance at 31 December 2015 (audited)		150.0	(20.4)	1,450.0	5.4	152.9	(0.1)	892.2	2,630.0
Profit for the period		–	–	–	–	–	–	235.9	235.9
Other comprehensive income		–	–	–	56.2	–	1.0	–	57.2
Dividends		–	–	–	–	–	–	(246.6)	(246.6)
Transfer to non-distributable reserve		–	–	–	–	(152.9)	–	152.9	–
Shares acquired by employee trusts		–	(17.5)	–	–	–	–	–	(17.5)
Credit to equity for equity-settled share-based payments		–	–	–	–	–	–	10.0	10.0
Shares distributed by employee trusts		–	15.4	–	–	–	–	(15.4)	–
Tax on share-based payments		–	–	–	–	–	–	(0.2)	(0.2)
Balance at 30 June 2016		150.0	(22.5)	1,450.0	61.6	–	0.9	1,028.8	2,668.8

	Notes	Share capital £m	Employee trust shares £m	Capital reserves £m	Revaluation reserve £m	Non-distributable reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Total shareholders equity £m
Balance at 1 January 2015		150.0	(13.6)	1,450.0	115.6	124.9	(13.1)	996.7	2,810.5
Profit for the period		–	–	–	–	–	–	427.8	427.8
Other comprehensive loss		–	–	–	(71.9)	–	12.7	–	(59.2)
Dividends		–	–	–	–	–	–	(191.5)	(191.5)
Transfer to non-distributable reserve		–	–	–	–	15.3	–	(15.3)	–
Credit to equity for equity-settled share-based payments		–	–	–	–	–	–	5.0	5.0
Shares distributed by employee trusts		–	5.0	–	–	–	–	(5.0)	–
Tax on share-based payments		–	–	–	–	–	–	1.1	1.1
Balance at 30 June 2015		150.0	(8.6)	1,450.0	43.7	140.2	(0.4)	1,218.8	2,993.7

Condensed consolidated cash flow statement

For the six months ended 30 June 2016

	Notes	6 months 2016 £m	6 months 2015 £m	Full year 2015 £m (audited)
Net cash (used by) /generated from operating activities before investment of insurance assets		(63.6)	19.7	42.1
Cash generated from investment of insurance assets		518.1	310.8	503.1
Net cash generated from operating activities		454.5	330.5	545.2
Cash flows from investing activities				
Purchases of property, plant and equipment		(37.4)	(51.7)	(67.9)
Purchases of intangible assets		(46.5)	(20.8)	(75.5)
Proceeds from disposals of assets held for sale		–	–	7.1
Net cash flows from disposal of subsidiaries		–	327.1	327.1
Net cash (used by) /generated from investing activities		(83.9)	254.6	190.8
Cash flows from financing activities				
Dividends paid	14	(246.6)	(191.5)	(666.0)
Finance costs		(19.2)	(19.0)	(38.2)
Purchase of employee trust shares		(17.5)	–	(17.8)
Net cash used by financing activities		(283.3)	(210.5)	(722.0)
Net increase in cash and cash equivalents		87.3	374.6	14.0
Cash and cash equivalents at the beginning of the period		902.4	898.2	898.2
Effect of foreign exchange rate changes		–	(9.8)	(9.8)
Cash and cash equivalents at the end of the period	19	989.7	1,263.0	902.4

Notes to the condensed consolidated financial statements

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 2015 and included in the condensed consolidated financial statements does not constitute statutory accounts as defined in S434 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 2015 is unqualified, does not draw attention to any matters by way of emphasis and does not include a statement under S498(2) or (3) of the Companies Act 2006.

2. Accounting policies

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 condensed consolidated financial statements included in this Interim Report have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union.

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 2016, however these have had no impact on the condensed consolidated financial statements.

Within the condensed consolidated financial statements the 'International' segment has been classified as discontinued operations.

Going concern

The Directors, having assessed the principal risks of the Group over the full duration of the planning cycle, consider it appropriate to adopt the going concern basis of accounting in preparing the interim condensed consolidated financial statements.

Accounting policies and accounting developments

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

3. Critical accounting estimates and judgements

Pages 118 to 120 of the Annual Report & Accounts 2015 provide full details of critical accounting estimates and judgements used in applying the Group's accounting policies. There have been no significant changes to the principles or assumptions of these critical accounting estimates and judgements during the period.

Notes to the condensed consolidated financial statements

4. Segmental analysis

There have been no significant changes to the Group's reportable segments as set out on page 133 of the Annual Report & Accounts 2015.

The table below is an analysis of the Group's revenue and results by reportable segment for the six months ended 30 June 2016:

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total ongoing £m	Run-off £m	Total £m
Gross written premium	750.3	403.2	197.7	261.9	1,613.1	–	1,613.1
Gross earned premium	710.7	427.4	195.6	245.8	1,579.5	–	1,579.5
Reinsurance premium	(60.4)	(15.7)	(0.8)	(22.7)	(99.6)	–	(99.6)
Net earned premium	650.3	411.7	194.8	223.1	1,479.9	–	1,479.9
Investment return	63.0	11.0	2.1	14.9	91.0	1.7	92.7
Instalment income	36.2	11.6	0.9	2.7	51.4	–	51.4
Other operating income	19.6	0.1	6.2	1.1	27.0	–	27.0
Total income	769.1	434.4	204.0	241.8	1,649.3	1.7	1,651.0
Insurance claims	(397.4)	(137.9)	(121.4)	(117.3)	(774.0)	35.1	(738.9)
Insurance claims recoverable from reinsurers	(18.7)	0.2	–	2.2	(16.3)	(13.1)	(29.4)
Net insurance claims	(416.1)	(137.7)	(121.4)	(115.1)	(790.3)	22.0	(768.3)
Commission expenses	(16.7)	(91.2)	(9.6)	(43.3)	(160.8)	–	(160.8)
Operating expenses	(167.5)	(104.0)	(49.6)	(53.5)	(374.6)	(0.1)	(374.7)
Total expenses	(184.2)	(195.2)	(59.2)	(96.8)	(535.4)	(0.1)	(535.5)
Operating profit before restructuring and other one-off costs	168.8	101.5	23.4	29.9	323.6	23.6	347.2
Restructuring and other one-off costs							(30.3)
Operating profit							316.9
Finance costs							(18.4)
Profit before tax							298.5

	Motor	Home	Rescue and other personal lines	Commercial	Total ongoing
Underwriting profit	50.0	78.8	14.2	11.2	154.2
Loss ratio	64.0%	33.4%	62.3%	51.6%	53.4%
Commission ratio	2.6%	22.2%	4.9%	19.4%	10.9%
Expense ratio	25.7%	25.3%	25.5%	24.0%	25.3%
COR	92.3%	80.9%	92.7%	95.0%	89.6%

Notes to the condensed consolidated financial statements

4. Segmental analysis continued

The table below is an analysis of the Group's revenue and results for continuing operations by reportable segment for the six months ended 30 June 2015:

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total ongoing £m	Run-off £m	Total £m
Gross written premium	683.3	417.8	194.8	256.1	1,552.0	–	1,552.0
Gross earned premium	664.4	440.6	190.3	240.5	1,535.8	–	1,535.8
Reinsurance premium	(52.9)	(18.7)	(0.8)	(22.9)	(95.3)	–	(95.3)
Net earned premium	611.5	421.9	189.5	217.6	1,440.5	–	1,440.5
Investment return	78.6	11.4	2.1	17.7	109.8	1.7	111.5
Instalment income	33.4	11.5	0.8	2.7	48.4	–	48.4
Other operating income	16.5	0.5	6.4	1.0	24.4	–	24.4
Total income	740.0	445.3	198.8	239.0	1,623.1	1.7	1,624.8
Insurance claims	(454.1)	(161.7)	(117.7)	(144.4)	(877.9)	61.2	(816.7)
Insurance claims recoverable from reinsurers	76.0	(0.3)	0.1	21.4	97.2	(24.2)	73.0
Net insurance claims	(378.1)	(162.0)	(117.6)	(123.0)	(780.7)	37.0	(743.7)
Commission expenses	(17.9)	(96.2)	(10.4)	(42.4)	(166.9)	–	(166.9)
Operating expenses	(163.0)	(82.7)	(44.4)	(49.6)	(339.7)	(0.4)	(340.1)
Total expenses	(180.9)	(178.9)	(54.8)	(92.0)	(506.6)	(0.4)	(507.0)
Operating profit before restructuring and other one-off costs	181.0	104.4	26.4	24.0	335.8	38.3	374.1
Restructuring and other one-off costs							(40.4)
Operating profit							333.7
Finance costs							(18.7)
Profit before tax							315.0

	Motor	Home	Rescue and other personal lines	Commercial	Total ongoing
Underwriting profit	52.5	81.0	17.1	2.6	153.2
Loss ratio	61.8%	38.4%	62.1%	56.5%	54.2%
Commission ratio	2.9%	22.8%	5.5%	19.5%	11.6%
Expense ratio	26.7%	19.6%	23.4%	22.8%	23.6%
COR	91.4%	80.8%	91.0%	98.8%	89.4%

4. Segmental analysis continued

The table below shows the Group's revenue and results for continuing operations by reportable segment for the year ended 31 December 2015 (audited):

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total ongoing £m	Run-off £m	Total £m
Gross written premium	1,406.7	866.3	394.1	485.3	3,152.4	0.1	3,152.5
Gross earned premium	1,358.7	880.3	388.0	483.0	3,110.0	0.1	3,110.1
Reinsurance premium	(109.4)	(35.3)	(1.6)	(42.9)	(189.2)	–	(189.2)
Net earned premium	1,249.3	845.0	386.4	440.1	2,920.8	0.1	2,920.9
Investment return	138.9	20.5	3.8	31.5	194.7	3.4	198.1
Instalment income	69.7	23.3	1.7	5.4	100.1	–	100.1
Other operating income	33.9	0.5	12.6	3.7	50.7	–	50.7
Total income	1,491.8	889.3	404.5	480.7	3,266.3	3.5	3,269.8
Insurance claims	(956.7)	(434.8)	(231.6)	(304.5)	(1,927.6)	98.3	(1,829.3)
Insurance claims recoverable from reinsurers	161.9	(0.3)	–	28.7	190.3	(27.9)	162.4
Net insurance claims	(794.8)	(435.1)	(231.6)	(275.8)	(1,737.3)	70.4	(1,666.9)
Commission expenses	(31.9)	(176.7)	(24.5)	(86.1)	(319.2)	(0.1)	(319.3)
Operating expenses	(327.1)	(167.6)	(96.4)	(98.0)	(689.1)	(0.7)	(689.8)
Total expenses	(359.0)	(344.3)	(120.9)	(184.1)	(1,008.3)	(0.8)	(1,009.1)
Operating profit before restructuring and other one-off costs	338.0	109.9	52.0	20.8	520.7	73.1	593.8
Restructuring and other one-off costs							(48.7)
Operating profit							545.1
Finance costs							(37.6)
Profit before tax							507.5

	Motor	Home	Rescue and other personal lines	Commercial	Total ongoing
Underwriting profit / (loss)	95.5	65.6	33.9	(19.8)	175.2
Loss ratio	63.6%	51.5%	59.9%	62.7%	59.5%
Commission ratio	2.6%	20.9%	6.4%	19.6%	10.9%
Expense ratio	26.2%	19.8%	24.9%	22.2%	23.6%
COR	92.4%	92.2%	91.2%	104.5%	94.0%

Notes to the condensed consolidated financial statements

5. Discontinued operations

The Group completed the disposal of its Italian and German subsidiaries on 29 May 2015, which was treated as a discontinued operation, generating a gain on disposal of £167.1 million.

The following table analyses performance relating to the discontinued operations up to the point of sale and the gain on disposal at that date.

	6 months 2015 £m	Full year 2015 £m (audited)
Gross written premium	261.1	261.1
Gross earned premium	207.2	207.2
Reinsurance premium ceded	(78.8)	(78.8)
Net earned premium	128.4	128.4
Investment return[1]	37.1	37.1
Instalment income	1.4	1.4
Other operating income	0.1	0.1
Total income	167.0	167.0
Insurance claims	(156.2)	(156.2)
Insurance claims recoverable from reinsurers	60.9	60.9
Net insurance claims	(95.3)	(95.3)
Commission expenses	(28.0)	(28.0)
Operating expenses	(10.2)	(10.2)
Total expenses	(38.2)	(38.2)
Operating profit from discontinued operations	33.5	33.5
Gain on disposal of discontinued operations	167.1	167.1
Profit before tax from discontinued operations	200.6	200.6
Tax charge	(19.4)	(19.4)
Profit after tax from discontinued operations	181.2	181.2
Underwriting loss	(5.1)	(5.1)
Loss ratio	74.2%	74.2%
Commission ratio	21.8%	21.8%
Expense ratio	8.0%	8.0%
Combined operating ratio	104.0%	104.0%

The following table analyses the other comprehensive loss relating to discontinued operations, included in the consolidated statement of comprehensive income.

	6 months 2015 £m	Full year 2015 £m (audited)
Items that may be reclassified subsequently to the income statement:		
Exchange differences on the translation of foreign operations	14.4	14.4
Cash flow hedge	(1.2)	(1.2)
Fair value gain on available-for-sale investments	0.6	0.6
Less: realised net gains on available-for-sale investments included in the income statement[1]	(31.8)	(31.8)
Tax relating to items that may be reclassified	10.1	10.1
Other comprehensive loss for the period net of tax	(7.9)	(7.9)

Note:

1. Realised net gains on available-for-sale investments included £29.9 million of gains reclassified through the income statement, on disposal of International.

Notes to the condensed consolidated financial statements

5. Discontinued operations and disposal continued

The following table analyses the cash flows relating to the discontinued operations included in the consolidated cash flow statement.

	6 months 2015 £m	Full year 2015 £m (audited)
Net cash generated used by operating activities	19.1	19.1
Net cash used by investing activities	(1.5)	(1.5)
Net cash generated from the disposal of discontinued operations	327.1	327.1
Effect of foreign exchange rate changes	(9.8)	(9.8)
Net increase in cash and cash equivalents	334.9	334.9

6. Net earned premium

	6 months 2016 £m	6 months 2015[1] £m	Full year 2015[1] £m (audited)
Gross earned premium:			
Gross written premium	**1,613.1**	1,552.0	3,152.5
Movement in unearned premium reserve	**(33.6)**	(16.2)	(42.4)
	1,579.5	1,535.8	3,110.1
Reinsurance premium:			
Premium payable	**(83.1)**	(72.5)	(191.7)
Movement in reinsurance unearned premium reserve	**(16.5)**	(22.8)	2.5
	(99.6)	(95.3)	(189.2)
Total	**1,479.9**	1,440.5	2,920.9

Note:

1. Results for the 6 months ended 30 June 2015 and the year ended 31 December 2015 are based on continuing operations and exclude discontinued operations.

7. Investment return

	6 months 2016 £m	6 months 2015[1] £m	Full year 2015[1] £m (audited)
Investment income:			
Interest income from debt securities	**69.2**	71.0	140.1
Cash and cash equivalent interest income	**2.3**	3.9	6.7
Rental income from investment property	**8.9**	8.8	17.9
Interest income from infrastructure debt	**4.0**	1.0	4.4
	84.4	84.7	169.1
Net realised gains/ (losses):			
Available-for-sale debt securities	**8.2**	16.1	12.4
Derivatives	**(15.9)**	(34.5)	(56.5)
	(7.7)	(18.4)	(44.1)
Net unrealised gains:			
Derivatives	**15.5**	30.6	48.9
Investment property	**0.5**	14.6	24.2
	16.0	45.2	73.1
Total	**92.7**	111.5	198.1

Note:

1. Results for the 6 months ended 30 June 2015 and the year ended 31 December 2015 are based on continuing operations and exclude discontinued operations.

Notes to the condensed consolidated financial statements

7. Investment return continued

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

	Realised 6 months 2016 £m	Unrealised 6 months 2016 £m	Realised 6 months 2015[1] £m	Unrealised 6 months 2015[1] £m
Derivative (losses) / gains:				
Foreign exchange forward contracts	(68.7)	(149.3)	(48.8)	63.7
Associated foreign exchange risk	42.8	177.5	26.5	(38.9)
Net (losses) / gains on foreign exchange forward contracts	(25.9)	28.2	(22.3)	24.8
Interest rate derivatives	5.0	(62.4)	(19.3)	7.9
Associated interest rate risk	5.0	49.7	7.1	(2.1)
Net gains / (losses) on interest rate derivatives	10.0	(12.7)	(12.2)	5.8
Total	(15.9)	15.5	(34.5)	30.6

	Realised Full year 2015[1] (audited) £m	Unrealised Full year 2015[1] (audited) £m
Derivative (losses) / gains:		
Foreign exchange forward contracts	(82.4)	(19.1)
Associated foreign exchange risk	44.9	61.9
Net (losses) / gains on foreign exchange forward contracts	(37.5)	42.8
Interest rate derivatives	(28.7)	1.2
Associated interest rate risk	9.7	4.9
Net (losses) / gains on interest rate derivatives	(19.0)	6.1
Total	(56.5)	48.9

Note:

1. Results for the 6 months ended 30 June 2015 and the year ended 31 December 2015 are based on continuing operations and exclude discontinued operations.

8. Other operating income

	6 months 2016 £m	6 months 2015[1] £m	Full year 2015[1] £m (audited)
Vehicle replacement referral income	6.8	5.8	12.5
Revenue from vehicle recovery and repair services	9.4	7.6	15.5
Other income	10.8	11.0	22.7
Total	27.0	24.4	50.7

Note:

1. Results for the 6 months ended 30 June 2015 and the year ended 31 December 2015 are based on continuing operations and exclude discontinued operations.

9. Net insurance claims

	Gross 6 months 2016 £m	Reinsurance[1] 6 months 2016 £m	Net 6 months 2016 £m	Gross 6 months 2015[1] £m	Reinsurance 6 months 2015[1] £m	Net 6 months 2015[1] £m
Current accident year claims paid	436.4	–	436.4	397.4	–	397.4
Prior accident year claims paid	577.3	(7.2)	570.1	595.8	(0.7)	595.1
Movement in insurance liabilities	(274.8)	36.6	(238.2)	(176.5)	(72.3)	(248.8)
Total	738.9	29.4	768.3	816.7	(73.0)	743.7

Note:

1. Significant reinsurance recoverables relating to prior-year claims were released in the 6 months ended 30 June 2016, resulting in an overall increase in net claims cost.

Notes to the condensed consolidated financial statements

9. Net insurance claims continued

	Gross	Reinsurance	Net
	Full year 2015[1] £m (audited)	Full year 2015[1] £m (audited)	Full year 2015[1] £m (audited)
Current accident year claims paid	1,037.0	–	1,037.0
Prior accident year claims paid	941.9	(15.9)	926.0
Movement in insurance liabilities	(149.6)	(146.5)	(296.1)
Total	1,829.3	(162.4)	1,666.9

The table below analyses the claims handling expenses by reportable segment included in the net insurance claims.

	6 months 2016 £m	6 months 2015[1] £m	Full year 2015[1] £m (audited)
Ongoing operations	**87.0**	98.6	195.6
Run-off	**1.0**	4.5	4.8
Total	**88.0**	103.1	200.4

Note:

1. Results for the 6 months ended 30 June 2015 and the year ended 31 December 2015 are based on continuing operations and exclude discontinued operations.

10. Commission expenses

	6 months 2016 £m	6 months 2015[1] £m	Full year 2015[1] £m (audited)
Commission expenses	**123.1**	130.2	253.2
Expenses incurred under profit participations	**37.7**	36.7	66.1
Total	**160.8**	166.9	319.3

Note:

1. Results for the 6 months ended 30 June 2015 and the year ended 31 December 2015 are based on continuing operations and exclude discontinued operations.

11. Operating expenses

	6 months 2016 £m	6 months 2015[1] £m	Full year 2015[1] £m (audited)
Staff costs	**145.9**	134.4	273.3
Other operating expenses	**151.5**	141.7	249.2
Marketing	**62.6**	58.6	117.9
Amortisation and impairment of other intangible assets	**30.0**	30.9	67.4
Depreciation	**15.0**	14.9	30.7
Total	**405.0**	380.5	738.5

Staff costs attributable to claims handling activities are allocated to the cost of insurance claims

The table below analyses restructuring and other one-off costs included in operating expenses.

	6 months 2016 £m	6 months 2015[1] £m	Full year 2015[1] £m (audited)
Other operating expenses[2]	**21.6**	31.2	30.0
Staff costs	**8.7**	9.2	18.7
Total	**30.3**	40.4	48.7

Note:

1. Results for the 6 months ended 30 June 2015 and the year ended 31 December 2015 are based on continuing operations and exclude discontinued operations.
2. A freehold property including fixtures and fittings held at 31 December 2015 was transferred to assets held for sale in 2016. The property with a carrying value of £23.5 million was remeasured on transfer to its fair value of £4.5 million resulting in a charge to other operating expenses of £19.0 million.

Notes to the condensed consolidated financial statements

12. Finance costs

	6 months 2016 £m	6 months 2015[1] £m	Full year 2015[1] £m (audited)
Interest expense on subordinated liabilities[2]	18.4	18.7	37.6

Notes:

1. Results for the 6 months ended 30 June 2015 and the year ended 31 December 2015 are based on continuing operations and exclude discontinued operations.
2. 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 hedge to exchange the fixed rate of interest on the notes for a floating rate of three-month LIBOR plus a spread of 706 basis points which increased to 707 basis points with effect from 29 July 2013.

13. Tax charge

	6 months 2016 £m	6 months 2015[1] £m	Full year 2015[1] £m (audited)
Current taxation:			
Charge for the period	65.0	63.7	103.5
Over provision in respect of the prior period	–	–	(4.6)
	65.0	63.7	98.9
Deferred taxation:			
(Credit) / charge for the period	(2.4)	4.9	6.4
(Over) / under provision in respect of the prior period	–	(0.2)	3.0
	(2.4)	4.7	9.4
Current taxation	65.0	63.7	98.9
Deferred taxation	(2.4)	4.7	9.4
Tax charge for the period	62.6	68.4	108.3

Note:

1. Results for the 6 months ended 30 June 2015 and the year ended 31 December 2015 are based on continuing operations and exclude discontinued operations.

14. Dividends

	6 months 2016 £m	6 months 2015 £m	Full year 2015 £m (audited)
Amounts recognised as distributions to equity holders in the period:			
2015 final dividend of 9.2p per share paid on 19 May 2016	126.0	–	–
2014 final dividend[1] of 8.8p per share paid on 17 April 2015	–	131.6	131.6
2015 first interim dividend of 4.6p per share paid on 11 September 2015	–	–	63.0
2015 first special interim dividend of 27.5p per share paid on 24 July 2015	–	–	411.5
2015 second special interim dividend of 8.8p per share paid on 19 May 2016	120.6	–	–
2014 second special interim dividend of 4.0p per share paid on 17 April 2015	–	59.9	59.9
Total	246.6	191.5	666.0

Note:

1. The Board paid an interim dividend in lieu of a final dividend.

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 dividend paid for the six months ended 30 June 2016 by £0.9 million (six months ended 30 June 2015: £0.5 million and year ended 31 December 2015: £1.7 million).

Notes to the condensed consolidated financial statements

15. Earnings per share

Earnings per share is calculated by dividing earnings attributable to the owners of the Company by the weighted average number of Ordinary Shares during the period.

Basic

Basic earnings per share is calculated by dividing the earnings attributable to the owners of the Company and the weighted average of Ordinary Shares for the purposes of basic earnings per share during the period, excluding Ordinary Shares held as employee trust shares.

	6 months 2016 £m	6 months 2015 £m	Full year 2015 £m (audited)
Earnings attributable to owners of the Company arising from:			
Continuing operations	235.9	246.6	399.2
Discontinued operations	–	181.2	181.2
Total Group	235.9	427.8	580.4
Weighted average number of Ordinary Shares (millions)[1]	1,370.2	1,493.2	1,431.2
Basic earnings per share (pence):			
Continuing operations	17.2	16.5	27.9
Discontinued operations	–	12.1	12.7
Total Group	17.2	28.6	40.6

Diluted

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

	6 months 2016 £m	6 months 2015 £m	Full year 2015 £m (audited)
Earnings attributable to owners of the Company arising from:			
Continuing operations	235.9	246.6	399.2
Discontinued operations	–	181.2	181.2
Total Group	235.9	427.8	580.4
Weighted average number of Ordinary Shares (millions)[1]	1,370.2	1,493.2	1,431.2
Effect of dilutive potential of share options and contingently issuable shares (millions)	15.5	17.7	17.8
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	1,385.7	1,510.9	1,449.0
Diluted earnings per share (pence):			
Continuing operations	17.0	16.3	27.6
Discontinued operations	–	12.0	12.5
Total Group	17.0	28.3	40.1

Note:

1. On 30 June 2015, the Group completed an 11 for 12 share consolidation which had the effect of reducing the number of shares in issue from 1,500 million Ordinary Shares of 10 pence each to 1,375 million new Ordinary Shares of 10 $^{10}/_{11}$ pence each. The weighted average number of Ordinary Shares used in calculating basic and diluted earnings per share for the six months ended 30 June 2015 and the year ended 31 December 2015 reflects this share consolidation.

Notes to the condensed consolidated financial statements

16. Net assets per share and return on equity

Net asset value per share is calculated as total shareholders' equity 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.

At	30 Jun 2016 £m	31 Dec 2015 £m (audited)
Net assets	2,668.8	2,630.0
Goodwill and other intangible assets	(541.4)	(524.8)
Tangible net assets	2,127.4	2,105.2
Number of Ordinary Shares (millions)[1]	1,375.0	1,375.0
Shares held by employee share trusts (millions)[1]	(6.8)	(6.3)
Closing number of Ordinary Shares (millions)[1]	1,368.2	1,368.7
Net asset value per share (pence)[1]	195.1	192.2
Tangible net asset value per share (pence)[1]	155.5	153.8

Return on equity

The table below details the calculation of return on equity and annualised return on equity.

	6 months 2016 £m	6 months 2015 £m	Full year 2015 £m (audited)
Earnings attributable to owners of the Company arising from:			
Continuing operations	235.9	246.6	399.2
Discontinued operations	–	181.2	181.2
Total Group	235.9	427.8	580.4
Annualised[1]	471.8	674.4	580.4
Opening shareholders' equity	2,630.0	2,810.5	2,810.5
Closing shareholders' equity	2,668.8	2,993.7	2,630.0
Average shareholders' equity	2,649.4	2,902.1	2,720.2
Return on equity for period	8.9%	14.7%	21.3%
Return on equity annualised[1]	17.8%	23.2%	21.3%

Note:

1. Earnings have been annualised using profits for the 6 months ended 30 June 2016 (30 June 2015: annualisation was applied to the earnings from continuing operations plus the actual result for discontinued operations which was earned in the 6 months to 30 June 2015).

Notes to the condensed consolidated financial statements

17. Reinsurance assets

	30 Jun 2016 £m	31 Dec 2015 £m (audited)
Reinsurers' share of general insurance liabilities	944.8	975.8
Impairment provision	(59.6)	(53.9)
	885.2	921.9
Reinsurers' unearned premium reserve	73.0	89.5
Total	**958.2**	**1,011.4**

18. Financial investments

At	30 Jun 2016 £m	31 Dec 2015 £m (audited)
Available-for-sale debt securities		
Corporate	4,187.3	4,182.4
Supranational	99.5	140.1
Local government	21.6	105.3
Sovereign	456.6	442.7
Securitised credit	330.3	356.1
Total	5,095.3	5,226.6
Held-to-maturity debt securities		
Corporate	60.0	13.5
Total debt securities	5,155.3	5,240.1
Total debt securities		
Fixed interest rate[1]	4,803.6	4,801.6
Floating interest rate	351.7	438.5
Total	5,155.3	5,240.1
Loans and receivables		
Deposits with credit institutions with maturities in excess of three months	–	44.9
Infrastructure debt	342.7	329.6
Commercial real estate loans	17.7	–
Total	5,515.7	5,614.6

Note:

1. The Group swaps a fixed interest rate for a floating rate of interest on its US Dollar corporate debt securities by entering into interest rate derivatives. The hedged amount at 30 June 2016 was £1,281.7 million (31 December 2015: £1,283.3 million).

19. Cash and cash equivalents and borrowings

At	30 Jun 2016 £m	31 Dec 2015 £m (audited)
Cash at bank and in hand	384.3	131.8
Short-term deposits with credit institutions	670.8	831.9
Cash and cash equivalents	1,055.1	963.7
Bank overdrafts[1]	(65.4)	(61.3)
Cash and bank overdrafts[2]	989.7	902.4

Notes:

1. Bank overdrafts represent short term timing differences between transactions posted in the records of the Group transactions flowing through the accounts at the bank.
2. Cash and bank overdrafts 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 six months ended 30 June 2016 was 0.54% (year ended 31 December 2015: 0.56%) and average maturity at 30 June 2016 was 10 days (31 December 2015: 10 days).

Notes to the condensed consolidated financial statements

20. Insurance liabilities

Movements in gross and net insurance liabilities

	Gross £m	Reinsurance £m	Net £m
Claims reported	2,791.1	(315.3)	2,475.8
Incurred but not reported	1,778.2	(460.2)	1,318.0
Claims handling provision	104.8	–	104.8
At 1 January 2015 (audited)	4,674.1	(775.5)	3,898.6
Cash paid for claims settled in the year	(1,978.9)	16.0	(1,962.9)
Increase / (decrease) in liabilities:			
Arising from current-year claims	2,307.6	(191.4)	2,116.2
Arising from prior-year claims	(478.3)	29.0	(449.3)
At 31 December 2015 (audited)	4,524.5	(921.9)	3,602.6
Claims reported	2,732.2	(375.0)	2,357.2
Incurred but not reported	1,697.9	(546.9)	1,151.0
Claims handling provision	94.4	–	94.4
At 31 December 2015 (audited)	4,524.5	(921.9)	3,602.6
Cash paid for claims settled in the period	**(1,013.7)**	**7.2**	**(1,006.5)**
Increase / (decrease) in liabilities:			
Arising from current-year claims	**1,110.9**	**(84.4)**	**1,026.5**
Arising from prior-year claims	**(372.0)**	**113.9**	**(258.1)**
At 30 June 2016	**4,249.7**	**(885.2)**	**3,364.5**
Claims reported	**2,654.3**	**(374.4)**	**2,279.9**
Incurred but not reported	**1,509.0**	**(510.8)**	**998.2**
Claims handling provision	**86.4**	–	**86.4**
At 30 June 2016	**4,249.7**	**(885.2)**	**3,364.5**

Movement in prior-year net claims liabilities by operating segment

	6 months 2016 £m	6 months 2015 £m	Full year 2015 £m (audited)
Motor	**(134.0)**	(145.5)	(266.8)
Home	**(60.6)**	(38.2)	(41.9)
Rescue and other personal lines	**(7.5)**	1.2	(13.6)
Commercial	**(34.0)**	(32.6)	(56.6)
Total ongoing	**(236.1)**	(215.1)	(378.9)
Run-off	**(22.0)**	(37.5)	(70.4)
Total	**(258.1)**	(252.6)	(449.3)

21. Fair value

The following table compares the carrying value and the fair value of financial instruments. Differences arise where the measurement basis of the asset or liability is not fair value (e.g. assets and liabilities carried at amortised cost).

	Fair value 30 Jun 2016 £m	Carrying value 30 Jun 2016 £m	Fair value 31 Dec 2015 £m (audited)	Carrying value 31 Dec 2015 £m (audited)
Financial assets				
Derivative assets	93.3	93.3	19.6	19.6
Available-for-sale debt securities	5,095.3	5,095.3	5,226.6	5,226.6
Held-to-maturity debt securities	62.3	60.0	12.7	13.5
Deposits with credit institutions greater than three months	–	–	44.9	44.9
Infrastructure debt	328.8	342.7	322.2	329.6
Commercial real estate loans	17.7	17.7	–	–
Financial liabilities				
Subordinated liabilities	607.7	551.2	623.2	521.1
Derivative liabilities	300.1	300.1	46.4	46.4

Fair values of the following assets and liabilities approximate their carrying values:

- Insurance and other receivables
- Cash and cash equivalents
- Borrowings
- Trade and other payables including insurance payables (excluding provisions)

The tables below analyse the Group's assets and liabilities carried at fair value by reference to the Group's fair value hierarchy.

At 30 June 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment property	–	–	348.6	348.6
Derivative assets	–	93.3	–	93.3
Available-for-sale debt securities	456.6	4,638.7	–	5,095.3
Total	456.6	4,732.0	348.6	5,537.2
Derivative liabilities	–	300.1	–	300.1
Total	–	300.1	–	300.1

At 31 December 2015 (audited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment property	–	–	347.4	347.4
Derivative assets	–	19.6	–	19.6
Available-for-sale debt securities	442.7	4,783.9	–	5,226.6
Total	442.7	4,803.5	347.4	5,593.6
Derivative liabilities	–	46.4	–	46.4
Total	–	46.4	–	46.4

For disclosure purposes, fair value measurements are classified as Level 1, 2 or 3 based on the degree to which fair value is observable. The measurement bases remain unchanged for each level as set out on page 120 of the Annual Report & Accounts 2015.

21. Fair value continued

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

	Investment property £m
At 1 January 2015 (audited)	307.2
Additions	16.0
Increase in fair value in the year (note 7)	24.2
At 31 December 2015 (audited)	347.4
Additions	**0.7**
Increase in fair value in the period (note 7)	**0.5**
At 30 June 2016	**348.6**

There were no changes in the categorisation of assets and liabilities between levels 1, 2 and 3 during the period for assets and liabilities held at 31 December 2015.

22. Related parties

There have been no material changes in related parties in the six months ended 30 June 2016 and no other related party transactions have taken place which have had a material effect on the financial position or performance of the Group for the six months ended 30 June 2016. Full details of the Group's related party transactions for the year ended 31 December 2015 are included on page 163 of the Annual Report & Accounts 2015.

Glossary

Adjusted diluted earnings per share
Adjusted diluted earnings per share is calculated by dividing the adjusted profit after tax by the weighted average number of Ordinary Shares during the period adjusted for dilutive potential Ordinary Shares.

Adjusted profit after tax
Profit after tax is adjusted to exclude discontinued operations, the Run-off segment and restructuring and other one-off costs, and is stated after charging tax (using the UK standard tax rate of 20.0%; 2015: 20.25%).

Combined operating ratio
The combined operating ratio is the sum of the loss, commission and expense ratios. The ratio measures the amount of claims costs, commission and expenses compared to net earned premium generated. A ratio of less than 100% indicates profitable underwriting.

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 costs relating to major weather events in the Home division.

Investment income yield
The annualised income earned from the investment portfolio, recognised through the income statement during the period and divided by the average assets under management. This excludes unrealised and realised gains and losses, impairments and fair-value adjustments. The average assets under management derives from the period's opening and closing balances for the total Group.

Investment return yield
The annualised return earned from the investment portfolio, recognised through the income statement during the period divided by the average assets under management. This includes unrealised and realised gains and losses, impairments and fair-value adjustments. The average assets under management derives from the period's opening and closing balances for the total Group.

Ongoing operations
Ongoing operations comprise the Group's ongoing divisions: Motor, Home, Rescue and other personal lines, and Commercial. It excludes discontinued operations, the Run-off segment, and restructuring and other one-off costs.

Return on tangible equity
Return on tangible equity is annualised adjusted profit after tax from ongoing operations divided by the Group's average shareholders' equity less goodwill and other intangible assets.

Risk and business mix
Risk and business mix measures the premium impact of channel, tenure and underlying risk mix. It reflects the risk models used in the period, the outputs of which are revised when models are updated.

Total costs
Total costs comprise operating expenses and claims handling expenses.

Appendix A – Alternative performance measures

The Group has identified alternative performance measures in accordance with the European Securities and Markets Authority's published Guidelines on Alternative Performance Measures. These are contained within the narrative sections of this document, outside of the financial statements and notes, and may not necessarily have standardised meanings for ease of comparability across peer organisations. These measures are presented below, defined in the glossary on page 38 and reconciled to the most directly reconcilable line items in the financial statements and notes. Additionally, the current-year attritional loss ratio within the Analysis by division section and total costs have also been identified as alternative performance measures, similarly reconciled to the financial statements and notes, on pages 9 and 10 respectively, and defined in the glossary.

Return on tangible equity[1]

At	Note[2]	1H 2016 £m	1H 2015 £m
Operating profit before restructuring and other one-off costs – ongoing operations	4	323.6	335.8
Finance costs	4	(18.4)	(18.7)
Profit before tax – ongoing operations		305.2	317.1
Tax charge (using the UK standard tax rate of 20.0% and 20.25% respectively)		(61.0)	(64.2)
Adjusted profit after tax		244.2	252.9
Annualised adjusted profit after tax		488.4	505.8
Opening shareholders' equity		2,630.0	2,810.5
Opening goodwill and other intangible assets		(524.8)	(517.5)
Opening disposal group intangible assets		–	(5.6)
Opening shareholders' tangible equity		2,105.2	2,287.4
Closing shareholders' equity		2,668.8	2,993.7
Closing goodwill and other intangible assets		(541.4)	(506.6)
Closing shareholders' tangible equity		2,127.4	2,487.1
Average shareholders' tangible equity[3]		2,116.3	2,387.3
Return on tangible equity annualised		**23.1%**	**21.2%**

Adjusted diluted earnings per share[1]

At	Note	1H 2016 £m	1H 2015 £m
Adjusted profit after tax		244.2	252.9
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	15	1,385.7	1,510.9
Adjusted diluted earnings per share (pence)		**17.6**	**16.7**

Notes:

1. See glossary on page 38 for definitions
2. See notes to the condensed consolidated financial statements
3. Mean average of opening and closing balances

Investment yields – continuing operations

At	Note	6 months 2016 £m	6 months 2015 £m
Investment income	7	84.4	84.7
Investment return	7	92.7	111.5
Opening investment property		347.4	307.2
Opening financial investments		5,614.6	5,961.2
Opening cash and cash equivalents		963.7	880.4
Opening borrowings		(61.3)	(69.8)
Opening derivatives[1]		(45.7)	(27.8)
Opening investment holdings		6,818.7	7,051.2
Closing investment property		348.6	322.0
Closing financial investments		5,515.7	5,641.4
Closing cash and cash equivalents		1,055.1	1,345.1
Closing borrowings		(65.4)	(82.1)
Closing derivatives[1]		(257.5)	47.4
Closing investment holdings		6,596.5	7,273.8
Average investment holdings		6,707.6	7,162.5
Investment income yield annualised		2.5%	2.4%
Investment return yield annualised		2.8%	3.1%

Note:

1. See note 1 on page 11

Directors' responsibility statement

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:
   a. Disclosure and Transparency Rule 4.2.7R being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
   b. 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

Paul Geddes	John Reizenstein
Chief Executive Officer	Chief Financial Officer
1 August 2016	1 August 2016

Independent review report to Direct Line Insurance Group plc

We have been engaged by Direct Line Insurance Group plc (the "**Company**") to review the condensed set of financial statements in the Half-Yearly Financial Report for the six months ended 30 June 2016 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 22. We have read the other information contained in the Half-Yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

The Half-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 Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Half-Yearly Financial Report for the six months ended 30 June 2016 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.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
1 August 2016