Direct Line Insurance Group plc
Half Year Report 2018

1 August 2018

Successful H1 2018: strategic progress on track

Paul Geddes, CEO of Direct Line Group, commented

"This is a good set of results - growing our own brand policies and profits (normalised for weather) in a competitive, albeit to date, rational market - again showing the strength of our business model. We have also made progress on our strategic initiatives which we believe will improve our competitiveness in each of our channels and we are focused on improving our efficiency. This strategic agenda, combined with our disciplined value over volume focus, gives us the confidence in our outlook, for us to reiterate our financial targets.

"As you will have seen from our announcement today, I will step down as Chief Executive Officer in the summer of 2019. I have been privileged to lead the Group over a long period of transformation. As I approach my tenth anniversary, it is right to put a successor in place to lead the company in the years ahead. In the meantime, we have a very busy and exciting agenda, which I look forward to delivering."

Results summary

	H1 2018 £m	H1 2017[1] £m	Change
Gross written premium	**1,610.3**	1,694.2	(5.0%)
Excluding Nationwide and Sainsbury's[2]	**1,604.6**	1,596.6	0.5%
Of which direct own brands	**1,099.0**	1,063.9	3.3%
Operating profit	**303.1**	359.7	(15.7%)
Commission ratio[3]	**6.5%**	8.9%	(2.4pts)
Expense ratio[3]	**24.4%**	24.9%	(0.5pts)
Combined operating ratio[3]	**93.0%**	88.6%	4.4pts
Profit before tax	**293.8**	341.4	(13.9%)
Return on tangible equity annualised[4]	**21.8%**	26.6%	(4.8pts)
Dividend per share – interim (pence)[5]	**7.0**	6.8	2.9%
	30 Jun 2018	31 Dec 2017	Change
Solvency capital ratio post-dividend – estimated[6]	**169%**	165%	4pts

Highlights

- Direct own brand premiums up 3.3% driven primarily by continued growth in Motor, also up 3.3% compared to H1 2017. Total Group premiums excluding Nationwide and Sainsbury's grew 0.5% despite reductions in Motor premium rates.
- Normalised for weather, operating profit was up slightly; H1 2017 also included £49 million of benefit from revised Ogden reserve releases. The headline decline in operating profit of £56.6 million compared to the prior year is driven by higher weather-related claims (H1 2018: £75.0 million, H1 2017: £9.0 million).
- Expense ratio down 0.5 percentage points as costs remained broadly stable. Commission ratio lower as the Group's business mix continued to shift towards direct own brands.
- Continued positive progress with strategic initiatives including the launch of two further Direct Line differentiating propositions, signing of a new Motor partnership deal and, in July, reaching over 500 trades on the Direct Line for Business platform. Programme to deliver latest generation systems benefiting both business and customers on track.
- Interim dividend of 7.0 pence, in line with the Group's policy which aims to grow the dividend in line with business growth.
- Reiteration of the current financial targets for 2018 and over the medium term: of achieving a combined operating ratio in the range of 93% to 95% adjusted for normal weather and assuming no further change to the Ogden discount rate, supported by reductions in expense and commission ratios. For 2018, the Group expects total investment return in the region of £150 million.

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Notes:

1. Results for the period ended 30 June 2018 are based on total Group operations including restructuring and Run-off. Comparative data has been re-presented accordingly to include restructuring costs and Run-off profits within Motor segment.
2. Nationwide and Sainsbury's exited Home partnerships.
3. A reduction in the ratio represents an improvement as a proportion of net earned premium, while an increase in the ratio represents a deterioration. See glossary on page 40 for definitions.
4. See glossary on pages 40 and 41 for definitions and appendix A – Alternative performance measures on page 42 for reconciliation to financial statement line items.
5. The Group's dividend policy states its expectation that one-third of the annual dividend will generally be paid in the third quarter as an interim dividend and two-thirds will be paid as a final dividend in the second quarter of the following year.
6. Estimates based on the Group's solvency II partial internal model.

Forward-looking statements disclaimer

Certain information contained in this document, including any information as to the Group's strategy, plans or future financial or operating performance, constitutes "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "aims", "ambition", "anticipates", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "over the medium term", "plans", "predicts", "projects", "propositions", "seeks", "should", "strategy", "targets" or "will" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in 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, solvency capital ratio, the Group's combined operating ratio, prior-year reserve releases, cost reduction, reductions in expense and commission ratios, investment income yield, net realised and unrealised gains 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 outcome of the negotiations relating to 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.

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

Financial summary

	H1 2018 £m	H1 2017[1] £m	Change
Total Group			
In-force policies (thousands)	15,326	15,811	(3.1%)
Of which direct own brands (thousands)	7,018	6,742	4.1%
Gross written premium	1,610.3	1,694.2	(5.0%)
Of which direct own brands	1,099.0	1,063.9	3.3%
Net earned premium	1,559.6	1,547.5	0.8%
Underwriting profit	108.6	177.1	(38.7%)
Instalment and other operating income	99.1	89.6	10.6%
Investment return	95.4	93.0	2.6%
Operating profit	303.1	359.7	(15.7%)
Finance costs	(9.3)	(18.3)	49.2%
Profit before tax	293.8	341.4	(13.9%)
Tax	(55.0)	(65.9)	16.5%
Profit after tax	238.8	275.5	(13.3%)
Key metrics – total Group			
Current-year attritional loss ratio[2]	70.5%	68.8%	1.7pts
Loss ratio[2]	62.1%	54.8%	7.3pts
Commission ratio[2]	6.5%	8.9%	(2.4pts)
Expense ratio[2]	24.4%	24.9%	(0.5pts)
Combined operating ratio[2]	93.0%	88.6%	4.4pts
Return on tangible equity annualised[3]	21.8%	26.6%	(4.8pts)
Investment income yield annualised[3]	2.5%	2.5%	–
Net investment income yield annualised[3]	2.0%	2.2%	(0.2pts)
Investment return yield annualised[3]	2.9%	2.8%	0.1pts
Basic earnings per share (pence)	16.9	20.2	(16.3%)
Diluted earnings per share (pence)	16.7	20.0	(16.5%)
Return on equity annualised	17.7%	21.3%	(3.6pts)
Dividend per share – interim (pence)	7.0	6.8	2.9%
	30 Jun 2018	**31 Dec 2017**	**Change**
Net asset value per share (pence)	181.7	198.9	(8.6%)
Tangible net asset value per share (pence)	145.1	164.4	(11.7%)
Solvency capital ratio post-dividend	169%	165%	4pts

Notes:

1. Results for the period ended 30 June 2018 are based on total Group operations including restructuring and Run-off. Comparative data has been re-presented accordingly to include restructuring costs and Run-off profits within Motor segment.
2. A reduction in the ratio represents an improvement as a proportion of net earned premium, while an increase in the ratio represents a deterioration.
3. See glossary on pages 40 and 41 for definitions and appendix A – Alternative performance measures on pages 42 to 43 for reconciliation to financial statement line items.

Business update

Overview

Direct Line Group (the "**Group**") had a successful H1 2018, delivering a strong result and making progress against its key priorities. The Group grew direct own brands, with in-force policies up 4.1% to 7.0 million (H1 2017: 6.7 million) and gross written premiums up 3.3% to £1,099.0 million (H1 2017: £1,063.9 million). Total gross written premiums were £1,610.3 million (H1 2017: £1,694.2 million). The Group delivered a combined operating ratio ("**COR**") of 93.0% (H1 2017: 88.6%) which, when normalised for major weather events, was approximately 91.0% (H1 2017: approximately 90.5%). The Group also continued to make progress against its financial targets of reducing commission and expense[1] ratios: down 2.4 percentage points and 0.5 percentage points respectively. These improvements helped the Group deliver a return on tangible equity ("**RoTE**") of 21.8%. The solvency capital ratio was 169% after dividend, demonstrating the strong capital generation of the business.

The Group's operating profit was £56.6 million lower at £303.1 million (H1 2017: £359.7 million), although when normalised for large weather-related claims (H1 2018: £75 million, H1 2017: £9 million), operating profit was slightly up; H1 2017 also included £49 million of benefit from revised Ogden reserve releases.

The Group remained focused on improving its efficiency by investing in its future capabilities, making good progress in its IT systems development and winning the UK partnership with Volkswagen Insurance Service (Great Britain) Limited. The Direct Line brand launched two new propositions in the first half of 2018, adding further value to customers and helping to give Direct Line a distinctive edge in competitive markets, while in July Direct Line for Business ("**DL4B**") undertook the largest of its product releases, over 500 trades, and alongside these launched a national marketing campaign.

Motor

The Motor division grew in-force polices 2.1% in the year to 4.0 million and premiums grew 1.9% to £839.8 million. This growth was across both direct and price comparison website ("**PCWs**") channels. Direct Line continued to differentiate its customer offering, launching a new proposition in the first quarter: a "Fair claim commitment" which protects customers from losing their no claims discount for a range of common non-fault claims.

In the market, premium rates continued to fall quarter-on-quarter, adjusting rationally to the Government's proposals to revise the process for setting the Ogden discount rate and benign claims experience in 2017. The Group saw claims inflation return to more normal levels in the first half of 2018 and is mindful of the delay to the Government's whiplash proposals which are now expected to take effect in April 2020, 12 months later than previously indicated. The Group will continue to prioritise its target loss ratios over volume.

Motor current-year attritional loss ratio improved to 78.5% (H1 2017: 81.7%) as the Group earned through the strong margins achieved on business written in 2017, although higher reinsurance costs in 2018 (+16%) and premium deflation means margins on policies written in 2018 are likely to return to levels similar to those achieved in 2016. Prior-year releases were £46.5 million lower year-on-year, as H1 2017 benefited from £49 million of releases relating to the Group's Ogden provision.

Home

The Home division in-force policies fell 10.9% as a result of the Nationwide exit while direct own brands grew 1.3% due to modest growth in both PCW and direct channels. Direct own brand premiums grew 0.6% compared to the prior year while overall Home premiums fell 25.1% as expected, primarily as a result of the Nationwide and Sainsbury's exit.

Underwriting performance was impacted by higher weather losses of £65 million (H1 2017: £9.0 million), mainly as a result of the freeze losses in Q1 2018. This was partially offset by higher prior-year reserve releases of £24.7 million (H1 2017: £16.8 million), as 2017 saw lower releases due to escape of water ("**EoW**") inflation. Management actions taken throughout 2017 on pricing, claims and underwriting helped return EoW inflation to more normal levels in 2018.

The change in distribution of Home's insurance business from partners to PCWs continued in 2018. The Group remained competitive across all channels and successfully grew its PCWs policies in 2018, helping to support the strong profitability of the category.

As with Motor, the Group's focus on being a great retailer was demonstrated again with the launch of a further Direct Line Home proposition in 2018 with 'Fast Response'; this proposition sees the Group agreeing a plan of action within 24 hours in the event of major water damage. A proposition such as this continues to differentiate Direct Line from its peers and gives customers a strong reason to look beyond PCWs. The Group's investment in its digital capabilities has strengthened its partnership capabilities and H1 2018 saw growth again in its partnership with RBS and NatWest.

Note:

1. Results for the period ended 30 June 2018 are based on total Group operations including restructuring and Run-off. Comparative data has been re-presented accordingly to include restructuring costs and Run-off profits within Motor segment. Expense ratio for H1 2017 was previously reported as 24.6%.

Commercial

The Commercial business grew in-force policies 4.3% to 730,000 with DL4B up 7.3% to 485,000 driving the growth. Commercial premiums were up 0.6% to £269.9 million, as the growth in DL4B up 6.5%, was offset by a 1.2% reduction in NIG. Commercial business profitability was broadly in-line with H1 2017, with operating profit of £29.1 million (H1 2017: £30.2 million). Weather claims in H1 2018 were £10 million (H1 2017: £nil) compared to full year normal expectations of £20 million.

In July, DL4B continued to deliver against its plan of adding trades to its new commercial platform, with the launch of office, professionals and retail segments. This took DL4B up to 75% of its targeted trades enabling it to launch its first broad marketing campaign in July 2018, in line with its target timeline.

Rescue and other personal lines

Rescue and other personal lines in-force policies fell by 3.0% to 7.6 million but the product mix continued to improve. The Rescue business is made up of three distribution channels: the Group's direct brand (Green Flag), sales from the Group's insurance brands (linked) and partnerships. Green Flag grew in-force policies by 11.5% to 846,000. In addition, Green Flag sales continued to shift towards higher premium products, resulting in 13.3% premium growth overall. However, rescue partnership premiums decreased by 34.0% following the sale of fewer packaged products and a small partnership exit.

In the Rescue category, Green Flag is positioned as the market disruptor and is seeking to challenge the rescue market. Green Flag followed up on its provocative advertising campaign in the second half of 2017 with a new launch in H1 2018, where it continued to highlight the value of Green Flag policies compared to its main competitors.

Investments

Assets under management decreased to £6,283.5 million (FY 2017: £6,709.3 million), reflecting the regular and special dividend payments in the first half and the continued run-off of the back book of reserves offset in part by business growth.

Total investment return was £95.4 million (H1 2017: £93.0 million), giving annualised investment return yield of 2.9% (H1 2017: 2.8%). Gains were higher in H1 2018 as property revaluations continued to be favourable (H1 2018: £12.1 million, H1 2017: £9.9 million) and the Group realised gains of £18.4 million (H1 2017: £14.5 million). However, for 2018, the Group expects total investment return in the region of £150 million after taking into account hedging costs and lower assets under management.

Total unrealised gains, net of tax, on available-for-sale ("**AFS**") investments reduced by £72.5 million in the period to £7.7 million (FY 2017: £80.2 million) as a result of widening credit spreads, higher interest rates and realisation of gains.

Data and technology

The Group continues to focus on data and technology as a key enabler. This includes developing future capability and managing risks associated with IT systems' stability and cyber security. As announced in the Full Year 2017 Preliminary results, the Group has plans for a phased programme of build, testing and roll out of activities in 2018, 2019 and beyond in Personal Lines and Commercial and is making progress against these plans. The Group expects to incur capital expenditure on average of around £80 million to £100 million per annum over the period 2017 to 2019.

Dividends and capital management

The Group's capital requirements remained broadly flat. This, coupled with the Group's strong capital generation, resulted in solvency capital ratio at H1 2018 of 176% before dividend.

The Group's tangible net asset value was lower at £1,982.1 million (FY 2017: £2,244 .0 million) due to payment of the final and special dividends in H1 2018 (£399.7 million) and lower revaluation reserves for AFS investments partially offset by 2018 retained earnings.

The Board has proposed an interim dividend of 7.0 pence, (2017: 6.8 pence) taking the solvency capital ratio at H1 2018 to 169% post-dividend.

In normal circumstances, the Group expects to operate around the middle of its solvency capital ratio risk appetite range of 140% to 180%. The Board will normally only review the potential for any further special distribution once a year with the full year results, taking into consideration the Group's solvency position, financial outlook and strategic opportunities.

Outlook

For 2018 and over the medium term, the Group targets achieving a 93% to 95% COR assuming a normal annual level of claims from major weather events and no further change to the Ogden discount rate, supported by reductions in its expense and commission ratios; and reiterates its ongoing target of achieving at least a 15% return on tangible equity.

For 2018, the Group expects total investment return in the region of £150.0 million.

Finance review

Performance

Operating profit – total Group

	H1 2018 £m	H1 2017 £m
Underwriting profit	108.6	177.1
Instalment and other operating income	99.1	89.6
Investment return	95.4	93.0
Total operating profit	303.1	359.7

Operating profit decreased by 15.7% to £303.1million (H1 2017: £359.7 million) mainly due to a reduction in the underwriting profit partly offset by an increase in instalment and other operating income. Normalised for weather, operating profit was slightly up.

Underwriting profit decreased to £108.6 million (H1 2017: £177.1 million) predominantly due to £75 million of weather claims mainly associated with the major freeze in Q1 2018 (H1 2017: £9 million weather-related claims) and the non-repeat of £49 million of Ogden related prior-year reserve releases in 2017. Excluding the weather-related claims, 2018 underwriting profit remained broadly stable and benefited from a current-year loss ratio improvement in Motor, as well as lower expense and commission ratios compared to H1 2017. Prior-year reserve releases in total were £19.5 million lower at £206.5 million (H1 2017: £226.0 million).

Instalment and other operating income increased to £99.1 million (H1 2017: £89.6 million) and included a £9.6 million gain on sale of the asset held for sale property in Bristol.

Investment return improved to £95.4 million (H1 2017: £93.0 million) primarily due to an increase in net realised and unrealised gains.

In-force policies and gross written premium

In-force policies – total Group (thousands)

At	30 Jun 2018	31 Mar 2018	31 Dec 2017	30 Sep 2017	30 Jun 2017
Own brands	3,894	3,874	3,845	3,805	3,761
Partnerships	155	160	174	188	205
Motor total	4,049	4,034	4,019	3,993	3,966
Own brands	1,793	1,795	1,794	1,783	1,770
Partnerships (excluding Nationwide and Sainsbury's)	815	822	823	834	846
Partnerships (Nationwide and Sainsbury's)	335	472	631	665	688
Home total	2,943	3,089	3,248	3,282	3,304
Rescue	3,537	3,544	3,591	3,635	3,663
Other personal lines	4,067	4,083	4,148	4,159	4,178
Rescue and other personal lines	7,604	7,627	7,739	7,794	7,841
Of which Green Flag direct	846	820	802	788	759
Direct Line for Business	485	477	468	462	452
NIG	245	242	240	244	248
Commercial	730	719	708	706	700
Total in-force policies	15,326	15,469	15,714	15,775	15,811
Of which direct own brands	7,018	6,966	6,909	6,838	6,742

Total in-force policies reduced to 15.3 million (30 June 2017: 15.8 million). This reduction was primarily due to lower partner volumes in Home with the exit from the Nationwide and Sainsbury's partnerships and reductions in Rescue and other personal lines, while continued in-force policy growth in Motor and Home's own brands, Green Flag direct and Commercial partly offset the reduction.

Gross written premium of £1,610.3 million (30 June 2017: £1,694.2 million) decreased 5.0% due to the reduction in Home partnerships partly offset by an increase in Motor own brand premiums.

Gross written premium – total Group

	Q2 2018 £m	Q2 2017 £m	H1 2018 £m	H1 2017 £m
Own brands	419.2	412.7	807.3	781.2
Partnerships	16.6	19.0	32.5	43.2
Motor total	435.8	431.7	839.8	824.4
Own brands	98.5	97.6	194.4	193.2
Partnerships (excluding Nationwide and Sainsbury's)	45.9	49.5	90.6	97.3
Partnerships (Nationwide and Sainsbury's)	3.1	46.2	5.7	97.6
Home total	147.5	193.3	290.7	388.1
Rescue	42.4	42.9	80.1	83.6
Other personal lines	63.8	66.2	129.8	129.7
Rescue and other personal lines	106.2	109.1	209.9	213.3
Of which Green Flag direct	18.0	15.4	33.3	29.4
Direct Line for Business	32.9	31.5	64.0	60.1
NIG	118.0	118.3	205.9	208.3
Commercial	150.9	149.8	269.9	268.4
Total gross written premium	840.4	883.9	1,610.3	1,694.2
Of which direct own brands	568.6	557.2	1,099.0	1,063.9

Motor

In-force policies increased 2.1% to 4.0 million policies, compared with the first half of 2017. Motor's own brands grew by 3.5% over the same period despite lower levels of shopping in the market due to lower premiums. This growth was underpinned by the strength of the direct channel's customer retention. The growth in in-force policies slowed in the second quarter of 2018 compared to the first quarter as pricing pressure increased. As a result Motor average written premium[1] increased by just 0.7% in H1 2018 compared with the first half of 2017, and risk-adjusted prices increased 2.9%. Motor gross written premium increased by 1.9% in comparison to the first half of 2017, while own brands premiums increased by 3.3% over the same period.

The Motor premium environment has responded rationally to a number of significant changes to claims experience and outlook since the start of 2017. In February 2017, the Ministry of Justice reduced the discount rate used to calculate large bodily injury claims to minus 0.75% from 2.5% before announcing in September 2017 that it intended to adjust the process which could result in the discount rate increasing to between 0% and 1%. Throughout 2017, claims frequency was also significantly below our long-term expectation of 3% to 5%. In the first half of 2018, claims inflation returned to long-term trend levels, while the Ministry of Justice announced a 12 month delay to the implementation of the whiplash reforms to April 2020. The Group continues to assume claims inflation over the long-term of 3% to 5% per annum. The Group will continue to prioritise its target loss ratios over volume.

Home

In-force policies for Home's own brands increased by 1.3% to 1.8 million policies, compared with the first half of 2017, while partnership volumes reduced by 25.0% predominantly due to the exit from the Nationwide and Sainsbury's partnerships. New business volumes declined as shopping levels slowed, compared to the high levels triggered in 2017, following new rules requiring last year's premium to be included on renewal documents. Retention in Home own brands, however, continued to be strong. Gross written premium was 25.1% lower than the first half of 2017, predominantly due to the reduction in partners, partly offset by a small increase of 0.6% in own brands.

Home own brands average written premium[2] remained broadly flat compared with the first half of 2017 with risk mix substantially offsetting a 4.7% price increase as the Group grew particularly strongly in the PCW channel, where premiums are typically lower than in the direct channel. Claims inflation, excluding the impact of major weather events, was more settled and continued to converge during the first half of the year towards the Group's long-term expectation of 3% to 5%.

Notes:

1. Average incepted written premium excluding IPT for total Motor for year to date 30 June 2018.
2. Average incepted written premium excluding IPT for Home own brands for year to date 30 June 2018.

Rescue and other personal lines

Rescue and other personal lines in-force policies reduced 3.0% compared with the first half of 2017, primarily resulting from a reduction in partner volumes, while Green Flag direct increased by 11.5% compared to first half of 2017 to 846,000 policies. Gross written premium for Rescue and other personal lines decreased by 1.6% compared with the first half of 2017, mainly due to the reduction in partner volumes partly offset by strong growth in Green Flag direct which increased by 13.3% to £33.3 million.

Commercial

Commercial in-force policies increased 4.3% to 730,000 compared with the first half of 2017, reflecting strong growth in Direct Line for Business which was up 7.3% to 485,000, partly offset by NIG. Commercial gross written premium increased 0.6%, compared with the first half of 2017, reflecting continued strong growth in Direct Line for Business, with NIG and other premiums slightly lower as the Group continued to seek to price for risk and improved profitability.

Underwriting profit and combined operating ratio – total Group

	H1 2018	H1[1] 2017
Underwriting profit (£ million)	**108.6**	177.1
Loss ratio	**62.1%**	54.8%
Commission ratio	**6.5%**	8.9%
Expense ratio	**24.4%**	24.9%
COR	**93.0%**	88.6%

Note:

1. Results for the period ended 30 June 2018 are based on total Group operations including restructuring and Run-off. Comparative data has been re-presented accordingly to include restructuring costs and Run-off profits within Motor segment.

The Group's COR of 93.0% (H1 2017: 88.6%) increased by 4.4 percentage points primarily due to a higher loss ratio which was partly offset by improvements in the commission and expense ratios. The increase in the loss ratio to 62.1% (H1 2017: 54.8%) reflected lower prior-year reserve releases and an increase in Home's loss ratio due to the weather freeze event in Q1 2018. The expense ratio improved by 0.5 percentage points to 24.4% (H1 2017: 24.9%), as the Group reduced its operating expenses and grew earned premium. The reduction in the commission ratio of 2.4 percentage points primarily reflected lower profit share payments to Home partners, as a result of the higher loss ratio and changes to partnership arrangements.

The Group achieved a combined operating ratio, normalised for weather of approximately 91.0% (H1 2017: approximately 90.5%).

Loss ratio analysis by division – total Group

	Notes	Motor £m	Home £m	Rescue and other personal lines £m	Commercial[1] £m	Total Group £m
For the period ended 30 June 2018						
Net earned premium	4	765.8	354.6	205.5	233.7	1,559.6
Net insurance claims	4	463.6	229.4	144.7	130.9	968.6
Prior-year reserve releases	21	137.7	24.7	5.7	38.4	206.5
Major weather events		n/a	(65.0)	n/a	(10.0)	(75.0)
Attritional net insurance claims		601.3	189.1	150.4	159.3	1,100.1
Loss ratio – current-year attritional		78.5%	53.3%	73.2%	68.2%	70.5%
Loss ratio – prior-year reserve releases		(18.0%)	(7.0%)	(2.8%)	(16.5%)	(13.2%)
Loss ratio – major weather events[1]		n/a	18.4%	n/a	4.3%	4.8%
Loss ratio – reported	4	60.5%	64.7%	70.4%	56.0%	62.1%
Commission ratio	4	1.8%	10.7%	4.2%	17.5%	6.5%
Expense ratio	4	24.4%	25.2%	23.7%	24.2%	24.4%
COR	4	86.7%	100.6%	98.3%	97.7%	93.0%
For the period ended 30 June 2017[2]						
Net earned premium	4	707.8	397.0	209.0	233.7	1,547.5
Net insurance claims	4	393.9	190.7	135.7	127.1	847.4
Prior-year reserve release / (strengthening)	21	184.2	16.8	(2.1)	27.1	226.0
Major weather events		n/a	(9.0)	n/a	n/a	(9.0)
Attritional net insurance claims		578.1	198.5	133.6	154.2	1,064.4
Loss ratio – current-year attritional		81.7%	50.0%	63.9%	66.0%	68.8%
Loss ratio – prior-year reserve releases		(26.0%)	(4.3%)	1.0%	(11.6%)	(14.6%)
Loss ratio – major weather events[1]		n/a	2.3%	n/a	n/a	0.6%
Loss ratio – reported	4	55.7%	48.0%	64.9%	54.4%	54.8%
Commission ratio	4	2.6%	17.0%	5.0%	17.9%	8.9%
Expense ratio	4	26.1%	23.8%	23.9%	23.8%	24.9%
COR	4	84.4%	88.8%	93.8%	96.1%	88.6%

Notes:

1. Home and Commercial claims for major weather events, including inland and coastal flooding and storms.
2. Results for the period ended 30 June 2018 are based on total Group operations including restructuring and Run-off. Comparative data has been re-presented accordingly to include restructuring costs and Run-off profits within Motor segment.

The movement in the current-year attritional loss ratio is an indicator of underlying accident year performance as it excludes prior-year reserve movements and claims costs from major weather events. The Group's current-year attritional loss ratio of 70.5% increased by 1.7 percentage points, compared to the same period in 2017. While the Nationwide exit is creating some impact on different lines of the income statement, overall the Group continued to make progress on growing its current year profitability.

Prior-year reserve releases continued to be significant at £206.5 million (H1 2017: £226.0 million) and were equivalent to 13.2% of net earned premium (H1 2017: 14.6%). Reserve releases were lower in H1 2018, as H1 2017 included a £49 million one-off reserve release. Assuming current claims trends continue, prior-year reserve releases are expected to reduce in future years, although they are expected to remain a significant contribution to profits.

Motor

The COR for the Motor division was 86.7% (H1 2017: 84.4%), an increase of 2.3 percentage points, as a result of a higher loss ratio due to lower prior-year reserve releases, with H1 2017 including a £49 million release after a detailed review of the Group's Ogden provision within case reserves. This was partially offset by a current-year loss ratio improvement.

The current-year attritional loss ratio improved by 3.2 percentage points to 78.5%, primarily as a result of a favourable 2017 Motor margin contribution and volume growth earning through. In the second half of the year the Group expects the loss ratio to return to higher levels as the higher reinsurance costs and lower premiums begin to earn through. Both the expense and commission ratios improved compared to the first half of 2017.

Home

In Home, the COR increased by 11.8 percentage points to 100.6% (H1 2017: 88.8%) with higher loss and expense ratios, in part offset by an improving commission ratio. Normalised for weather the COR was approximately 91% (H1 2017: approximately 93%), approximately 2 percentage points lower. The loss ratio was higher by 16.7 percentage points at 64.7% compared to H1 2017 primarily as a result of the major freeze event in Q1 2018. The impact of the major weather events in H1 2018 is approximately £65 million (H1 2017: £9 million), resulting in the annual weather claims budget being utilised in H1 2018.

The current-year attritional loss ratio, excluding major weather event claims, increased by 3.3 percentage points to 53.3%, reflecting changes in business mix, offset to some extent by lower commission.

The commission ratio of 10.7% was 6.3 percentage points lower than the first half of 2017, reflective of lower profit commission payments to partners resulting from the impact of elevated claims experience and changes to partner arrangements.

Rescue and other personal lines

The COR for Rescue and other personal lines increased by 4.5 percentage points to 98.3% (H1 2017: 93.8%), principally due to an increase in the loss ratio due mainly to higher weather-related losses, partnerships and timing of reserve reviews. The higher loss ratio was partially offset by lower expense and commission ratios. The COR for Rescue was 85.8% (H1 2017: 82.8%).

Commercial

The COR for Commercial increased by 1.6 percentage points to 97.7% (H1 2017: 96.1%), primarily due to a 1.6 percentage points increase in the loss ratio as a result of the Q1 2018 major weather events and a higher current-year loss ratio, partly offset by a higher contribution of prior-year reserve releases.

The current-year attritional loss ratio increased by 2.2 percentage points to 68.2% when compared to the favourable H1 2017 ratio (H1 2017: 66.0%). When compared to full year 2017, the H1 2018 current year attritional loss ratio was broadly stable. The higher loss and expense ratios were partly offset by a lower commission ratio. The impact of the weather events in H1 2018 was approximately £10 million.

Total costs – total Group

	Notes	H1 2018 £m	H1[1] 2017 £m
Staff costs		207.5	206.7
Other operating expenses		158.3	165.0
Marketing	10	65.9	59.0
Amortisation and impairment of other intangible assets	10	24.4	26.7
Depreciation	10	16.2	14.1
Total costs		472.3	471.5
Operating expenses	10	381.2	384.9
Claims handling expenses	8	91.1	86.6
Total costs		472.3	471.5

Note:

1. Results for the period ended 30 June 2018 are based on total Group operations including restructuring and Run-off. Comparative data has been re-presented accordingly to include restructuring costs within Motor segment.

Total costs increased by £0.8 million to £472.3 million (H1 2017: £471.5 million) and operating expenses were lower by £3.7 million at £381.2 million (H1 2017: £384.9 million) resulting in an expense ratio of 24.4% (H1 2017: 24.9%). Total costs remained broadly stable with an increase in marketing spend to drive brand awareness offsetting reductions in other operating expenses. The Group continued to invest in its significant IT programme and operational efficiency improvements while supporting business growth and investment in future capability.

Instalment and other operating income – total Group

	Note	H1 2018 £m	H1 2017 £m
Instalment income		59.1	55.8
Other operating income:			
Vehicle replacement referral income	7	8.4	8.3
Revenue from vehicle recovery and repair services	7	5.8	9.8
Legal services income	7	5.8	5.6
Other income	7	20.0	10.1
Other operating income	7	40.0	33.8
Total instalment and other operating income		99.1	89.6

Instalment and other operating income increased by £9.5 million, with increased instalment payments of £3.3 million due to higher Motor gross written premium; a £9.9 million increase in other income primarily, relating to a one-off gain on disposal of the Bristol property of £9.6 million; partly offset by a £4.0 million decrease in revenue from recovery and repair services which included a refinement in the basis of allocation in H2 2017.

Investment return – total Group

	Note	H1 2018 £m	H1 2017[1] £m
Investment income		79.6	82.8
Hedging to a sterling floating rate basis		(14.7)	(10.8)
Net investment income		64.9	72.0
Net realised and unrealised gains excluding hedging		30.5	21.0
Total investment return	6	95.4	93.0

Note:

1. Results for the period ended 30 June 2018 are based on total Group operations including Run-off. Comparative data has been re-presented accordingly to include restructuring costs and Run-off profits within Motor segment.

Investment yields – total Group

	H1 2018	H1 2017
Investment income yield[1]	2.5%	2.5%
Net investment income yield[1]	2.0%	2.2%
Investment return yield[1]	2.9%	2.8%

Note:

1. See glossary on pages 40 and 41 for definitions.

Total investment return increased to £95.4 million (H1 2017: £93.0 million) due to higher unrealised property gains and realised gains from debt securities offset by lower investment income and higher hedging costs.

Net realised and unrealised gains were higher at £30.5 million (H1 2017: £21.0 million) primarily due to higher unrealised property gains and higher H1 2018 realised gains from debt securities. The Group has sought to lock in realised gains, given the rising yield environment and its impact on the AFS reserve.

The investment income yield for H1 2018 remained stable at 2.5% (H1 2017: 2.5%).

The net investment income yield was lower at 2.0% (H1 2017: 2.2%) as a result of US dollar hedging costs impacting the yield.

Investment holdings – total Group

At	30 Jun 2018 £m	31 Dec 2017 £m
Investment-grade credit[1]	3,873.6	3,893.1
High yield	398.9	388.6
Investment-grade private placements	102.3	103.6
Credit	4,374.8	4,385.3
Sovereign	165.8	224.8
Total debt securities	4,540.6	4,610.1
Infrastructure debt	301.0	316.4
Commercial real estate loans	183.3	169.0
Cash and cash equivalents[2]	937.2	1,304.5
Investment property	321.4	309.3
Total investment holdings	6,283.5	6,709.3

Notes:
1. Asset allocation at 30 June 2018 includes investment portfolio derivatives, which have been included and have a mark-to-market asset value of £28.4 million included in investment grade credit (31 December 2017 mark-to-market asset value of £55.1 million). This excludes non-investment derivatives that have been used to hedge interest on subordinated debt and operational cash flows.
2. Net of bank overdrafts: includes cash at bank and in hand and money market funds with no notice period for withdrawal.

At 30 June 2018, total investment holdings of £6,283.5 million were 6.3% lower than at the start of the year primarily reflecting the cash paid to settle the 2017 final and special dividends paid in May 2018. Total debt securities were £4,540.6 million (31 December 2017: £4,610.1 million), of which 4.9% were rated as 'AAA' and a further 61.0% were rated as 'AA' or 'A'. The average duration at 30 June 2018 of total debt securities was 2.5 years (31 December 2017: 2.3 years).

At 30 June 2018, total unrealised gains, net of tax, on AFS investments were £7.7 million (31 December 2017: £80.2 million).

Reconciliation of operating profit

	H1 2018 £m	H1[1] 2017 £m
Motor	238.0	239.4
Home	21.1	67.5
Rescue and other personal lines	14.9	22.6
Commercial	29.1	30.2
Operating profit	303.1	359.7
Finance costs	(9.3)	(18.3)
Profit before tax	293.8	341.4
Tax	(55.0)	(65.9)
Profit after tax	238.8	275.5

Note:
1. Results for the period ended 30 June 2018 are based on total Group operations including restructuring and Run-off. Comparative data has been re-presented accordingly to include restructuring costs and Run-off profits within Motor segment.

Operating profit by segment

All divisions were profitable in H1 2018 with Motor and Commercial remaining broadly in line with H1 2017. Home reported reduced operating profits primarily due to the weather freeze event in Q1 2018, while Rescue and other personal lines also reported lower profits. Rescue operating profit of £19.2 million (H1 2017: £21.7 million) is included in the Rescue and other personal lines result.

Finance costs

Finance costs reduced to £9.3 million (H1 2017: £18.3million) due to the repurchase of £250 million nominal value of the subordinated dated notes in December 2017.

Taxation

The effective tax rate in H1 2018 was 18.7% (H1 2017: 19.3%), which was lower than the standard UK corporation tax rate of 19.0% (H1 2017: 19.25%), driven primarily by relief for the Tier 1 notes coupon payment offset by disallowable expenses.

Profit for the period and return on tangible equity[1]

Profit for the period of £238.8 million (H1 2017: £275.5 million) reflected a reduction in operating profit predominantly within the Home segment as a result of the major weather events, offset by lower finance costs and a reduced tax charge.

Return on tangible equity decreased to 21.8% (H1 2017: 26.6%) due to an annualised profit after tax of £461.0 million (H1 2017: £551.0 million) and a reduction in the average shareholders' tangible equity.

Earnings per share

Basic earnings per share decreased by 16.3% to 16.9 pence (H1 2017: 20.2 pence). Adjusted diluted earnings per share decreased by 16.5% to 16.7 pence (H1 2017: 20.0 pence) mainly reflecting a decrease in profit after tax.

Dividend

The Board has resolved to pay an interim dividend for the Company for 2018 of £96.2 million in aggregate, representing 7.0 pence per share (30 June 2017: 6.8 pence).

The interim dividend will be paid on 7 September 2018 to shareholders on the register on 10 August 2018. The ex-dividend date will be 9 August 2018.

Net asset value

At	Note	30 Jun 2018 £m	31 Dec 2017 £m
Net assets	15	2,482.1	2,715.1
Goodwill and other intangible assets	15	(500.0)	(471.1)
Tangible net assets	15	1,982.1	2,244.0
Closing number of Ordinary Shares	15	1,365.7	1,365.1
Net asset value per share (pence)	15	181.7	198.9
Tangible net asset value per share (pence)	15	145.1	164.4

The net assets at 30 June 2018 decreased to £2,482.1million (31 December 2017: £2,715.1 million) and tangible net assets decreased to £1,982.1 million (31 December 2017: £2,244.0 million). These decreases mainly reflect the payment of the 2017 final and special dividends, a reduction in the AFS reserves due to rising market yields, partially offset by the 2018 retained profit.

Note:

1. See glossary on pages 40 and 41 for definitions and appendix A – Alternative performance measures on pages 42 to 43 for reconciliation to financial statement line items.

Reserving

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

The Group seeks to adopt a conservative approach to assessing liabilities, as evidenced by the favourable development of historical claims reserves. Reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal actuarial best estimate. This margin is made in reference to various actuarial scenario assessments and reserve distribution percentiles. It also considers other short and long-term risks not reflected in the actuarial inputs, as well as management's view on the uncertainties in relation to the actuarial best estimate. The most common method of settling bodily injury claims is by a lump sum paid to the claimant and, in the cases where this includes an element of indemnity for recurring costs such as loss of earnings or ongoing medical care, settlement calculations have reference to a standardised Ogden annuity factor at a discount rate of minus 0.75% in 2018 (2017: minus 0.75%). This is normally referred to as the Ogden discount rate.

Other estimates are also required for case management expenses, loss of pension, court protection fees, alterations to accommodation and transportation fees. In 2017, the Lord Chancellor changed the Ogden discount rate from 2.5% to minus 0.75% based on a 3-year average of yields on index-linked Government securities. The Government are currently reviewing the Ogden discount rate again based on 'low risk' investments rather than 'very low risk' investments, however, there is considerable uncertainty over whether, when and how a change might be made.

The Group continues to exercise judgement around the Ogden discount rate used in its reserves allowing for the possibility for it to change in the future. It considers the uncertainties around the legal framework and its implementation risks to the future rate as being significant but broadly balanced and therefore provisions at the current rate of minus 0.75%. An allowance for further movements in the Ogden discount rate is made within the Group's solvency II balance sheet and capital requirement. Details of the IFRS sensitivity analysis to the assumed Ogden discount rate are shown overleaf. However, it should be noted that the Government is considering not only the appropriate level for the rate but also the methodology of how it is applied, so any sensitivity has considerable limitations and uncertainty.

The Group's prior-year reserve releases were £206.5 million (H1 2017: £226.0 million) with good experience in large bodily injury claims being a key contributor.

Looking forward, the Group expects to continue setting its initial management best estimate for future accident years conservatively. Over time, the proportion of the Group's underwriting profit attributable to the current-year is expected to increase. This includes targeted improvements in the expense and commission ratios. Assuming current claims trends continue, the contribution from prior-year reserve releases will reduce over time, although it is expected to remain significant.

Claims reserves net of reinsurance

At	30 Jun 2018 £m	31 Dec[1] 2017 £m
Motor	2,042.4	2,187.3
Home	334.0	293.3
Rescue and other personal lines	94.6	85.6
Commercial	574.4	578.3
Total Group	3,045.4	3,144.5

Note:

1. Results for the period ended 30 June 2018 are based on total Group operations including Run-off. Comparative data has been re-presented accordingly to include restructuring costs and Run-off profits within Motor segment.

Sensitivity analysis – the discount rate used in relation to periodic payment orders ("**PPOs**") and changes in assumed Ogden discount rate

The table below provides a sensitivity analysis of the potential impact of a change in a single factor with all other assumptions left unchanged. Other potential risks beyond the ones described could have an additional financial impact on the Group.

	Increase / (decrease) in profit before tax and equity[3,4]	
	30 Jun 2018 £m	31 Dec 2017 £m
PPOs[1]		
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	**54.6**	54.6
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(75.1)**	(75.1)
Ogden discount rate[2]		
Impact of the Group reserving at a discount rate of 0% compared to minus 0.75%	**54.1**	68.4
Impact of the Group reserving at a discount rate of minus 1.5% compared to minus 0.75%	**(82.1)**	(102.9)

Notes:

1. The PPO sensitivities are updated annually due to their long term nature. These sensitivities relating to an increase or decrease in the real discount rate used for PPOs illustrate a movement in the time value of money from the assumed level of 0.0%. The PPO sensitivity has been calculated on the direct impact on the change in the real discount rate with all factors remaining unchanged.
2. Ogden discount rate sensitivity has been calculated on the direct impact of a permanent change in the discount rate with all other factors remaining unchanged. The Group will consider the statutory discount rate when setting its reserves but not necessarily provide on this basis. This is to ensure that reserves are appropriate for current and potential future developments.
3. These sensitivities exclude the impact of taxation.
4. These sensitivities reflect one-off impacts at 30 June and should not be interpreted as predictions.

The Ogden discount rate sensitivity above is calculated on the basis of a permanent change in the rate on the actuarial best estimate reserves as at 30 June 2018. It does not take into account a change in the Ogden discount rate setting regime, nor any second order impacts such as those on the Group's PPO assumptions or reinsurance bad debt assumptions. The reduction in sensitivity to a change in the Ogden discount rate since 31 December 2017 reflects the overall reduction in bodily injury exposures. This is due to continued positive prior-year development of claims reserves for large bodily injury claims, particularly for accident years where the reinsurance retention level was higher than the current level of £1 million.

Capital management

Capital management policy

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

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

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

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

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

Solvency II

The Group is regulated under solvency II requirements by the Prudential Regulation Authority ("**PRA**") on both a Group basis and for the Group's principal underwriter, U K Insurance Limited. In its results, the Group has estimated its solvency II own funds, SCR and solvency capital ratio as at 30 June 2018.

Sensitivity analysis

The following table shows the Group's estimated solvency capital ratio sensitivities based on the assessed impact of scenarios as at 30 June 2018.

	Impact on solvency capital ratio	
Scenario	30 Jun 2018	31 Dec 2017
Motor bodily injury deterioration equivalent to accident years 2008 and 2009	(7pts)	(7pts)
One-off catastrophe loss equivalent to the1990 storm	(9pts)	(9pts)
One-off catastrophe loss based on extensive flooding of the River Thames	(9pts)	(9pts)
Change in reserving basis for PPOs to use a real discount rate of minus 1%[1]	(10pts)	(13pts)
100bps increase in credit spreads[2]	(11pts)	(11pts)
100bps decrease in interest rates with no change in the PPO real discount rate	(2pts)	(3pts)

Note:

1. The PPO real discount rate used is an actuarial judgement which is reviewed annually based on the economic outlook for wage inflation relative to the EIOPA discount rate curve.
2. These sensitivities only include the assessed impact of the above scenarios in relation to AFS investments.

Capital surplus

At 30 June 2018, the Group held a solvency II capital surplus of approximately £0.98 billion above its regulatory capital requirements and was equivalent to an estimated solvency capital ratio of 169%, post-dividend.

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

At	30 Jun 2018	31 Dec 2017[1]
Solvency capital requirement (£ billion)	1.41	1.39
Capital surplus above solvency capital requirement (£ billion)	0.98	0.91
Solvency capital ratio post-dividend	169%	165%

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

At	30 Jun 2018 £bn	31 Dec 2017[1] £bn
Tier 1 capital before foreseeable dividends	1.83	2.04
Foreseeable dividends	(0.10)	(0.39)
Tier 1 capital – unrestricted	1.73	1.65
Tier 1 capital – restricted	0.35	0.35
Tier 1 capital	2.08	2.00
Tier 2 capital – subordinated debt	0.26	0.26
Tier 3 capital – deferred tax	0.05	0.04
Total own funds	2.39	2.30

Tier 1 capital after foreseeable dividends represents 87% of own funds and 147% of the estimated SCR. Tier 2 capital relates solely to the Group's £0.26 billion subordinated debt. The amount of Tier 2 and Tier 3 capital, permitted under the solvency II regulations, is 50% of the Group's SCR and of Tier 3 it is less than 15%. Therefore, the Group currently has no ineligible capital. The requirement that Tier 1 restricted capital should not exceed 20% of total Tier 1 capital, when satisfying the requirement that eligible Tier 1 items should be at least 50% of SCR, is not applicable to the Group.

The interim dividend will be payable from surplus capital generated from continuing operations of the Group.

Reconciliation of IFRS shareholders' equity to solvency II own funds

At	30 Jun 2018 £bn	31 Dec 2017[1] £bn
Total shareholders' equity	2.48	2.72
Goodwill and intangible assets	(0.50)	(0.47)
Change in valuation of technical provisions	(0.06)	(0.13)
Other asset and liability adjustments	(0.09)	(0.08)
Foreseeable dividends	(0.10)	(0.39)
Tier 1 capital – unrestricted	1.73	1.65
Tier 1 capital – restricted	0.35	0.35
Tier 1 capital	2.08	2.00
Tier 2 capital – subordinated debt	0.26	0.26
Tier 3 capital – deferred tax	0.05	0.04
Total own funds	2.39	2.30

Note

1. The 2017 comparative period has been updated to reflect the amounts in the Solvency and Financial Condition Report for the year ended 31 December 2017, published on 2 May 2018.

Movement in capital surplus

	H1 2018 £bn	FY 2017[1] £bn
Capital surplus at 1 January	0.91	0.91
Capital generation excluding market movements	0.31	0.54
Market movements	(0.06)	–
Capital generation	0.25	0.54
Change in solvency capital requirement	(0.02)	0.01
Surplus generation	0.23	0.55
Capital expenditure	(0.06)	(0.10)
Management capital action	–	0.03
Capital distribution – ordinary dividends[2]	(0.10)	(0.28)
Capital distribution – special dividends[2]	–	(0.20)
Net surplus movement	0.07	–
Capital surplus at 30 June 2018 / 31 December 2017	0.98	0.91

Notes:

1. The 2017 comparative period has been updated to reflect the amounts in the Solvency and Financial Condition Report for the year ended 31 December 2017, published on 2 May 2018.
2. Foreseeable dividends included above are adjusted to exclude the expected dividend waivers in relation to shares held by the employee share trusts, which are held to meet obligations arising on the various share option awards.

During H1 2018, the Group's own funds increased from £2.30 billion to £2.39 billion. The Group generated £0.25 billion of solvency II capital offset by £0.06 billion of capital expenditure and capital distribution of £0.10 billion for the 2018 interim dividend.

Leverage

The Group's financial leverage increased 1.3 percentage points, but remained conservative at 19.7% (2017: 18.4%). The increase was primarily due to the reduction in shareholders' equity. While the Tier 1 notes issued during 2017 are presented as equity in the balance sheet, the Group considers this to be part of its total leverage.

At	30 Jun 2018 £bn	31 Dec 2017 £bn
Shareholders' equity	2,482.1	2,715.1
Tier 1 notes	346.5	346.5
Financial debt – subordinated debt	260.9	264.7
Total capital employed	3,089.5	3,326.3
Financial-leverage ratio[1]	19.7%	18.4%

Note:

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

Credit ratings

Standard & Poor's and Moody's Investors Service provide insurance financial-strength ratings for U K Insurance Limited, the Group's principal underwriter. U K Insurance Limited is currently rated 'A' (strong) with a stable outlook by Standard & Poor's, and 'A2' (good) with a positive outlook by Moody's.

Regulatory update

The Group has continued to operate within a highly dynamic and evolving regulatory landscape, particularly in the UK motor insurance market where there are a number of reviews and initiatives, including those that have been announced by the UK Government, the Financial Conduct Authority ("**FCA**") and the PRA. The Group still awaits the passing of the Civil Liability Bill through Parliament which will bring in new measures to reform the soft-tissue whiplash injury compensation system and introduce a new framework for setting the Personal Injury Discount rate.

In 2018 the FCA's focus has been on Brexit and pricing practices. The PRA's focus has been on the pillars of its financial risk framework, namely reserving, pricing, reinsurance and investments. The Group is exposed to the risk of changes to regulatory rules, policy or interpretation, and to supervisory expectations or approach, by regulators or other bodies or authorities; and of changes to law, tax, monetary or fiscal policies or their interpretation by Government or Government authorities, any of which may have adverse operational and financial impacts.

The Group will continue to support proportionate reforms which result in a level playing field across the industry.

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 £40 million or more on profit before tax or net asset value on a 1-in-200 years basis, accounting for customer, financial and reputational impacts. The Group considers that the risk profile remains broadly unchanged over the last six months, since the profile disclosed in the Annual Report and Accounts 2017 risk management section, pages 22 to 25 and financial statements, pages 127 to 138.

Principal risks

Insurance risk

The risk of loss due to fluctuations in the timings, amount, frequency and severity of an insured event relative to the expectations at the time of underwriting. Insurance risk includes reserve, underwriting, distribution, pricing and reinsurance risks.

Market risk

The risk of loss resulting from fluctuations in the level and volatility of market prices of assets, liabilities and financial instruments. Market risk includes spread, interest rate and property risks.

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.

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 resilience and business resilience, partnerships, change, supplier management and outsourcing, financial reporting, model and technology and infrastructure risks.

Regulatory and conduct risk

The risks arising out of changes to laws, regulatory rules, policy or interpretation, or to supervisory expectations or approach, that have an adverse operational and financial impact as a result of reputational damage, regulatory or legal censure, fines or prosecutions, and any other type of non-budgeted operational risk losses, associated with the Group's conduct and activities. Regulatory and conduct risk includes compliance risk.

Strategic risk

The risk of direct or indirect adverse impact on the earnings, capital, or value of the Group's business resulting from the strategies not being optimally chosen, implemented or adapted to changing conditions. Strategic risk includes strategy formulation and implementation risks.

Emerging risks

The Group's definition of emerging risks is new or developing risks which are often difficult to quantify; they are also highly uncertain and are external to the Group. Emerging risks are identified by management and are recorded within an Emerging Risk Register. Emerging risks are reported to the Board Risk Committee for review and challenge. The Group's emerging risks processes aim to:

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

The Group considers its main emerging risks to be:

Technological change in driving habits reduces 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. In addition to the Group's partnership with the Government on automated Driving systems (MOVE_UK), the Group continues to build strong collaborative relationships, including with key manufacturers of driverless cars.

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. The Group's strategy, aligned to its mission to make insurance much easier and better value for its customers, is positioned to take advantage of changes in technology and customer behaviours, and to build the Group's partnership capabilities.

UK economy

The UK could enter a prolonged period of reduced growth due to the exit from the European Union, potentially reducing insurance sales and the value of the Group's investment portfolio. Whilst the Group's operations are based mainly in the UK, the Group continues to monitor implications surrounding Brexit negotiations, including: changes to the value of sterling which impact claims and non-claims supplier costs; inflation; recruitment and retention of people; potential changes to direct and indirect tax; and the regulatory impact on the Group's capital position.

Climate change

Climate change could increase the frequency of severe weather events in the UK and, in particular, flooding claims costs. The Group continues to monitor changes in claims experience and considers weather trends as part of its pricing and underwriting approach.

Condensed consolidated income statement
For the six months ended 30 June 2018

	Notes	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m (audited)
Gross earned premium	5	1,665.4	1,645.0	3,339.7
Reinsurance premium	5	(105.8)	(97.5)	(204.7)
Net earned premium	5	1,559.6	1,547.5	3,135.0
Investment return	6	95.4	93.0	175.4
Instalment income		59.1	55.8	116.4
Other operating income	7	40.0	33.8	62.9
Total income		1,754.1	1,730.1	3,489.7
Insurance claims	8	(1,005.0)	(768.2)	(1,571.1)
Insurance claims recoverable from / (payable to) reinsurers	8	36.4	(79.2)	(183.1)
Net insurance claims	8	(968.6)	(847.4)	(1,754.2)
Commission expenses	9	(101.2)	(138.1)	(286.4)
Operating expenses	10	(381.2)	(384.9)	(806.3)
Total expenses		(482.4)	(523.0)	(1,092.7)
Operating profit		303.1	359.7	642.8
Finance costs	11	(9.3)	(18.3)	(103.8)
Profit before tax		293.8	341.4	539.0
Tax charge	12	(55.0)	(65.9)	(105.0)
Profit for the period attributable to owners of the Company		238.8	275.5	434.0
Earnings per share:				
Basic (pence)	14	16.9	20.2	31.8
Diluted (pence)	14	16.7	20.0	31.5

Condensed consolidated statement of comprehensive income

For the 6 months ended 30 June 2018

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m (audited)
Profit for the period	238.8	275.5	434.0
Other comprehensive loss			
Items that will not be reclassified subsequently to the income statement:			
Actuarial gain on defined benefit pension scheme	–	–	2.1
Tax relating to item that will not be reclassified	–	–	(0.4)
	–	–	1.7
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges	(0.5)	(0.4)	(1.1)
Fair value (loss) / gains on AFS investments	(69.0)	8.0	8.8
Less: realised net gains on AFS investments included in income statement	(18.4)	(14.8)	(23.2)
Tax relating to items that may be reclassified	14.9	1.2	2.5
	(73.0)	(6.0)	(13.0)
Other comprehensive loss for the period net of tax	(73.0)	(6.0)	(11.3)
Total comprehensive income for the period attributable to owners of the Company	165.8	269.5	422.7

Condensed consolidated balance sheet
As at 30 June 2018

	Notes	30 Jun 2018 £m	31 Dec 2017 £m (audited)
Assets			
Goodwill and other intangible assets		500.0	471.1
Property, plant and equipment		164.1	174.4
Investment property		321.4	309.3
Reinsurance assets	16	1,191.2	1,178.5
Current tax assets		–	0.1
Deferred acquisition costs		177.6	185.4
Insurance and other receivables		944.3	981.2
Prepayments, accrued income and other assets		130.5	146.2
Derivative financial instruments		87.3	84.4
Retirement benefit asset		14.4	14.4
Financial investments	17	4,996.5	5,040.4
Cash and cash equivalents	18	1,000.5	1,358.6
Assets held for sale		–	4.2
Total assets		9,527.8	9,948.2
Equity			
Shareholders' equity		2,482.1	2,715.1
Tier 1 notes	19	346.5	346.5
Total equity		2,828.6	3,061.6
Liabilities			
Subordinated liabilities	20	260.9	264.7
Insurance liabilities	21	4,152.0	4,225.7
Unearned premium reserve		1,545.2	1,600.3
Borrowings	18	63.3	54.1
Derivative financial instruments		46.1	12.0
Trade and other payables, including insurance payables		569.7	658.0
Deferred tax liabilities		17.7	31.1
Current tax liabilities		44.3	40.7
Total liabilities		6,699.2	6,886.6
Total equity and liabilities		9,527.8	9,948.2

Condensed consolidated statement of changes in equity
For the six months ended 30 June 2018

	Share capital £m	Employee trust shares £m	Capital reserves £m	AFS revaluation reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Shareholders' equity £m	Tier 1 notes (note 19) £m	Total equity £m
Balance at 1 January 2017 (audited)	150.0	(34.3)	1,450.0	92.1	1.4	862.3	2,521.5	–	2,521.5
Profit for the year	–	–	–	–	–	434.0	434.0	–	434.0
Other comprehensive (loss) / profit	–	–	–	(11.9)	(1.1)	1.7	(11.3)	–	(11.3)
Dividends paid	–	–	–	–	–	(225.3)	(225.3)	–	(225.3)
Shares acquired by employee trusts	–	(19.6)	–	–	–	–	(19.6)	–	(19.6)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	14.8	14.8	–	14.8
Shares distributed by employee trusts	–	19.8	–	–	–	(19.8)	–	–	–
Tax on share-based payments	–	–	–	–	–	1.0	1.0	–	1.0
Issue of Tier 1 notes	–	–	–	–	–	–	–	346.5	346.5
Balance at 31 December 2017 (audited)	150.0	(34.1)	1,450.0	80.2	0.3	1,068.7	2,715.1	346.5	3,061.6
Profit for the year	–	–	–	–	–	238.8	238.8	–	238.8
Other comprehensive loss	–	–	–	(72.5)	(0.5)	–	(73.0)	–	(73.0)
Dividends and appropriations paid	–	–	–	–	–	(399.7)	(399.7)	–	(399.7)
Shares acquired by employee trusts	–	(11.3)	–	–	–	–	(11.3)	–	(11.3)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	11.8	11.8	–	11.8
Shares distributed by employee trusts	–	13.8	–	–	–	(13.8)	–	–	–
Tax on share-based payments	–	–	–	–	–	0.4	0.4	–	0.4
Balance at 30 June 2018	150.0	(31.6)	1,450.0	7.7	(0.2)	906.2	2,482.1	346.5	2,828.6

	Share capital £m	Employee trust shares £m	Capital reserves £m	AFS revaluation reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Shareholders' equity £m	Tier 1 notes (note 19) £m	Total equity £m
Balance at 1 January 2017 (audited)	150.0	(34.3)	1,450.0	92.1	1.4	862.3	2,521.5	–	2,521.5
Profit for the year	–	–	–	–	–	275.5	275.5	–	275.5
Other comprehensive loss	–	–	–	(5.6)	(0.4)	–	(6.0)	–	(6.0)
Dividends paid	–	–	–	–	–	(132.4)	(132.4)	–	(132.4)
Shares acquired by employee trusts	–	(10.5)	–	–	–	–	(10.5)	–	(10.5)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	6.3	6.3	–	6.3
Shares distributed by employee trusts	–	12.9	–	–	–	(12.9)	–	–	–
Tax on share-based payments	–	–	–	–	–	0.1	0.1	–	0.1
Balance at 30 June 2017	150.0	(31.9)	1,450.0	86.5	1.0	998.9	2,654.5	–	2,654.5

Condensed consolidated cash flow statement
For the six months ended 30 June 2018

	Notes	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m (audited)
Net cash (used in) / generated from operating activities before investment of insurance assets		(26.8)	27.3	204.0
Cash generated from investment of insurance assets		125.6	109.6	341.9
Net cash generated from operating activities		98.8	136.9	545.9
Cash flows from investing activities				
Purchases of property, plant and equipment		(6.1)	(3.8)	(22.4)
Purchases of intangible assets		(53.4)	(35.2)	(73.2)
Proceeds on disposals of property, plant and equipment		–	–	0.3
Proceeds on disposal of assets held for sale		13.8	–	–
Net cash used in investing activities		(45.7)	(39.0)	(95.3)
Cash flows from financing activities				
Net proceeds from issue of Tier 1 notes	19	–	–	346.5
Repayment of subordinated liabilities		–	–	(326.8)
Dividends and appropriations paid	13	(399.7)	(132.4)	(225.3)
Finance costs		(9.4)	(18.6)	(31.7)
Purchase of employee trust shares		(11.3)	(10.5)	(19.6)
Net cash used in financing activities		(420.4)	(161.5)	(256.9)
Net (decrease) / increase in cash and cash equivalents		(367.3)	(63.6)	193.7
Cash and cash equivalents at the beginning of the year	18	1,304.5	1,110.8	1,110.8
Cash and cash equivalents at the end of the year	18	937.2	1,047.2	1,304.5

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 2017 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 2017 is unqualified, does not draw attention to any matters by way of emphasis and does not include a statement under S498(2) of (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 half-yearly financial report have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union.

The Group has adopted IFRS 15 'Revenue from Contracts with Customers' for the first time during 2018 which has had no significant impact on the condensed consolidated financial statements. The Group has also 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 2018. However, these have had no impact on the condensed consolidated financial statements.

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 in preparing the interim consolidated financial statements.

Accounting policies and accounting developments
The Group has elected to apply the exemption within IFRS 4 'Insurance Contracts' that allows insurers to defer the application of IFRS 9 'Financial Instruments: Recognition and Measurement' for the period commencing I January 2018 to the period commencing 1 January 2021 and will therefore continue applying IAS 39 'Financial Instruments: Recognition and Measurement' to its financial assets and financial liabilities during the period of the exemption. This is a change in accounting policy to those applied in the Group's latest annual audited financial statements when the application of IAS 39 was mandatory. In accordance with the requirements of IFRS 4 the Group made an assessment of its liabilities arising from contracts within the scope of IFRS 4 as at 31 December 2015 and determined that they were more than 90% of the total carrying amounts of all its liabilities. The Group will continue to apply the temporary exemption until 1 January 2021 unless there is a change in the Group's activities and they are no longer predominantly connected with insurance activities.

With the exception of the accounting policy change explained above the Group's other accounting policies, presentation and methods of computation that are followed in the condensed consolidated financial statements are the same as applied in the Group's latest annual audited financial statements.

The Group will adopt IFRS 16 'Leases' from 1 January 2019 on a fully retrospective basis. The Group continues to assess the impact of the prior year adjustment on transition and does not expect the impact on operating expenses or finance costs to be material.

3. Critical accounting estimates and judgements
Full details of critical accounting estimates and judgements used in applying the Group's accounting policies are outlined on pages 125 to 126 of the Annual Reports & Accounts 2017. There have been no significant changes to the principles or assumptions of these critical accounting estimates and judgements during the period.

4. Segmental analysis

The table below analyses the Group's revenue and results by reportable segment for the six months ended 30 June 2018.

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total Group £m
Gross written premium	839.8	290.7	209.9	269.9	1,610.3
Gross earned premium	835.0	370.7	206.4	253.3	1,665.4
Reinsurance premium	(69.2)	(16.1)	(0.9)	(19.6)	(105.8)
Net earned premium	765.8	354.6	205.5	233.7	1,559.6
Investment return	65.4	9.7	3.2	17.1	95.4
Instalment income	44.0	10.9	1.1	3.1	59.1
Other operating income	26.8	2.6	7.1	3.5	40.0
Total income	902.0	377.8	216.9	257.4	1,754.1
Insurance claims	(496.2)	(230.1)	(144.6)	(134.1)	(1,005.0)
Insurance claims recoverable from / (payable to) reinsurers	32.6	0.7	(0.1)	3.2	36.4
Net insurance claims	(463.6)	(229.4)	(144.7)	(130.9)	(968.6)
Commission expenses	(13.6)	(38.1)	(8.7)	(40.8)	(101.2)
Operating expenses	(186.8)	(89.2)	(48.6)	(56.6)	(381.2)
Total expenses	(200.4)	(127.3)	(57.3)	(97.4)	(482.4)
Operating profit	238.0	21.1	14.9	29.1	303.1
Finance costs					(9.3)
Profit before tax					293.8

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total Group £m
Underwriting profit / (loss)	101.8	(2.1)	3.5	5.4	108.6
Loss ratio	60.5%	64.7%	70.4%	56.0%	62.1%
Commission ratio	1.8%	10.7%	4.2%	17.5%	6.5%
Expense ratio	24.4%	25.2%	23.7%	24.2%	24.4%
COR	86.7%	100.6%	98.3%	97.7%	93.0%

Note:

1. Results for the six months ended 30 June 2018 are based on total Group operations including restructuring and Run-off.

4. Segmental analysis continued

The table below analyses the Group's revenue and results by reportable segment for the six months ended 30 June 2017.

	Motor[1,2] £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total Group[2] £m
Gross written premium	824.4	388.1	213.3	268.4	1,694.2
Gross earned premium	773.5	409.1	209.8	252.6	1,645.0
Reinsurance premium	(65.7)	(12.1)	(0.8)	(18.9)	(97.5)
Net earned premium	707.8	397.0	209.0	233.7	1,547.5
Investment return	62.6	11.2	2.4	16.8	93.0
Instalment income	40.5	11.4	1.0	2.9	55.8
Other operating income	25.7	0.4	6.3	1.4	33.8
Total income	836.6	420.0	218.7	254.8	1,730.1
Insurance claims	(307.7)	(191.1)	(136.2)	(133.2)	(768.2)
Insurance claims (payable to) / recoverable from reinsurers	(86.2)	0.4	0.5	6.1	(79.2)
Net insurance claims	(393.9)	(190.7)	(135.7)	(127.1)	(847.4)
Commission expenses	(18.3)	(67.4)	(10.5)	(41.9)	(138.1)
Operating expenses	(185.0)	(94.4)	(49.9)	(55.6)	(384.9)
Total expenses	(203.3)	(161.8)	(60.4)	(97.5)	(523.0)
Operating profit	239.4	67.5	22.6	30.2	359.7
Finance costs					(18.3)
Profit before tax					341.4
Underwriting profit	110.6	44.5	12.9	9.1	177.1
Loss ratio	55.7%	48.0%	64.9%	54.4%	54.8%
Commission ratio	2.6%	17.0%	5.0%	17.9%	8.9%
Expense ratio	26.1%	23.8%	23.9%	23.8%	24.9%
COR	84.4%	88.8%	93.8%	96.1%	88.6%

Note:

1. Motor segment for the six months ended 30 June 2017 include Run-off and restructuring. These results were total income £0.4 million, net insurance claims £9.6 million and restructuring costs £4.5 million.
2. Comparative ratios for Motor segment, prior to the re-presentation of Run-off and restructuring, are shown below:

	Motor	Total Ongoing
Loss ratio	57.0%	55.4%
Commission ratio	2.6%	8.9%
Expense ratio	25.5%	24.6%
COR	85.1%	88.9%

4. Segmental analysis continued

The table below analyses the Group's revenue and results by reportable segment for the year ended 31 December 2017 (audited).

	Motor[1,2] £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total Group[2] £m
Gross written premium	1,670.4	799.1	421.1	501.5	3,392.1
Gross earned premium	1,603.0	819.4	419.2	498.1	3,339.7
Reinsurance premium	(132.4)	(28.9)	(1.6)	(41.8)	(204.7)
Net earned premium	1,470.6	790.5	417.6	456.3	3,135.0
Investment return	117.9	21.1	4.6	31.8	175.4
Instalment income	85.3	23.1	2.1	5.9	116.4
Other operating income	43.0	0.9	12.9	6.1	62.9
Total income	1,716.8	835.6	437.2	500.1	3,489.7
Insurance claims	(717.1)	(403.3)	(273.8)	(176.9)	(1,571.1)
Insurance claims (payable to) / recoverable from reinsurers	(135.8)	2.8	0.5	(50.6)	(183.1)
Net insurance claims	(852.9)	(400.5)	(273.3)	(227.5)	(1,754.2)
Commission expenses	(36.7)	(139.7)	(22.9)	(87.1)	(286.4)
Operating expenses	(430.8)	(166.6)	(97.4)	(111.5)	(806.3)
Total expenses	(467.5)	(306.3)	(120.3)	(198.6)	(1,092.7)
Operating profit	396.4	128.8	43.6	74.0	642.8
Finance costs					(103.8)
Profit before tax					539.0

Underwriting profit	150.2	83.7	24.0	30.2	288.1
Loss ratio	58.0%	50.6%	65.4%	49.9%	56.0%
Commission ratio	2.5%	17.7%	5.5%	19.1%	9.1%
Expense ratio	29.3%	21.1%	23.4%	24.4%	25.7%
COR	89.8%	89.4%	94.3%	93.4%	90.8%

Note:

1. Motor segment for the period ended 31 December 2017 include Run-off and restructuring. These results were total income £0.7 million, net insurance claims £43.1 million and restructuring costs £11.9 million.
2. Comparative ratios for Motor segment, prior to the re-presentation of Run-off and restructuring, are shown below:

	Motor	Total Ongoing
Loss ratio	60.9%	57.4%
Commission ratio	2.5%	9.1%
Expense ratio	28.5%	25.3%
COR	91.9%	91.8%

5. Net earned premium

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m (audited)
Gross earned premium:			
Gross written premium	1,610.3	1,694.2	3,392.1
Movement in unearned premium reserve	55.1	(49.2)	(52.4)
	1,665.4	1,645.0	3,339.7
Reinsurance premium:			
Premium payable	(93.1)	(81.6)	(208.4)
Movement in reinsurance unearned premium reserve	(12.7)	(15.9)	3.7
	(105.8)	(97.5)	(204.7)
Total	1,559.6	1,547.5	3,135.0

6. Investment return

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m (audited)
Investment income:			
Interest income from debt securities	62.7	68.0	137.5
Cash and cash equivalent interest income	3.0	1.7	3.0
Interest income from infrastructure debt	3.3	3.6	6.8
Interest income from commercial real estate loans	2.7	1.1	3.6
Interest income	71.7	74.4	150.9
Rental income from investment property	7.9	8.4	16.2
	79.6	82.8	167.1
Net realised gains / (losses):			
AFS debt securities	18.4	14.8	23.2
Derivatives	23.7	109.3	175.0
Investment property	–	(0.3)	1.6
	42.1	123.8	199.8
Net unrealised (losses) / gains:			
Impairment of loans and receivables	–	(3.4)	(9.5)
Derivatives	(38.4)	(120.1)	(202.0)
Investment property	12.1	9.9	20.0
	(26.3)	(113.6)	(191.5)
Total	95.4	93.0	175.4

6. Investment return continued

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

	Realised 6 months 2018 £m	Unrealised 6 months 2018 £m	Realised 6 months 2017 £m	Unrealised 6 months 2017 £m
Derivative gains / (losses):				
Foreign exchange forward contracts[1]	(3.6)	(58.7)	41.8	54.6
Associated foreign exchange risk	36.2	11.3	61.5	(166.6)
Net gains / (losses) on foreign exchange forward contracts	32.6	(47.4)	103.3	(112.0)
Interest rate swaps[1]	6.3	32.3	9.4	(18.4)
Associated interest rate risk on hedged items	(15.2)	(23.3)	(3.4)	10.3
Net (losses) / gains on interest rate derivatives	(8.9)	9.0	6.0	(8.1)
Total	23.7	(38.4)	109.3	(120.1)

	Realised Full year 2017 (audited) £m	Unrealised Full year 2017 (audited) £m
Derivative gains / (losses):		
Foreign exchange forward contracts[1]	107.8	62.5
Associated foreign exchange risk	68.4	(259.1)
Net gains / (losses) on foreign exchange forward contracts	176.2	(196.6)
Interest rate swaps[1]	1.8	(1.7)
Associated interest rate risk	(3.0)	(3.7)
Net losses on interest rate derivatives	(1.2)	(5.4)
Total	175.0	(202.0)

Note:

1. Foreign exchange forward contracts are at fair value through the income statement and interest rate swaps are designated as hedging instruments.

7. Other operating income

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m (audited)
Vehicle replacement referral income	8.4	8.3	16.9
Revenue from vehicle recovery and repair services	5.8	9.8	11.3
Legal services income	5.8	5.6	11.0
Other income[1,2]	20.0	10.1	23.7
Total	40.0	33.8	62.9

Notes:

1. Other income includes salvage income and fee income from insurance intermediary services.
2. Other income includes a £9.6 million gain on the sale of a property in Bristol.

8. Net insurance claims

	Gross 6 months 2018 £m	Reinsurance 6 months 2018 £m	Net 6 months 2018 £m	Gross 6 months 2017 £m	Reinsurance 6 months 2017 £m	Net 6 months 2017 £m
Current accident year claims paid	503.8	(0.1)	503.7	452.4	(0.1)	452.3
Prior accident year claims paid	574.9	(10.9)	564.0	573.4	(5.7)	567.7
Movement in insurance liabilities	(73.7)	(25.4)	(99.1)	(257.6)	85.0	(172.6)
Total	1,005.0	(36.4)	968.6	768.2	79.2	847.4

	Gross Full year 2017 £m (audited)	Reinsurance Full year 2017 £m (audited)	Net Full year 2017 £m (audited)
Current accident year claims paid	1,165.0	(0.2)	1,164.8
Prior accident year claims paid	847.0	(13.8)	833.2
Movement in insurance liabilities	(440.9)	197.1	(243.8)
Total	1,571.1	183.1	1,754.2

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m (audited)
Claims handling expenses included in net insurance claims	91.1	86.6	174.8

Note:

1. Results for the period ended 30 June 2018 are based on total Group operations including Run-off. Comparative data has been re-presented accordingly.

9. Commission expenses

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m (audited)
Commission expenses	97.7	117.1	225.4
Expenses incurred under profit participations	3.5	21.0	61.0
Total	101.2	138.1	286.4

10. Operating expenses

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m (audited)
Staff costs[1]	137.0	136.1	280.1
Other operating expenses[1,2]	137.7	149.0	273.6
Marketing	65.9	59.0	113.7
Amortisation and impairment of other intangible assets	24.4	26.7	111.0
Depreciation	16.2	14.1	27.9
Total	381.2	384.9	806.3

Notes:

1. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
2. Other operating expenses includes IT costs, insurance levies, professional fees and property costs.

11. Finance costs

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m (audited)
Interest expense on subordinated liabilities	11.5	23.1	44.8
Net interest received on designated hedging instrument[1]	(2.2)	(4.5)	(8.0)
Unrealised loss on designated hedging instrument[1]	3.7	6.3	10.4
Unrealised gain on associated interest rate risk on hedged item[1]	(3.9)	(6.9)	(11.7)
Realised gain on associated interest rate risk on hedged item[1]	–	–	(11.3)
Premium paid to repurchase subordinated liabilities and associated transaction costs	–	–	77.4
Amortisation of arrangement costs and discount on issue of subordinated liabilities	0.2	0.3	2.2
Total	9.3	18.3	103.8

Note:

1. As described in note 20, on 27 April 2012 the Group issued subordinated guaranteed dated notes with a nominal value of £500 million at a fixed rate of 9.25%. On the same date, the Group also entered into a 10-year designated hedging instrument to exchange the fixed rate of interest on the notes for a floating rate of three-month LIBOR plus a spread of 706 basis points, which increased to 707 basis points with effect from 29 July 2013. On 8 December 2017, the Group redeemed £250 million nominal value of the notes.

12. Tax charge

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m (audited)
Current taxation:			
Charge for the period	56.9	69.9	114.4
(Over) / under provision in respect of the prior period	(2.8)	6.4	5.3
	54.1	76.3	119.7
Deferred taxation:			
Credit for the period	(2.1)	(2.2)	(5.8)
Under / (over) provision in respect of the prior period	3.0	(8.2)	(8.9)
	0.9	(10.4)	(14.7)
Current taxation	54.1	76.3	119.7
Deferred taxation	0.9	(10.4)	(14.7)
Tax charge for the period	55.0	65.9	105.0

13. Dividends and appropriations

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m (audited)
Amounts recognised as distributions to equity holders in the period:			
2017 final dividend of 13.6p per share paid on 17 May 2018	186.1	–	–
2016 final dividend of 9.7p per share paid on 18 May 2017	–	132.4	132.4
2017 first interim dividend of 6.8p per share paid on 8 September 2017	–	–	92.9
2017 special dividend of 15.0p per share paid on 17 May 2018	205.3	–	–
Coupon payments in respect of Tier 1 notes[1] paid on 7 June 2018	8.3	–	–
	399.7	132.4	225.3

Note:

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

The trustees of the employee share trusts waived their entitlement to dividends on shares held to meet obligations arising on certain share awards, which reduced the total dividends paid for the six months ended 30 June 2018 by £1.8 million (six months ended 30 June 2017: £1.0 million and year ended 31 December 2017: £1.6 million).

14. 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 year.

Basic

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

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m (audited)
Earnings attributable to owners of the Company	238.8	275.5	434.0
Coupon payments in respect of Tier 1 notes	(8.3)	–	–
Profit for the calculation of earnings per share	230.5	275.5	434.0
Weighted average number of Ordinary Shares (millions)	1,366.5	1,365.5	1,366.1
Basic earnings per share (pence)	16.9	20.2	31.8

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 the dilutive potential Ordinary Shares. The Company has share options and contingently issuable shares as categories of dilutive potential Ordinary Shares.

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m (audited)
Earnings attributable to owners of the Company	238.8	275.5	434.0
Coupon payments in respect of Tier 1 notes	(8.3)	–	–
Profit for the calculation of earnings per share	230.5	275.5	434.0
Weighted average number of Ordinary Shares (millions)	1,366.5	1,365.5	1,366.1
Effect of dilutive potential of share options and contingently issuable shares (millions)	14.5	12.7	12.9
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	1,381.0	1,378.2	1,379.0
Diluted earnings per share (pence)	16.7	20.0	31.5

15. 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 2018 £m	Full year 2017 £m (audited)
Net assets	2,482.1	2,715.1
Goodwill and other intangible assets[1]	(500.0)	(471.1)
Tangible net assets	1,982.1	2,244.0
Number of Ordinary Shares (millions)	1,375.0	1,375.0
Shares held by employee share trusts (millions)	(9.3)	(9.9)
Closing number of Ordinary Shares (millions)	1,365.7	1,365.1
Net asset value per share (pence)	181.7	198.9
Tangible net asset value per share (pence)	145.1	164.4

Note:

1. Goodwill has arisen on acquisition by the Group of subsidiary companies. Intangible assets are primarily comprised of software development costs.

15. Net assets per share and return on equity continued

Return on equity

The table below details the calculation of return on equity.

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m (audited)
Earnings attributable to owners of the Company	238.8	275.5	434.0
Coupon payments in respect of Tier 1 notes	(8.3)	–	–
Profit for the calculation of return on equity	230.5	275.5	434.0
Annualised profit for the calculation of return on equity [1]	461.0	551.0	434.0
Opening shareholders' equity	2,715.1	2,521.5	2,521.5
Closing shareholders' equity	2,482.1	2,654.5	2,715.1
Average shareholders' equity	2,598.6	2,588.0	2,618.3
Return on equity for period	8.9%	10.6%	16.6%
Return on equity annualised[1]	17.7%	21.3%	16.6%

Note:

1. Profit has been annualised using profit for the 6 months ended 30 June 2018 (2017: 6 months ended 30 June 2017).

16. Reinsurance assets

At	Note	30 Jun 2018 £m	Full year 2017 £m (audited)
Reinsurers' share of general insurance liabilities		1,161.5	1,141.1
Impairment provision[1]		(54.9)	(59.9)
Total excluding reinsurers unearned premium reserve	21	1,106.6	1,081.2
Reinsurers' unearned premium reserve		84.6	97.3
Total		1,191.2	1,178.5

Note:

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

17. Financial investments

At	30 Jun 2018 £m	Full year 2017 £m (audited)
AFS debt securities		
Corporate	4,162.7	4,170.5
Supranational	43.2	43.9
Local government	38.2	12.2
Sovereign	165.8	224.8
Total	4,409.9	4,451.4
Held-to-maturity debt securities		
Corporate	102.3	103.6
Total debt securities	4,512.2	4,555.0
Total debt securities		
Fixed interest rate[1]	4,475.8	4,540.1
Floating interest rate	36.4	14.9
Total	4,512.2	4,555.0
Loans and receivables		
Infrastructure debt	301.0	316.4
Commercial real estate loans	183.3	169.0
Total	4,996.5	5,040.4

Note:

1. The Group swaps a fixed interest rate for a floating rate of interest on its US Dollar, Euro and a small amount of its Sterling corporate debt securities by entering into interest rate derivatives. The hedged amount at 30 June 2018 was £1,329.0 million (31 December 2017: £1,591.5 million).

18. Cash and cash equivalents and borrowings

	30 Jun 2018 £m	Full year 2017 £m (audited)
Cash at bank and in hand	165.5	258.0
Short-term deposits with credit institutions[1]	835.0	1,100.6
Cash and cash equivalents	1,000.5	1,358.6
Bank overdrafts[2]	(63.3)	(54.1)
Cash and bank overdrafts[3]	937.2	1,304.5

Notes:

1. This represents money market funds with no notice period for withdrawal.
2. Bank overdrafts represent short-term timing differences between transactions posted in the records of the Group and transactions flowing through the accounts at the bank.
3. Cash and bank overdrafts disclosure note is included for the purposes of the consolidated cash flow statement.

The effective interest rate on short-term deposits with credit institutions for the six months ended 30 June 2018 was 0.49% (31 December 2017: 0.29%) and average maturity at 30 June 2018 was 10 days (31 December 2017: 10 days).

19. Tier 1 notes

	30 Jun 2018 £m	Full year 2017 £m (audited)
Tier 1 notes	346.5	346.5

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

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

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

The Group has the option to cancel the coupon payment which becomes mandatory upon breach of non-compliance with the Group SCR, a breach of the minimum capital requirement or where the Group has insufficient distributable reserves.

20. Subordinated liabilities

	30 Jun 2018 £m	Full year 2017 £m (audited)
Subordinated guaranteed dated notes	260.9	264.7

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

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

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

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

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

21. Insurance liabilities

Movements in gross and net insurance liabilities

	Gross £m	Reinsurance £m	Net £m
Claims reported	2,584.5	(388.3)	2,196.2
Incurred but not reported	2,002.8	(890.0)	1,112.8
Claims handling provision	79.3	–	79.3
At 1 January 2017 (audited)	4,666.6	(1,278.3)	3,388.3
Cash paid for claims settled in the year	(2,012.0)	14.0	(1,998.0)
Increase / (decrease) in liabilities:			
Arising from current-year claims	2,389.9	(200.3)	2,189.6
Arising from prior-year claims	(818.8)	383.4	(435.4)
At 31 December 2017 (audited)	4,225.7	(1,081.2)	3,144.5
Claims reported	3,003.7	(742.5)	2,261.2
Incurred but not reported	1,142.7	(338.7)	804.0
Claims handling provision	79.3	–	79.3
At 31 December 2017 (audited)	4,225.7	(1,081.2)	3,144.5
Cash paid for claims settled in the year	**(1,078.7)**	**11.0**	**(1,067.7)**
Increase / (decrease) in liabilities:			
Arising from current-year claims	**1,256.8**	**(81.7)**	**1,175.1**
Arising from prior-year claims	**(251.8)**	**45.3**	**(206.5)**
At 30 June 2018	**4,152.0**	**(1,106.6)**	**3,045.4**
Claims reported	**3,024.2**	**(767.0)**	**2,257.2**
Incurred but not reported	**1,043.5**	**(339.6)**	**703.9**
Claims handling provision	**84.3**	**–**	**84.3**
At 30 June 2018	**4,152.0**	**(1,106.6)**	**3,045.4**

Movement in prior-year net insurance liabilities by operating segment

	6 months 2018 £m	6 months 2017[1] £m	Full year 2017[1] £m (audited)
Motor	**(137.7)**	(184.2)	(318.6)
Home	**(24.7)**	(16.8)	(23.7)
Rescue and other personal lines	**(5.7)**	2.1	(6.8)
Commercial	**(38.4)**	(27.1)	(86.3)
Total	**(206.5)**	(226.0)	(435.4)

Note:

1. Results for the period ended 30 June 2018 are based on total Group operations including Run-off. Comparative data has been re-presented accordingly to include Run-off prior year claims movements within the Motor segment (six months ended 30 June 2017: £9.6 million, year ended 31 December 2017: £43.1 million).

22. Fair value

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

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

These classifications remain unchanged from those outlined on page 162 of the Annual Report & Accounts 2017.

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

At 30 June 2018	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m
Assets held at fair value:					
Investment property	**321.4**	–	–	321.4	**321.4**
Derivative assets	**87.3**	–	87.3	–	**87.3**
AFS debt securities (note 17)	**4,409.9**	165.8	4,244.1	–	**4,409.9**
Other financial assets:					
Held-to-maturity debt securities (note 17)	**102.3**	–	14.1	89.5	**103.6**
Infrastructure debt (note 17)	**301.0**	–	–	305.2	**305.2**
Commercial real estate loans (note 17)	**183.3**	–	–	183.2	**183.2**
Total assets	**5,405.2**	**165.8**	**4,345.5**	**899.3**	**5,410.6**
Liabilities held at fair value:					
Derivative liabilities	**46.1**	–	46.1	–	**46.1**
Other financial liabilities:					
Subordinated liabilities	**260.9**	–	309.9	–	**309.9**
Total liabilities	**307.0**	**–**	**356.0**	**–**	**356.0**

At 31 December 2017	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m
Assets held at fair value:					
Investment property	309.3	–	–	309.3	309.3
Derivative assets	84.4	–	84.4	–	84.4
AFS debt securities (note 17)	4,451.4	224.8	4,226.6	–	4,451.4
Other financial assets:					
Held-to-maturity debt securities (note 17)	103.6	–	14.4	92.8	107.2
Infrastructure debt (note 17)	316.4	–	–	326.0	326.0
Commercial real estate loans (note 17)	169.0	–	–	169.0	169.0
Total assets	5,434.1	224.8	4,325.4	897.1	5,447.3
Liabilities held at fair value:					
Derivative liabilities	12.0	–	12.0	–	12.0
Other financial liabilities:					
Subordinated liabilities	264.7	–	328.7	–	328.7
Total liabilities	276.7	–	340.7	–	340.7

22. Fair value continued

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

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

Only investment property, held within level 3, is held at fair value in the condensed consolidated balance sheet. There were no changes in the categorisation of assets between levels 1, 2 and 3 for assets and liabilities held by the Group since 31 December 2017.

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

	Investment property £m
At 31 December 2017 (audited)	309.3
Increase in fair value in the period (note 6)	12.1
At 30 June 2018	321.4

Glossary

Term	Definition and explanation
Available-for-sale ("**AFS**") investment	Financial assets that are classified as AFS. Please refer to the accounting policy note 1.12 on page 120 of the Annual Report and Accounts 2017.
Average written premium	Average written premium is the total written premium at inception divided by the number of policies.
Capital	The funds invested in the Group, including funds invested by shareholders and retained profits.
Claims frequency	The number of claims divided by the number of policies per year.
Claims handling provision (provision for losses and loss-adjustment expense)	Funds the Group sets aside to meet the estimated cost of settling claims and related expenses that the Group considers it will ultimately need to pay.
Combined operating ratio ("**COR**")	The sum of the loss, commission and expense ratios. The ratio measures the amount of claims costs, commission expenses and operating expenses, compared to net earned premium generated. A ratio of less than 100% indicates profitable underwriting. Normalised COR adjusts loss and commission ratios for a normal level of expected major weather events in the period.
Commission expenses	Payments to brokers, partners and PCWs for generating business.
Commission ratio	The ratio of commission expense divided by net earned premium.
Current-year attritional loss ratio	The loss ratio for the current accident year, excluding the movement of claims reserves relating to previous accident years, and claims relating to major weather events.
Direct own brands	Direct own brands include Home and Motor under the Direct Line, Churchill and Privilege brands, Rescue under the Green Flag brand and Commercial under the Direct Line for Business brand.
Earnings per share	The amount of the Group's profit after deduction of the Tier 1 coupon payments allocated to each Ordinary Share of the Company
Expense ratio	The ratio of operating expenses divided by net earned premium.
Finance costs	The cost of servicing the Group's external borrowings.
Gross written premium	The total premiums from contracts that began during the period.
International Accounting Standards Board ("**IASB**")	A not-for-profit public interest organisation that is overseen by a monitoring board of public authorities. It develops IFRS: standards that aim to make worldwide markets transparent, accountable and efficient.
Incurred but not reported ("**IBNR**")	Funds set aside to meet the cost of claims for accidents that have occurred, but have not yet been reported to the Group. This includes an element of uplift on the value of claims reported. Where the Group has determined that the value currently held in reserves is not sufficient to meet the estimated ultimate costs of the claim is referred to as incurred but not enough reported ("**IBNER**").
In-force policies	The number of policies on a given date that are active and against which the Group will pay, following a valid insurance claim.
Insurance liabilities	This comprises insurance claims reserves and claims handling provision, which the Group maintains to meet current and future claims.
Investment income yield	The income earned from the investment portfolio, recognised through the income statement during the period, and divided by the average assets under management ("**AUM**"). This excludes unrealised and realised gains and losses, impairments, and fair value adjustments. The average AUM derives from the period's opening and closing balances for the total Group (see page 43 alternative performance measures).
Investment return	The return earned from the investment portfolio, including unrealised and realised gains and losses, impairments, and fair value adjustments.
Investment return yield	The return earned from the investment portfolio, recognised through the income statement during the period divided by the average AUM. This includes unrealised and realised gains and losses, impairments, and fair value adjustments. The average AUM derives from the period's opening and closing balances (see page 43 alternative performance measures).
Leverage	Tier 1 notes and financial debt (subordinated guaranteed dated notes) as a percentage of total capital employed.
Loss ratio	Net insurance claims divided by net earned premium.
Net asset value	The net asset value of the Group is calculated by subtracting total liabilities from total assets.
Net claims	The cost of claims incurred in the period less any claims costs recovered under reinsurance contracts. It includes claims payments and movements in claims reserves.
Net earned premium	The element of gross earned premium less reinsurance premium ceded for the period where insurance cover has already been provided.

Term	Definition and explanation
Net investment income yield	The net investment income yield is calculated in the same way as investment income yield but includes the cost of hedging (see page 43 alternative performance measures).
Operating profit	The pre-tax profit that the Group's activities generate, including insurance and investment activity, but excluding finance costs.
Periodic payment order ("**PPO**")	These are claims payments as awarded under the Courts Act 2003. PPOs are used to settle large personal injury claims. They generally provide a lump-sum award plus inflation-linked annual payments to claimants who require long-term care.
Prudential Regulation Authority ("**PRA**")	The PRA is a part of the Bank of England. It is responsible for regulating and supervising insurers and financial institutions in the UK.
Reinsurance	Contractual arrangements where the Group transfers part or all of the accepted insurance risk to another insurer.
Return on equity	Return on equity is calculated by dividing the profit attributable to the owners of the Company after deduction of the Tier 1 coupon payments by average shareholders' equity for the period.
Return on tangible equity ("**RoTE**")	Return on tangible equity is profit after tax from total Group operations after deduction of the Tier 1 coupon payments divided by the Group's average shareholders' equity, less goodwill and other intangible assets (see page 43 alternative performance measures).
Solvency II	The capital adequacy regime for the European insurance industry, which became effective on 1 January 2016. It establishes capital requirements and risk management standards. It comprises three pillars: Pillar I, which sets out capital requirements for an insurer; Pillar II, which focuses on systems of governance; and Pillar III, which deals with disclosure requirements.
Solvency capital ratio	The ratio of solvency II own funds to the solvency capital requirement.
Underwriting result profit / (loss)	The profit or loss from operational activities, excluding investment return and other operating income. It is calculated as net earned premium less net insurance claims and total expenses.

Appendix A – Alternative performance measures

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

Further information is presented below, defined in the glossary and reconciled to the most directly reconcilable line items in the financial statements and notes. Note 4 on page 27 of the consolidated financial statements presents a reconciliation of the Group's business activities on a segmental basis to the statutory income statement. All note references in the table below are to the notes to the consolidated financial statements on pages 26 to 39.

Group APM	Closest equivalent IFRS measure	Definition and / or reconciliation	Rationale for APM
Current-year attritional loss ratio	Loss ratio	Current-year attritional loss ratio is defined in the glossary on page 40 and is reconciled to loss ratio (discussed below) on page 9.	Expresses claims performance in the current accident year in relation to net earned premium.
COR	Operating profit	COR is defined in the glossary on page 40.	This is a measure of underwriting profitability whereby a ratio of less than 100% represents an underwriting profit and a ratio of more than 100% represents an underwriting loss and excludes non-insurance income.
Investment income yield	Investment income	Investment income yield is defined in the glossary on page 40 and is reconciled on page 43.	Expresses a relationship between the investment income and the associated opening and closing assets adjusted for portfolio hedging instruments.
Investment return yield	Investment return	Investment return yield is defined on page 40 and is reconciled on page 43.	Expresses a relationship between the investment return and the associated opening and closing assets net of any associated liabilities.
Loss ratio	Net insurance claims	Loss ratio is defined in the glossary on page 40 and is reconciled in note 4.	Expenses claims performance in relation to net earned premium.
Net investment income yield	Investment income	Net investment income yield is defined in the glossary on page 41 and is reconciled on page 43.	Expresses a relationship between the investment income and the associated opening and closing assets adjusted for portfolio hedging instruments.
RoTE	Return on Equity	RoTE is defined in the glossary on page 41 and is reconciled on page 43.	This shows performance against a measure of equity that is more able to be compared with other companies.
Tangible equity	Equity	Tangible equity is defined as equity less intangible assets within the balance sheet and is reconciled on page 43.	This shows the equity excluding intangible assets for comparability with companies who have not acquired businesses or capitalised intangible assets.
Tangible net asset per share	Net assets per share	Tangible net asset per share is defined as tangible equity (as above) expressed as a value per share and is reconciled in note 15 on page 34.	This shows the equity excluding intangible assets per share for comparability with companies who have not acquired businesses or capitalised intangible assets.

Appendix A – Alternative performance measures continued

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 ("RoTE")[1]

	Note[2]	H1 2018 £m	H1 2017 £m
Profit after tax		238.8	275.5
Coupon payments in respect of Tier 1 notes		(8.3)	–
Profit attributable to ordinary shareholders		230.5	275.5
Annualised profit attributable to ordinary shareholders		461.0	551.0
Opening shareholders' equity		2,715.1	2,521.5
Opening goodwill and other intangible assets		(471.1)	(508.9)
Opening shareholders' tangible equity		2,244.0	2,012.6
Closing shareholders' equity		2,482.1	2,654.5
Closing goodwill and other intangible assets		(500.0)	(517.4)
Closing shareholders' tangible equity		1,982.1	2,137.1
Average shareholders' tangible equity[3]		2,113.0	2,074.8
Return on tangible equity annualised		21.8%	26.6%

Investment income and return yields

	Notes	H1 2018 £m	H1 2017 £m
Investment income	6	79.6	82.8
Hedging to a sterling floating rate basis[4]	6	(14.7)	(10.8)
Net investment income		64.9	72.0
Net realised and unrealised gains excluding hedging		30.5	21.0
Investment return	6	95.4	93.0
Investment income annualised		159.2	165.6
Net investment income annualised		129.8	144.0
Investment return annualised		190.8	186.0
Opening investment property		309.3	329.0
Opening financial investments		5,040.4	5,147.0
Opening cash and cash equivalents		1,358.6	1,166.1
Opening borrowings		(54.1)	(55.3)
Opening derivatives asset / (liability)[5]		55.1	(5.8)
Opening investment holdings		6,709.3	6,581.0
Closing investment property		321.4	314.9
Closing financial investments	17	4,996.5	5,155.5
Closing cash and cash equivalents	18	1,000.5	1,106.6
Closing borrowings	18	(63.3)	(59.4)
Closing derivatives asset[5]		28.4	30.6
Closing investment holdings		6,283.5	6,548.2
Average investment holdings		6,496.4	6,564.6
Annualised investment income yield		2.5%	2.5%
Annualised net investment income yield		2.0%	2.2%
Annualised investment return yield		2.9%	2.8%

Notes:

1. See glossary on pages 40 and 41 for definitions.
2. See notes to the consolidated financial statements.
3. Mean average of opening and closing balances.
4. Includes net realised and unrealised gains / (losses) of derivatives in relation to AUM.
5. See footnote 1 on page 12.

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:

- 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
- 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	Penny James
Chief Executive Officer	Chief Financial Officer
31 July 2018	31 July 2018

LEI: 213800FF2R23ALJQOP04

Independent review report for Direct Line Insurance Group plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 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 Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 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
Statutory Auditor
London, UK
31 July 2018