31 July 2019

DIRECT LINE INSURANCE GROUP PLC
HALF YEAR REPORT 2019
TRANSFORMATION ON TRACK, GOOD FINANCIAL PERFORMANCE

PENNY JAMES, CEO OF DIRECT LINE GROUP, COMMENTED

"I am pleased with the progress that we have made so far this year. We have delivered a good financial performance overall, benefitting from the breadth and diversity of our business. We have maintained our underwriting discipline in a highly competitive motor market and we delivered a strong result in Home, Commercial and Rescue. We have grown our interim dividend by 2.9% and reiterate our 2019 financial targets of a combined operating ratio of 93% to 95%, normalised for weather, and operating expenses of less than £700 million.

There remains much to do, but we are successfully removing costs from the business as well as making good progress on transforming the Group's IT systems, for example with the initial launch of our new Motor platform. These are designed to significantly strengthen our capabilities, to enable us to be more competitive and to enhance customer experience. We aim to use the faster and more flexible systems to increase the pace at which we transform the business and to enable us to capture the near- and long-term opportunities available to the Group."

Results summary

	H1 2019 £m	H1 2018[1] £m Restated	Change
In-force policies (thousands)	**14,830**	15,326	(3.2%)
Of which: direct own brands[2] (thousands)	**7,155**	7,018	2.0%
Gross written premium	**1,575.1**	1,610.3	(2.2%)
Of which: direct own brands[2]	**1,072.2**	1,099.0	(2.4%)
Operating profit	**274.3**	305.5	(10.2%)
Combined operating ratio[3]	**92.5%**	92.9%	0.4pts
Profit before tax	**261.3**	292.8	(10.8%)
Return on tangible equity annualised[4]	**20.9%**	21.9%	(1.0pt)
Dividend per share – interim (pence)[5]	**7.2**	7.0	2.9%
	30 Jun 2019	31 Dec 2018[1] Restated	Change
Solvency capital ratio post-dividends[6]	**180%**	170%	10pts

Financial highlights

- Grew direct own brands in-force policies by 2.0%, demonstrating our diversified portfolio and pricing capabilities in competitive markets. Total in-force policies reduced by 3.2% primarily as a result of partnership exits announced in 2017.
- Gross written premium was 2.2% lower. A reduction in Motor was partially offset by growth in Rescue and Commercial whilst Home own brands were stable, demonstrating our diversification.
- Operating expenses of £363.0 million were £16.1 million lower than H1 2018 and the lowest since H1 2015. H1 costs are typically higher than H2 due to timing of Flood Re levy payments. The Group remains on track to reduce operating expenses to less than £700 million in 2019.
- Combined operating ratio of 92.5% improved by 0.4 percentage points largely due to benign weather in the period. Adjusting for normal weather, the combined operating ratio was 94.6% (H1 2018: 90.7%), within the Group's medium-term target of 93% to 95%. The change in the Ogden discount rate to minus 0.25%[7] increased the combined operating ratio by 1.1 percentage points.
- Operating profit of £274.3 million was £31.2 million lower mainly due to the reversal of the exceptional Motor performance in the first half of 2018, the non-repeat of a gain on an own property sale and lower investment gains which were partially offset by lower weather claims costs and lower operating expenses.
- Interim ordinary dividend of 7.2 pence per share, an increase of 2.9% on H1 2018. Strong capital position with solvency capital ratio of 180% (after the interim dividend) reflecting continued prudence given current political and economic uncertainties.

Strategic and operational highlights

- First of several major launches on our new Motor insurance platform, with the Privilege Motor brand. This marks the start of a planned upgrade of our Motor and Home platforms, designed to improve our customers' experience whilst improving the efficiency and flexibility of our business.
- Launched Darwin, a new approach for price comparison website customers. The brand uses machine learning and the latest pricing techniques to reach more customers in our existing footprint.
- Launched a new travel system and migrated our RBS and NatWest customers on to the new platform which provides an end-to-end digital solution for over 1.6 million customers, making travel insurance easier.
- Deployed a number of initiatives in NIG, which aim to contribute towards an improved current-year loss ratio. These include greater sophistication in pricing alongside an increased scrutiny of policy performance.
- Continued to transform Green Flag, with a refreshed 'Rescue Me' app and a phone fix service for customers who need advice rather than roadside recovery.
- Continued to enhance Direct Line for Business's new platform with a number of product updates, while also investing in enhanced management information and web analytics tools to help provide better insight and customer outcomes.

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Notes:

1. Results for the period ended 30 June 2018 and year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 24 in the condensed consolidated financial statements.
2. Direct own brands include in-force policies for Home and Motor under the Direct Line, Churchill, Darwin and Privilege brands, Rescue policies under the Green Flag brand and Commercial policies under the Direct Line for Business brand.
3. A reduction in the ratio represents an improvement as a proportion of net earned premium, while an increase in the ratio represents a deterioration. See glossary on pages 42 and 43 for definitions.
4. See glossary on pages 42 and 43 for definitions and appendix A – Alternative performance measures on pages 44 and 45 for reconciliation to financial statement line items.
5. The Group's dividend policy includes an expectation that one-third of the regular 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.
7. Announced on 15 July 2019, with effect from 5 August 2019.

Forward-looking statements disclaimer

Certain information contained in this document, including any information as to the Group's strategy, plans or future financial or operating performance, constitutes "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "aims", "ambition", "anticipates", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "over the medium term", "plans", "predicts", "projects", "propositions", "seeks", "should", "strategy", "targets" or "will" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in several places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, among other things: the Group's results of operations, financial condition, prospects, growth, strategies and the industry in which the Group operates. Examples of forward-looking statements include financial targets and guidance which are contained in this document specifically with respect to the return on tangible equity, solvency capital ratio, the Group's combined operating ratio, 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 guaranteeing future performance. The Group's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this document, for example directly or indirectly as a result of, but not limited to, United Kingdom ("**UK**") domestic and global economic business conditions, the outcome of discussions within the UK parliament and discussions between the UK and the European Union ("**EU**") regarding the manner and terms on which, if any, the UK leaves the EU (usually called "**Brexit**") and the terms in due course of any future trading relationship between the UK and the EU, 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 or rates), 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 because 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 2019 £m	H1 2018[1] £m Restated	Change
In-force policies (thousands)	**14,830**	15,326	(3.2%)
Of which: direct own brands (thousands)	**7,155**	7,018	2.0%
Gross written premium	**1,575.1**	1,610.3	(2.2%)
Of which: direct own brands	**1,072.2**	1,099.0	(2.4%)
Net earned premium	**1,482.6**	1,559.6	(4.9%)
Underwriting profit	**110.6**	111.0	(0.4%)
Instalment and other operating income	**88.0**	99.1	(11.2%)
Investment return	**75.7**	95.4	(20.6%)
Operating profit	**274.3**	305.5	(10.2%)
Finance costs	**(13.0)**	(12.7)	(2.4%)
Profit before tax	**261.3**	292.8	(10.8%)
Tax	**(49.5)**	(54.8)	9.7%
Profit after tax	**211.8**	238.0	(11.0%)
Key metrics			
Current-year attritional loss ratio[2]	**73.5%**	70.5%	(3.0pts)
Loss ratio[2]	**61.9%**	62.1%	0.2pts
Commission ratio[2]	**6.1%**	6.5%	0.4pts
Expense ratio[2]	**24.5%**	24.3%	(0.2pts)
Combined operating ratio[2]	**92.5%**	92.9%	0.4pts
Return on tangible equity annualised[3]	**20.9%**	21.9%	(1.0pt)
Investment income yield annualised[3]	**2.5%**	2.5%	–
Net investment income yield annualised[3]	**2.1%**	2.0%	0.1pts
Investment return yield annualised[3]	**2.5%**	2.9%	(0.4pts)
Basic earnings per share (pence)	**14.9**	16.8	(11.3%)
Diluted earnings per share (pence)	**14.7**	16.6	(11.4%)
Return on equity annualised[3]	**16.0%**	17.8%	(1.8pts)
Dividend per share – interim (pence)	**7.2**	7.0	2.9%

	30 Jun 2019	31 Dec 2018[1] Restated	Change
Net asset value per share (pence)	**185.1**	187.5	(1.3%)
Tangible net asset value per share (pence)	**139.1**	145.9	(4.7%)
Solvency capital ratio post-dividends[4]	**180%**	170%	10pts

Notes:

1. Results for the period ended 30 June 2018 and year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 24 in the condensed consolidated financial statements.
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. See glossary on pages 42 and 43 for definitions.
3. See glossary on pages 42 and 43 for definitions and appendix A – Alternative performance measures on pages 44 and 45 for reconciliation to financial statement line items.
4. See note 6 on page 2, reported after the interim dividend.

CEO REVIEW

I am pleased with the progress we have made so far this year. Our good results have demonstrated the resilience of our business model in a highly competitive market.

We are transforming the technology in virtually every part of the business and we expect this will strengthen our technical capabilities across all our brands, products and channels, improving our competitiveness and making insurance easier for our customers. Such improved competitiveness should in turn strengthen our ability to grow sustainably.

We made great progress in the first half of 2019 with the launch of our new price comparison website-focused brand Darwin, the start of the roll out of our new Motor insurance platform and the migration of 1.6 million customers on to our new travel system.

Our transformation isn't limited to technology, we are changing the way we work, with the objective of getting the most out of the new technology, and continuing to innovate and adapt to the changing needs of our customers.

Business performance

In the half year we delivered £274.3 million operating profit, a combined operating ratio of 92.5% and an annualised return on tangible equity of 20.9% (H1 2018: operating profit £305.5 million; combined operating ratio 92.9%; return on tangible equity 21.9%).

In-force policies were 3.2% lower than H1 2018 at 14.8 million (H1 2018: 15.3 million). Direct own brand in-force policies grew by 2.0% to 7.2 million (H1 2018: 7.0 million) following continued strong growth in Green Flag and Direct Line for Business, which helped offset pressure in the direct motor and home markets. This was more than offset by lower volumes in Motor and Home partners, reflecting our exit from Nationwide and Sainsbury's partnerships[1] announced in 2017.

Gross written premium at £1,575.1 million was £35.2 million lower than prior year (H1 2018: £1,610.3 million) largely due to lower average premiums in Motor and lower partnership volumes. Home own brands premium was stable and Green Flag and Direct Line for Business both saw strong growth, above the level of growth of in-force policies.

Operating profit of £274.3 million was £31.2 million lower than prior year (H1 2018: £305.5 million). The lower result is mainly due to: a reversal of the exceptional Motor performance in the first half of 2018, the non-repeat of a gain on an own property sale in 2018 (H1 2018: £9.6 million), lower prior-year reserve releases (H1 2019: £171.6 million, H1 2018: £206.5 million) and a lower investment return (H1 2019: £75.7 million, H1 2018: £95.4 million). These were partially offset by lower weather claims costs and lower expenses.

Weather was benign in the first half compared with prior year. During the half year we incurred major weather claims costs of zero compared to £75 million in the first half of last year.

Adjusted for normal weather, and including 1.1 percentage points relating to the Ogden discount rate change in Motor and Commercial, the combined operating ratio was approximately 94.6% (H1 2018: 90.7%), within our target range of 93% to 95% over the medium term.

Motor – good performance in competitive markets

In Motor we continued to focus on maintaining target loss ratios in a highly competitive market.

In the first half, Motor delivered a profit of £153.8 million and a combined operating ratio of 95.1% (H1 2018: £239.5 million; 86.5% respectively). This is a good result considering the exceptional Motor performance in the first half of 2018 and the £15.9 million charge due to the change in the Ogden personal injury discount rate to minus 0.25%.

Our commitment to loss ratio discipline is reflected in the change in in-force policies, where direct own brands were lower, by 1.0% at 3.9 million, compared to the end of 2018 (4.0 million).

Motor gross written premium was down, partly due to volumes, but we also saw a reduction in risk mix leading to lower average premiums. Risk-adjusted prices increased by 2.2%. We continued to price for our target loss ratios.

Home – strong headline result and improved normalised combined operating ratio

The Home result reflected the actions we've taken on pricing and underwriting in recent years and benign weather in the first half, with an operating profit of £71.1 million and a combined operating ratio of 82.2% (H1 2018: £21.5 million; 100.4% respectively).

Normalised for weather, the combined operating ratio was approximately 2.0 percentage points better than last year at 89% (H1 2018: approximately 91%), demonstrating continued progress on pricing and underwriting, and careful cost management.

Own brand in-force policies were down 0.4% to 1.8 million in a competitive new business market compared to the same period last year, and gross written premium was also down 0.4%.

Average premiums decreased slightly by 0.9% with an increase of 1.5% in risk-adjusted prices outweighed by an improvement of 2.4% in risk mix.

Rescue and other personal lines - reshaping for future growth

This division comprises our challenger Rescue brand, Green Flag, as well as other personal lines products – Pet, Travel and our mid- to high-net worth propositions. Gross written premium for Rescue and other personal lines increased by £6.6 million to £216.5 million (H1 2018: £209.9 million) while in-force policies fell by 2.8% to 7.4 million (H1 2018: 7.6 million).

Note:

1. Exit from Sainsbury's in respect of new business.

The strong growth in Green Flag continued in the first half, with policy count and premium up 11.9% and 14.1% respectively (to 947,000 policies and £38 million respectively). Its competitive pricing appealed to new customers who, on average, are buying higher levels of cover.

The benign weather contributed to fewer customer call outs compared to the same period last year despite the growing book. Overall, Rescue's combined operating ratio improved by 2.7 percentage points to 83.1% (H1 2018: 85.8%) and operating profit increased by 8.3% to £20.8 million (H1 2018: £19.2 million) despite higher costs, from investments in the business, and lower instalment and other income.

Other personal lines reduced policy count by 2.5% but grew premium by 2.9%, largely driven by travel and mid- to high-net worth customers. Losses reduced by £1.0 million as loss ratios improved across a number of products.

Commercial – investing for growth and margin improvement

Within Commercial we have two main businesses: NIG and other, and Direct Line for Business.

Direct Line for Business grew gross written premium by 7.7% to £68.9 million (H1 2018: £64.0 million) and in-force policies grew by 5.8% to 513,000, supported by the roll-out of its new propositions.

NIG and other gross written premium was stable as it continued to focus on improving margins, achieving rating ahead of expected claims inflation.

Overall, Commercial grew profit by £2.6 million to £31.9 million (H1 2018: £29.3 million) compared to prior year, due primarily to weather and improvements in underwriting. Commercial delivered a combined operating ratio of 93.8%, 3.8 percentage points better than H1 2018 (97.6%).

Strategic update

During my first few months as CEO, the team and I have been focused on making sure we are positioned to realise the benefits of the investments we've been making. We are beginning to deliver those investments in our front-end systems, our pricing capabilities and our core infrastructure with the aim of improving efficiency, the pace of deployment and the flexibility required to capture the opportunities that lie ahead.

As I said at the full year, the Group has distinctive capabilities. Direct Line Group is a business that has proven it can innovate, a business with two of the strongest brands in the market place, and a business made up of passionate people who really care about our customers. Looking ahead we must seek to use these strengths effectively and set ourselves up to move more quickly in a fast-changing world.

We have produced an additional document separate from this report with a number of case studies providing more insight into our strategic and operational highlights. This document can be found at www.directlinegroup.co.uk/half-year-highlights-2019.pdf

Beginning the roll-out of a new Motor and Home insurance platform

In the first half of 2019, we went live with the first of several launches on our new Motor insurance platform with the Privilege Motor brand. This is an integrated suite of industry leading cloud-based business applications, including, amongst others, policy, billing and claims applications and the Radar Live pricing tool. So far, it has been going well with positive feedback from both our people and customers.

This new set of systems is designed to allow us to offer more flexible products, more digital access and we expect to be able to react and respond far more quickly than we could previously.

We are taking the roll-out carefully so as to make sure it lands well with our customers and our people. Over the next two years we expect to have launched these transformational platforms for our Motor and Home brands and distribution channels. The benefits are expected to phase in as the stages of implementation are completed.

Launch of new price comparison website model under the Darwin brand

In contrast to the complexity of transitioning the Motor and Home portfolios on to an entirely new platform, a small team has built and launched a new approach to price comparison websites under the new brand, Darwin.

While it is too soon to assess Darwin's growth potential, we are already gaining insights as we test and learn in the price comparison website market, such as around application fraud and risk modelling for customers with claims and convictions. As the roll out progresses, we will see the degree of overlap of the existing portfolio and this will give us a better sense of its growth potential.

Evolving our partnership proposition

We've recently entered into an exciting new kind of partnership with Starling Bank, a mobile only challenger bank in the UK. Starling customers are now able to securely connect their accounts with our Churchill brand through Starling's digital marketplace to get a Home insurance quote.

This is an example of how we are executing our application programming interface (API)-led distribution strategy, connecting with third parties to enable customers to securely share their data with us to seamlessly access our brands and products. The partnership also enables us to gain access to new data and insights that we expect to help us to better serve our customers in the future.

Transforming our travel insurance

We've transformed our customer experience in Travel insurance, having rolled out a brand new automated policy and claims system. We took a customer-led approach to the design of the new system focusing on eliminating customer pain points. The customer journey is now fully digital, for example allowing self-serve cover upgrades and an eligibility assessment using our digital medical screening tool. The claims process is also now fully automated for certain types of claim. Over 1.6 million customers have been migrated over to the new system and the feedback has been overwhelmingly positive.

Continuing the growth of Direct Line for Business

The Direct Line for Business team has been enhancing its operational excellence and deploying new data and management information tools in H1 2019. We are planning for further product releases, including transitioning our Van and Tradesperson products on to the new system.

Capital Markets Day

Today we are announcing a capital markets day on 21 November 2019, where we plan to give a fuller update on our transformation plans and give investors the opportunity to see our progress and meet our people.

Regulation

We continue to operate within a highly dynamic and evolving regulatory landscape.

The FCA's focus has continued to be on pricing practices generally, including under its fair pricing market study. For some time we have been actively taking steps regarding pricing as well as working with the ABI and holding discussions with the FCA . We are supportive of the FCA's market study, the outcomes of which are not yet known.

Meanwhile, the Ministry of Justice recently announced that the 'Ogden' personal injury discount rate for England and Wales will be changed to minus 0.25%.

Brexit

We have been preparing for the possibility of a disruptive Brexit. Although we are predominantly a UK business, we do, for example, have exposure to financial markets and import goods and services to fulfil insurance claims. We have been monitoring events carefully and have proactively taken steps to mitigate the likely impact on the Group to the extent we consider it to be appropriate and proportionate to do so, given the considerable uncertainties; however, in the event of a disruptive Brexit the Group will not be immune. We have more information on this in the Risk section, on pages 20 and 21.

Dividend and capital management

The Board has declared an interim dividend of 7.2 pence (2018: 7.0 pence).

The Group's capital requirements remained broadly flat in the first half of 2019. This, coupled with the Group's strong capital generation and favourable investment markets, resulted in solvency capital ratio at 30 June 2019 of 180% post the interim dividend.

The Board has taken into account the continued high level of political and economic uncertainty, including in relation to Brexit, and considers it appropriate for the time being to have a prudent solvency ratio at the upper end of its solvency capital ratio risk appetite range of 140% to 180%. The Board will keep this position under review as it monitors developments in the political and economic environment. In normal circumstances, the Board expects the Group to operate around the middle of its solvency risk appetite range, and where appropriate will consider special dividends or share buybacks to achieve this.

Outlook

The Group continues to target a combined operating ratio of 93% to 95% for 2019 and over the medium term, normalised for weather. In 2019, the Group expects to make further progress in reducing operating costs and is targeting operating expenses of below £700 million. The Group expects a net investment yield of 2.0% in 2019 and no further gains on investments in the second half of 2019. We reiterate our ongoing target of achieving at least a 15% return on tangible equity.

PENNY JAMES

CHIEF EXECUTIVE OFFICER

FINANCE REVIEW

Performance

Operating profit

	H1 2019 £m	H1 2018[1] £m Restated
Underwriting profit	**110.6**	111.0
Instalment and other operating income	**88.0**	99.1
Investment return	**75.7**	95.4
Total operating profit	**274.3**	305.5
Of which:		
Current-year operating profit[2]	**102.7**	99.0
Prior-year reserve releases	**171.6**	206.5

Note:

1. Results for the period ended 30 June 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 24 in the condensed consolidated financial statements.
2. See glossary on pages 42 and 43 for definitions and appendix A – Alternative performance measures on pages 44 and 45 for reconciliation to financial statement line items.

Operating profit decreased by £31.2 million to £274.3 million (H1 2018: £305.5 million).

There was a small reduction in underwriting profit. This was comprised of a number of movements, including the impact of a reversal of the exceptional Motor performance in the first half of 2018 and lower prior-year reserve releases in H1 2019 (£171.6 million; H1 2018: £206.5 million), with 2019 including a strengthening of prior-year reserves by £16.9 million as a result of the movement of the Ogden discount rate to minus 0.25%, compared to the Group's previously assumed position of 0.0%. These were offset by lower weather claims costs as the weather was benign in the first half of 2019 compared to the prior year and lower operating expenses.

Instalment and other operating income decreased to £88.0 million (H1 2018: £99.1 million), primarily due to the non-repeat of a £9.6 million gain on the sale of an own property in H1 2018.

Investment return decreased to £75.7 million (H1 2018: £95.4 million) primarily due to an £18.1 million reduction, excluding hedging, in realised and unrealised gains. Lower unrealised gains reflected a reduction in fair value gains on investment property. Investment income reduced by £4.2 million year-on-year due to lower assets under management.

In-force policies and gross written premium

In-force policies (thousands)

At	30 Jun 2019	31 Mar 2019	31 Dec 2018	30 Sep 2018	30 Jun 2018
Own brands	**3,909**	3,948	3,950	3,920	3,894
Partnerships	**133**	138	144	149	155
Motor	**4,042**	4,086	4,094	4,069	4,049
Own brands	**1,786**	1,791	1,789	1,789	1,793
Partnerships (excluding Nationwide and Sainsbury's[1])	**795**	798	803	810	815
Partnerships (Nationwide and Sainsbury's[1])	**49**	54	59	188	335
Home	**2,630**	2,643	2,651	2,787	2,943
Rescue	**3,427**	3,459	3,491	3,530	3,537
Travel	**3,686**	3,696	3,759	3,771	3,783
Pet	**158**	157	156	156	157
Other personal lines	**123**	124	126	126	127
Rescue and other personal lines	**7,394**	7,436	7,532	7,583	7,604
Of which: Green Flag direct	**947**	920	894	875	846
Direct Line for Business	**513**	506	499	494	485
NIG and other	**251**	249	256	250	245
Commercial	**764**	755	755	744	730
Total in-force policies	**14,830**	14,920	15,032	15,183	15,326
Of which: direct own brands	**7,155**	7,165	7,132	7,078	7,018

Note:
1. Exit from Sainsbury's in respect of new business.

Total in-force policies reduced to 14.8 million (30 June 2018: 15.3 million). The reduction was primarily due to lower partner volumes in Home, reflecting the exit from Nationwide and Sainsbury's partnerships, and reductions in Rescue and other personal lines driven by the end of the Churchill "Free Rescue" campaign in July 2018. Direct own brands in-force policies grew to 7.2 million (30 June 2018: 7.0 million) with growth in Motor, Green Flag and Direct Line for Business.

Gross written premium

	Q2 2019 £m	Q2 2018 £m	H1 2019 £m	H1 2018 £m
Own brands	**399.0**	419.2	**771.6**	807.3
Partnerships	**14.5**	16.6	**28.9**	32.5
Motor	**413.5**	435.8	**800.5**	839.8
Own brands	**97.1**	98.5	**193.7**	194.4
Partnerships (excluding Nationwide and Sainsbury's[1])	**42.3**	45.9	**84.2**	90.6
Partnerships (Nationwide and Sainsbury's[1])	**2.7**	3.1	**5.4**	5.7
Home	**142.1**	147.5	**283.3**	290.7
Rescue	**43.8**	42.4	**82.9**	80.1
Travel	**38.2**	35.8	**76.2**	73.3
Pet	**18.2**	17.7	**36.2**	35.9
Other personal lines	**10.9**	10.3	**21.2**	20.6
Rescue and other personal lines	**111.1**	106.2	**216.5**	209.9
Of which: Green Flag direct	**20.3**	18.0	**38.0**	33.3
Direct Line for Business	**35.3**	32.9	**68.9**	64.0
NIG and other	**119.2**	118.0	**205.9**	205.9
Commercial	**154.5**	150.9	**274.8**	269.9
Total gross written premium	**821.2**	840.4	**1,575.1**	1,610.3
Of which: direct own brands	**551.7**	568.6	**1,072.2**	1,099.0

Note:

1. Exit from Sainsbury's in respect of new business.

Gross written premium of £1,575.1 million (H1 2018: £1,610.3 million) decreased by 2.2% primarily due to reductions in Motor own brands and Home partnerships, partially offset by increases in Rescue and other personal lines and Commercial. Direct own brands gross written premium of £1,072.2 million (H1 2018: £1,099.0 million) decreased by 2.4%.

Motor

Motor in-force policies remained stable at 4.0 million when compared to the first half of 2018, whilst gross written premium reduced by 4.7% to £800.5 million.

Own brands in-force policies grew by 0.4%. Strong growth was achieved in Churchill following a strengthened proposition for the price comparison website channel. Direct Line was broadly flat. This performance demonstrated the value of the Group's multi-brand strategy. Overall, retention reduced slightly but remained strong.

Motor average premium[1] fell by 2.1% in H1 2019 compared to H1 2018. Motor risk-adjusted prices increased by 2.2% in H1 2019 while targeted changes to the risk mix reduced average premiums by 4.2%. A number of pricing initiatives have helped to support competitiveness in lower average premium segments whilst maintaining margins.

Home

In-force policies for Home's own brands continued to be broadly stable at 1.8 million policies, while partnership volumes reduced by 26.6% predominantly due to the exit from the Nationwide and Sainsbury's partnerships. Excluding these exits, partnership volumes reduced by 2.5% compared to the first half of 2018.

Gross written premium was 2.5% lower than H1 2018, primarily due to the reduction in partnerships, as own brands gross written premium reduced marginally by 0.4%. New business volumes were 2.5% lower during the first half of 2019. Retention across all Home own brands continued to be strong.

Home own risk-adjusted prices increased by 1.5% while several pricing actions improved risk mix by 2.4%.

Note:

1. Average incepted written premium excluding IPT for total Motor for year to 30 June 2019.

Rescue and other personal lines

Rescue and other personal lines in-force policies fell by 2.8% to 7.4 million although gross written premium increased by 3.1% to £216.5 million compared to H1 2018.

Within Rescue, the Group's Green Flag brand continued to grow its higher margin direct business during H1 2019, increasing in-force policies by 11.9% to over 947,000 and increasing gross written premium by 14.1% to £38.0 million, compared to H1 2018. This was driven by higher volumes and a shift towards higher levels of cover which attracted higher average premiums.

In-force policies for the Group's linked Rescue channel, where cover can be purchased with a Group Motor policy, reduced to 897,000, driven by the end of the Churchill "Free Rescue" campaign in July 2018. Rescue partnerships in-force policies and gross written premium, where margins tend to be lower than for direct business, reduced slightly, driven by a small reduction in packaged bank account volumes.

Total Other personal lines (comprising Travel, Pet and Other) in-force policies reduced by 2.5% to 4.0 million primarily due to lower packaged bank account volumes. There was growth in Pet in-force policies in H1 2019, reversing a period of lower volumes, and insurance packages tailored for mid- to high-net-worth Home and Motor customers saw strong growth. Gross written premium increased by 2.9% as travel increased by 4.0% and mid- to high-net-worth also saw strong growth.

Commercial

Commercial in-force policies increased by 4.7% compared with H1 2018 to 764,000. This reflected growth in both Direct Line for Business and NIG and other. Gross written premium increased by 1.8% to £274.8 million.

Direct Line for Business grew in-force policies by 5.8% as it grew in its traditionally strong areas of Van and Landlord, as well as in the small and micro business products on its new platform. Gross written premium increased by 7.7% to £68.9 million with increases across all product lines.

NIG and other in-force policies grew by 2.4%. Gross written premium remained steady at £205.9 million as the business grew lower average premium package policies, whilst continuing to improve margins and pricing sophistication.

Underwriting profit and combined operating ratio

	H1 2019	H1 2018[1] Restated
Underwriting profit (£ million)	**110.6**	111.0
Loss ratio	**61.9%**	62.1%
Commission ratio	**6.1%**	6.5%
Expense ratio	**24.5%**	24.3%
Combined operating ratio	**92.5%**	92.9%

Note:

1. Results for the period ended 30 June 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 24 in the condensed consolidated financial statements.

The Group's combined operating ratio of 92.5% (H1 2018: 92.9%) improved by 0.4 percentage points primarily due to improvements in the loss ratio and commission ratio, with the expense ratio broadly stable. The weather has been relatively benign during the period and there was no repeat of H1 2018's weather event-related claims. Normalised for weather, the combined operating ratio was approximately 94.6%, within the Group's medium-term target of 93% to 95%. This includes a 1.1 percentage point impact from the Ogden discount rate change

The underwriting profit includes the effect of the change in the Ogden discount rate to minus 0.25% compared to the Group's previous assumed position of 0.0%. This resulted in an increase in prior-year reserves of £16.9 million equivalent to an increase of 1.1 percentage points in the combined operating ratio.

The loss ratio was 0.2 percentage points lower at 61.9% (H1 2018: 62.1%) as a result of the non-repeat of H1 2018's weather events as well as improvements in Rescue and other personal lines and Commercial current-year attritional loss ratios. These were partially offset by a £34.9 million reduction in prior-year reserve releases (including £16.9 million as a result of the change in the Ogden discount rate to minus 0.25%) and increases in current-year attritional loss ratios in Motor due to the reversal of the exceptional performance in the first half of 2018.

The commission ratio reduced slightly by 0.4 percentage points, primarily reflecting both lower commissions and profit share payments to Home partners, following the exit of the Nationwide and Sainsbury's partnerships announced in 2017. The remaining premium from these partnerships was substantially earned in 2018 and consequently the commission ratio has reduced again in 2019 albeit at a significantly slower rate. In subsequent years the direction of the commission ratio will be dependent on the Group's partnership activities.

The expense ratio has risen slightly by 0.2 percentage points as lower costs were not fully offset by lower earned premium. Operating expenses have fallen by £16.1 million to £363.0 million in H1 2019, with reductions across all major cost categories.

Ratio analysis by division

	Notes	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total Group £m
For the period ended 30 June 2019						
Net earned premium	4	749.6	288.0	209.5	235.5	1,482.6
Net insurance claims	4	518.7	138.7	141.6	119.4	918.4
Prior-year reserve releases	21	106.1	20.7	5.3	39.5	171.6
Major weather events[1]		n/a	n/a	n/a	n/a	n/a
Attritional net insurance claims		624.8	159.4	146.9	158.9	1,090.0
Loss ratio – current-year attritional		83.4%	55.3%	70.1%	67.5%	73.5%
Loss ratio – prior-year reserve releases		(14.2%)	(7.2%)	(2.5%)	(16.8%)	(11.6%)
Loss ratio – major weather events[1]		n/a	n/a	n/a	n/a	n/a
Loss ratio – reported	4	69.2%	48.1%	67.6%	50.7%	61.9%
Commission ratio	4	2.5%	7.6%	4.1%	17.5%	6.1%
Expense ratio	4	23.4%	26.5%	24.5%	25.6%	24.5%
Combined operating ratio	4	95.1%	82.2%	96.2%	93.8%	92.5%
Current-year Combined operating ratio		109.3%	89.4%	98.7%	110.6%	104.1%
For the period ended 30 June 2018[2] (restated)						
Net earned premium	4	765.8	354.6	205.5	233.7	1,559.6
Net insurance claims	4	463.3	229.4	144.7	130.9	968.3
Prior-year reserve releases	21	137.7	24.7	5.7	38.4	206.5
Major weather events[1]		n/a	(65.0)	n/a	(10.0)	(75.0)
Attritional net insurance claims		601.0	189.1	150.4	159.3	1,099.8
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	24.2%	25.0%	23.5%	24.1%	24.3%
Combined operating ratio	4	86.5%	100.4%	98.1%	97.6%	92.9%
Current-year Combined operating ratio		104.5%	107.4%	100.9%	114.1%	106.1%

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 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 24 in the condensed consolidated financial statements.

The movement in the current-year attritional loss ratio is an indicator of underlying accident year performance as it excludes prior-year reserve releases and claims costs from major weather events. The Group's current-year attritional loss ratio of 73.5% increased by 3.0 percentage points compared to H1 2018 primarily due to the reversal of the exceptional Motor performance in H1 2018 and a change in the distribution mix in Home.

Although reducing year-on-year, prior-year reserve releases continued to be significant at £171.6 million (H1 2018: £206.5 million), equivalent to 11.6% of net earned premium (H1 2018: 13.2%) and were concentrated towards more recent accident years. Within this, prior-year reserves increased by £16.9 million in H1 2019 in relation to a change in the Ogden discount rate to minus 0.25% (H1 2018: £nil). Assuming current claims trends continue, prior-year reserve releases are expected to continue to reduce further in future years, although they are expected to remain a significant contribution to profits.

The Group's current-year combined operating ratio reduced by 2.0 percentage points to 104.1% (H1 2018: 106.1%) as the non-repeat of H1 2018's weather events were partially offset by the increases to current year attritional loss ratio in Motor.

Motor

The current-year attritional loss ratio in Motor increased by 4.9 percentage points to 83.4% (H1 2018: 78.5%) primarily as a result of the reversal of the exceptional Motor performance in H1 2018, which benefitted from the earn through of the strong margins written in 2017. The Group continues to estimate underlying claims inflation towards the top end of the 3% to 5% range. Whilst inflation relating to the third-party property damage claims remained high, it has stabilised after poor experience in the first quarter of 2019. The Group continues to reflect its view of claims inflation in pricing and is achieving its target loss ratios.

Prior-year reserve releases reduced by £31.6 million year-on-year to £106.1 million and were lower by £15.9 million as a result of the change in the Ogden discount rate to minus 0.25%.

Motor's reported combined operating ratio deteriorated by 8.6 percentage points to 95.1% (H1 2018: 86.5%). This was primarily due to the increase in the current-year loss ratio, a reduction in prior-year reserve releases and a 0.7 percentage point increase in the commission ratio.

Home

The current-year attritional loss ratio, excluding major weather event claims, was impacted by the partnership exits and increased by 2.0 percentage points to 55.3%. This was more than offset by a 3.1 percentage point reduction in the commission ratio to 7.6%. Claims inflation expectations, excluding the impact of major weather events, remained within the range of 3% to 5%. Following several underwriting and pricing initiatives, recent experience has been better.

The commission ratio of 7.6% was 3.1 percentage points lower than H1 2018, reflecting lower commission and profit share payments to partners resulting from the partnership exits. In subsequent years the direction of the commission ratio will be dependent on the Group's partnership activities.

Home's combined operating ratio improved by 18.2 percentage points to 82.2% (H1 2018: 100.4%) with lower loss and commission ratios partially offset by a 1.5 percentage point increase in the expense ratio. The loss ratio was 16.6 percentage points lower at 48.1% compared to H1 2018 (64.7%) due to benign weather in the period compared to the major weather events which had a £65 million impact in H1 2018. Normalised for weather, the combined operating ratio was approximately 2.0 percentage points better than last year at 89% (H1 2018: approximately 91%).

Rescue and other personal lines

The combined operating ratio for Rescue and other personal lines improved by 1.9 percentage points to 96.2% (H1 2018: 98.1%) benefitting from a 2.8 percentage point improvement to the loss ratio partially offset by a 1.0 percentage point increase in the expense ratio.

Rescue's combined operating ratio improved by 2.7 percentage points to 83.1% (H1 2019: 85.8%) driven by a 4.7 percentage point improvement in the loss ratio as a result of a reduction in claims frequency partially due to benign weather in H1 2019.

Other personal lines combined operating ratio improved 1.5 percentage points due primarily to an improvement in loss ratio as there was no repeat of the weather-related and large claims in Home products for mid- to high-net-worth customers that were experienced in H1 2018.

Commercial

The current-year attritional loss ratio in Commercial improved by 0.7 percentage points to 67.5%. Commercial had no major weather event related claims in the period (H1 2018: £10 million) leading to a 5.3 percentage point improvement in reported loss ratio. Prior-year reserve releases were stable year-on-year. The impact of the change in the Ogden discount rate to minus 0.25% was a reduction in prior-year reserve releases of £1.0 million.

Commercial's combined operating ratio improved by 3.8 percentage points to 93.8% (H1 2018: 97.6%) due to the loss ratio improvements described above, partially offset by a 1.5 percentage point increase in expenses. The commission ratio remained steady.

Operating expenses

	Note	H1 2019 £m	H1 2018[1] £m Restated
Staff costs[2]	10	134.1	137.0
Other operating expenses[2,3]	10	128.4	128.7
Marketing	10	59.3	65.9
Amortisation and impairment of other intangible assets	10	21.2	24.4
Depreciation	10	20.0	23.1
Total operating expenses		**363.0**	379.1

Notes:

1. Results for the period ended 30 June 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 24 in the condensed consolidated financial statements.
2. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
3. Other operating expenses include IT costs, insurance levies, professional fees and property costs.

Operating expenses reduced by £16.1 million to £363.0 million (H1 2018: £379.1 million) resulting in an expense ratio of 24.5% (H1 2018: 24.3%). The Group saw reductions across all major cost categories as it makes further progress in reducing operating expenses to its target of below £700 million for the full year. H1 costs are typically higher than H2 due to Flood Re levy payments.

The Group has continued to invest in its significant IT programme and operational efficiency improvements while supporting business growth and investment in future capability. The core areas of focus are self-service and digitalisation, process improvement and automation, as well as reducing costs in areas such as procurement.

Instalment and other operating income

	Note	H1 2019 £m	H1 2018 £m
Instalment income		**56.3**	59.1
Other operating income:			
Vehicle replacement referral income	7	**9.0**	8.4
Revenue from vehicle recovery and repair services	7	**6.2**	5.8
Legal services income	7	**5.3**	5.8
Other income	7	**11.2**	20.0
Other operating income	7	**31.7**	40.0
Total instalment and other operating income		**88.0**	99.1

Instalment and other operating income decreased by £11.1 million, primarily as H1 2018 included a one-off gain of £9.6 million on the disposal of an own property. The reduction in instalment income is in line with the reduction in own brand gross written premium.

Investment return

	Note	H1 2019 £m	H1 2018 £m
Investment income		**75.4**	79.6
Hedging to a sterling floating rate basis		**(12.1)**	(14.7)
Net investment income		**63.3**	64.9
Net realised and unrealised gains excluding hedging		**12.4**	30.5
Total investment return	6	**75.7**	95.4

Investment yields

	H1 2019	H1 2018
Investment income yield[1]	**2.5%**	2.5%
Net investment income yield[1]	**2.1%**	2.0%
Investment return yield[1]	**2.5%**	2.9%

Note:

1. See glossary on pages 42 and 43 for definitions and appendix A – Alternative performance measures on pages 44 and 45 for reconciliation to financial statement line items.

Total investment return decreased by £19.7 million to £75.7 million (H1 2018: £95.4 million). This was due to a reduction in investment income, primarily as a result of lower assets under management, and a reduction in realised and unrealised gains excluding hedging, which was predominantly driven by lower fair value adjustments in investment property (H1 2019: £0.8 million reduction, H1 2018: £12.1 million increase) and a net decrease in debt security disposals year-on-year of £5.2 million.

The annualised investment income yield for H1 2019 remained stable at 2.5% (H1 2018: 2.5%). The net investment income yield was higher at 2.1% (H1 2018: 2.0%) as a result of decreased hedging costs.

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

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

Investment holdings

At	30 Jun 2019 £m	31 Dec 2018 £m
Investment-grade credit[1]	3,459.8	3,606.6
High yield	420.5	393.9
Investment-grade private placements	104.1	101.0
Credit	3,984.4	4,101.5
Sovereign	144.9	156.9
Total debt securities	4,129.3	4,258.4
Infrastructure debt	283.9	289.6
Commercial real estate loans	181.3	201.6
Cash and cash equivalents[2]	1,083.2	1,092.4
Investment property	321.4	322.1
Total investment holdings	5,999.1	6,164.1

Notes:

1. Asset allocation at 30 June 2019 includes investment portfolio derivatives, which have a mark-to-market liability value of £63.1 million in investment grade credit (31 December 2018 mark-to-market asset value of £11.8 million). This excludes non-investment derivatives that have been used to hedge interest on subordinated debt and operational cash flows.
2. Net of bank overdrafts: includes cash at bank and in hand and money market funds with no notice period for withdrawal.

At 30 June 2019, total investment holdings of £5,999.1 million were 2.7% lower than at the start of the year primarily reflecting the cash paid in 2019 for dividends (£305.5 million) offset by an increase in the fair value of debt securities (£77.2 million gross of tax). Total debt securities were £4,129.3 million (31 December 2018: £4,258.4 million), of which 3.3% were rated as 'AAA' and a further 57.6% were rated as 'AA' or 'A'. The average duration at 30 June 2019 of total debt securities was 2.6 years (31 December 2018: 2.5 years).

At 30 June 2019, total unrealised gains, net of tax, on available-for-sale investments were £27.3 million (31 December 2018: £36.8 million unrealised loss).

Reconciliation of operating profit

	Note	H1 2019 £m	H1 2018[1] £m Restated
Motor	4	153.8	239.5
Home	4	71.1	21.5
Rescue and other personal lines	4	17.5	15.2
Commercial	4	31.9	29.3
Operating profit	4	274.3	305.5
Finance costs	4	(13.0)	(12.7)
Profit before tax	4	261.3	292.8
Tax		(49.5)	(54.8)
Profit after tax		211.8	238.0

Note:

1. Results for the period ended 30 June 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 24 in the condensed consolidated financial statements.

Operating profit by segment

All divisions contributed strongly to profit in H1 2019, demonstrating the diversity of the Group's multi-product, multi-brand and multi-channel portfolio.

Finance costs

Finance costs increased to £13.0 million (H1 2018: £12.7 million) following a reduction in realised gains on the interest rate swap derivatives held for the purpose of hedging the Group's subordinated debt and the introduction of IFRS 16.

Effective corporation tax rate

The effective tax rate for H1 2019 was 18.9% (H1 2018: 18.7%), which was lower than the standard UK corporation tax rate of 19.0% (H1 2018: 19.0%), driven primarily by tax relief for the Tier 1 coupon payments partially offset by disallowable expenses.

Earnings per share

Basic earnings per share reduced by 11.3% to 14.9 pence (H1 2018[1]: 16.8 pence). Diluted earnings per share reduced by 11.4% to 14.7 pence (H1 2018[1]: 16.6 pence) mainly reflecting a decrease in profit after tax.

Note:

1. Results for the period ended 30 June 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 24 in the condensed consolidated financial statements.

Net asset value

At	Note	30 Jun 2019 £m	31 Dec 2018[1] £m Restated
Net assets[2]	15	2,530.3	2,558.2
Goodwill and other intangible assets	15	(629.3)	(566.8)
Tangible net assets	15	1,901.0	1,991.4
Closing number of Ordinary Shares (millions)	15	1,366.9	1,364.6
Net asset value per share (pence)	15	185.1	187.5
Tangible net asset value per share (pence)	15	139.1	145.9

Notes:

1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 24 in the condensed consolidated financial statements.
2. See glossary on pages 42 and 43 for definitions and appendix A – Alternative performance measures on pages 44 and 45 for reconciliation to financial statement line items.

The net assets at 30 June 2019 decreased to £2,530.3 million (31 December 2018: £2,558.2 million) and tangible net assets decreased to £1,901.0 million (31 December 2018: £1,991.4 million). These decreases mainly reflected the payment of the 2018 final and special dividends and an increase in expenditure on intangible assets as the Group continued to invest in the business, partially offset by the 2019 retained profit and an increase in the available-for-sale reserves, due to tightening of credit spreads.

Balance sheet management

Capital management and dividend 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 requirement ("**SCR**") would be appropriate and it will therefore take this into account when considering the potential for special distributions.

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

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

The Board has declared an interim dividend of 7.2 pence per share (H1 2018: 7.0 pence), an increase of 0.2 pence per share (2.9%), in line with business growth. This reflects the Board's continued confidence in the Group's earnings and the progress the business continued to make.

After dividends, the solvency capital ratio will be 180% as at 30 June 2019.

The Board has taken into account the high level of political and economic uncertainty, including in relation to Brexit, and considers it appropriate for the time being to maintain a prudent solvency capital ratio at the upper end of the solvency capital ratio risk appetite range of 140% to 180%. The Board will keep this position under review as it monitors developments in the political and economic environment. In normal circumstances, the Board expects the Group to operate around the middle of its solvency capital ratio risk appetite range.

The interim dividend is scheduled to be paid on 6 September 2019 to shareholders on the register on 9 August 2019. The ex-dividend date will be 8 August 2019.

Capital analysis

The Group is regulated under Solvency II requirements by the PRA on both a Group basis and for the Group's principal underwriter, U K Insurance Limited. In its results, the Group has estimated its Solvency II own funds, SCR and solvency capital ratio as at 30 June 2019.

Capital position

At 30 June 2019, the Group held a Solvency II capital surplus of approximately £1.0 billion above its regulatory capital requirements which was equivalent to an estimated solvency capital ratio of 180%, post the interim dividend.

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

At	30 Jun 2019	31 Dec 2018[1] Restated
Solvency capital requirement (£ billion)	1.25	1.26
Capital surplus above solvency capital requirement (£ billion)	1.00	0.88
Solvency capital ratio post-dividend	180%	170%

Movement in capital surplus

At	30 Jun 2019 £bn	31 Dec 2018[1] £bn Restated
Capital surplus at 1 January	0.88	0.91
Capital generation excluding market movements	0.26	0.46
Market movements	0.04	(0.06)
Capital generation	0.30	0.40
Change in solvency capital requirement	0.01	0.13
Surplus generation	0.31	0.53
Capital expenditure	(0.09)	(0.15)
Capital distribution – ordinary dividends[2]	(0.10)	(0.30)
Capital distribution – special dividends[2]	–	(0.11)
Net surplus movement	0.12	(0.03)
Capital surplus at 30 June 2019 / 31 December 2018	1.00	0.88

Notes:

1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 24 in the condensed consolidated financial statements.
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 2019, the Group's own funds increased from £2.14 billion to £2.25 billion. The Group generated £0.30 billion of Solvency II capital and narrowing credit spreads benefitted own funds by £0.04 billion. This was offset by £0.09 billion of capital expenditure and a capital distribution of £0.10 billion for the 2019 interim dividend. The capital expenditure reflects the significant investment the Group is making in building future capability including the development of new core personal lines IT systems. In 2019, the level of expenditure is expected to be approximately £175 million, reducing to less than £150 million in 2020. Thereafter, expenditure levels are expected to reduce further.

Change in solvency capital requirement

	2019 £bn
Solvency capital requirement at 1 January	1.26
Model and parameter changes	–
Exposure changes	(0.01)
Solvency capital requirement at 30 June	1.25

The Group's SCR has reduced marginally to £1.25 billion since 31 December 2018 as a result of exposure changes primarily in relation to assets under management.

Scenario and sensitivity analysis

The following table shows the impact on the Group's estimated solvency capital ratio in the event of the following scenarios as at 30 June 2019. The impact on the Group's solvency capital ratio arises from movements in both the Group's solvency capital requirement and own funds.

	Impact on solvency capital ratio	
Scenario	30 Jun 2019	31 Dec 2018
Motor small bodily injury deterioration equivalent to accident years 2008 and 2009	(7pts)	(7pts)
One-off catastrophe loss equivalent to the 1990 storm	(9pts)	(8pts)
One-off catastrophe loss based on extensive flooding of the River Thames	(9pts)	(8pts)
Change in reserving basis for PPOs to use a real discount rate of minus 1%[1]	(10pts)	(10pts)
100bps increase in credit spreads[2]	(10pts)	(11pts)
100bps decrease in interest rates with no change in the PPO real discount rate	(2pts)	(1pt)

Notes:

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

Own funds

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

At	30 Jun 2019 £bn	31 Dec 2018[1] £bn Restated
Tier 1 capital before foreseeable dividends	1.63	1.75
Foreseeable dividends	(0.10)	(0.31)
Tier 1 capital – unrestricted	1.53	1.44
Tier 1 capital – restricted	0.37	0.35
Tier 1 capital	1.90	1.79
Tier 2 capital – subordinated debt	0.26	0.26
Tier 3 capital – deferred tax	0.09	0.09
Total own funds	2.25	2.14

Tier 1 capital after foreseeable dividends represents 84% of own funds and 152% 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 alone it is less than 15%. Therefore, the Group currently has no ineligible capital. The maximum amount of Restricted Tier 1 capital permitted as a proportion of total Tier 1 capital under the Solvency II regulations is 20%. Restricted Tier 1 capital relates solely to the Tier 1 notes issued in 2017.

Reconciliation of IFRS shareholders' equity to Solvency II own funds

At	30 Jun 2019 £bn	31 Dec 2018[1] £bn Restated
Total shareholders' equity	2.53	2.56
Goodwill and intangible assets	(0.63)	(0.57)
Change in valuation of technical provisions	(0.19)	(0.15)
Other asset and liability adjustments	(0.08)	(0.09)
Foreseeable dividends	(0.10)	(0.31)
Tier 1 capital – unrestricted	1.53	1.44
Tier 1 capital – restricted	0.37	0.35
Tier 1 capital	1.90	1.79
Tier 2 capital – subordinated debt	0.26	0.26
Tier 3 capital – deferred tax	0.09	0.09
Total own funds	2.25	2.14

Note:

1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 24 in the condensed consolidated financial statements.

Leverage

The Group's financial leverage increased by 0.2 percentage points, but remained conservative at 19.4% (2018: 19.2%). 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 2019 £m	31 Dec 2018[1] £m
Shareholders' equity	2,530.3	2,558.2
Tier 1 notes	346.5	346.5
Financial debt – subordinated debt	260.6	259.5
Total capital employed	3,137.4	3,164.2
Financial-leverage ratio[2]	19.4%	19.2%

Notes:

1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 24 in the condensed consolidated financial statements.
2. 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 'A1' (strong) with a stable outlook by Moody's.

Reserving

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

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

The most common method of settling bodily injury claims is by a lump sum 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 annuity factor at a discount rate normally referred to as the Ogden discount rate. The Ogden discount rate was 2.5% from 2001 until 2017 when it was changed to minus 0.75%, set with reference to index-linked Government securities. The Civil Liability Act 2018 changed this approach and instead requires the Government to reset the Ogden discount rate by reference to low risk rather than very low or zero risk investments.

The move to introduce additional asset classes into the assumed claimant portfolio pointed towards a higher rate than minus 0.75%, so at year end 2018 the Group selected an estimate of 0% to value its lump sum bodily injury reserves, with an allowance for further movements in the Ogden rate made within the Group's Solvency II balance sheet and capital requirements.

On 15 July 2019, the Lord Chancellor announced a new Ogden rate of minus 0.25% to take effect from 5 August 2019, thus concluding the Civil Liability Act 2018 Ogden process. At the half year, the Group therefore revalued all its lump sum bodily injury reserves at the half year using the new rate, resulting in a £16.9 million increase in reserves.

The Group's prior-year reserve releases were £171.6 million (H1 2018: £206.5 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 conservatively. Assuming current claims trends continue, prior-year reserve releases are expected to continue to reduce further in future years, although they are expected to remain a significant contribution to profits.

Claims reserves net of reinsurance

At	30 Jun 2019 £m	31 Dec 2018 £m
Motor	1,860.9	1,946.4
Home	291.1	323.8
Rescue and other personal lines	91.9	89.1
Commercial	522.3	541.4
Total	2,766.2	2,900.7

Sensitivity analysis – the discount rate used in relation to PPOs

The table below provides a sensitivity analysis of the potential net impact of a change in a single factor (the discount rate used for PPOs) 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[1,2]	
At	30 Jun 2019 £m	31 Dec 2018 £m
PPOs[3]		
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	51.0	50.7
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	(70.6)	(70.1)

Notes:

1. These sensitivities are net of reinsurance and exclude the impact of taxation.
2. These sensitivities reflect one-off impacts at 30 June and should not be interpreted as predictions.
3. The 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 recently announced Ogden discount rate of minus 0.25%. The PPO sensitivity has been calculated as the direct impact of the change in the real discount rate with all other factors remaining unchanged.

Regulation

We have continued to operate within a highly dynamic and evolving regulatory landscape, where there are several reviews and initiatives, including those that have been announced by the UK Government, the FCA and the PRA. During the first half of 2019, both the FCA and the PRA have been focused on Brexit preparations.

The FCA's focus has continued to be on pricing practices generally, including under its fair pricing market study. For some time we have been actively taking steps regarding pricing as well as working with the ABI and holding discussions with the FCA. We are supportive of the FCA's market study, the outcomes of which are not yet known. The FCA has also been focused on vulnerable customers, affordability as it relates to consumer credit, complaint handling and the appropriate establishment of customers' demands and needs as per the requirements under the Insurance Distribution Directive.

The PRA also continued to focus generally on the pillars of its financial risk framework, namely reserving, pricing, reinsurance and investments, and it has started to focus on operational resilience, cyber underwriting risk and the financial risks arising from climate change.

The Ministry of Justice has recently issued a statement confirming that the personal injury discount rate for England and Wales will be changed to minus 0.25%, which will be effective from 5 August 2019. The Lord Chancellor added that the potential of a dual rate for future reviews will be considered via a consultation, which the Ministry of Justice will issue in due course.

The Group remains 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.

Principal risks and uncertainties

We carefully assess the principal risks facing us. Principal risks are defined as having a residual risk impact of £40 million or more on a 1-in-200 years basis, taking into account customer, financial and reputational impacts. 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 2018 risk management section pages 46 to 47.

Principal risks
Insurance risk The risk of loss due to fluctuations in the timings, amount, frequency and severity of an insured event relative to the expectations at the time of underwriting. Insurance risk includes reserve, underwriting, distribution, pricing and reinsurance risks.
Market risk The risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. Market risk includes property, spread and net interest rate risk.
Credit risk The risk of loss resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurance and reinsurance undertakings are exposed. Credit risk includes counterparty default risk.
Operational risk The risk of loss due to inadequate or failed internal processes or systems, human error or from external events. Operational risks include cyber risk, partnerships, change, supplier management and outsourcing, operational resilience and technology and infrastructure risks.
Regulatory and conduct risk The risks leading to reputational damage, regulatory or legal censure, fines or prosecutions and other types of non-budgeted operational risk losses associated with the firm's conduct and activities. Regulatory and conduct risk includes compliance risk.
Strategic risk The risk of direct or indirect impact on the earnings, capital, or value of the business as a result of the Group's strategies not being optimally chosen, implemented or adapted to changing conditions. Strategic risk includes strategic formulation and implementation risks.

Potential effects of Brexit

The UK is scheduled to exit from the EU, ("**Brexit**"), on 31 October 2019. At the date of this report there is considerable uncertainty as to how and even whether there will be a Brexit, or at least as to when it will take effect and on what terms. Accordingly, there is corresponding uncertainty as to the effect of Brexit on the Group.

If Brexit takes place smoothly, for example involving a transition period during which work would take place at the government level to agree a future trading agreement between the UK and the EU, and accordingly without significant disruption to the UK economy and to business generally, then any adverse impact on the Group (if any) would also not be expected to be significant, at least until the end of the transition period and/or the future trading arrangements between the UK and the EU being clarified. If, however, the UK were to leave the EU in such a way as to involve or lead to significant disruption, as has been conjectured in the event of a 'hard' no deal Brexit at the end of October, then the impact on the Group could correspondingly also be disruptive and potentially material.

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

The Group has proactively considered a variety of possible implications of a disruptive 'hard' no-deal Brexit, including of a financial and operational nature; for example:

The impact on the Group's investment portfolio and in particular credit spreads related to its debt securities and therefore Group solvency: A sensitivity analysis relating to credit spreads is provided in the Group Annual Report & Accounts and in this half-year report. The Group has also considered Brexit in its Investment Committee, and further information is provided on the work of the Investment Committee in the Group Annual Report & Accounts. A disruptive Brexit could impact adversely on the Group's investments and therefore capital and the solvency capital coverage ratio and the appropriateness of paying dividends.

Procurement and supply chain: In particular as part of the Group's ability to deal with claims made under insurance policies, the Group needs to acquire a wide range of goods and services. A significant amount and spread of goods, for example such as car parts, are sourced from within the EU. The Group's ability to deal with claims in its normal ordinary course of business manner could be adversely impacted and there could be delays and extra costs.

The Group has a small amount of business in the Republic of Ireland, servicing a small Irish part of a UK partner's wider business. The Group has obtained approval in principle from the Central Bank of Ireland for the establishment of a formal third country branch in the Republic of Ireland, in order to be able to continue with this business post a 'hard' no-deal Brexit by the current deadline of 31 October 2019, should that become necessary.

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

Emerging risks

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

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

The Group considers our main emerging risks to be:

Climate change

Climate change poses a range of financial risks to the Group. These can be divided into three categories:

- Physical risks include many weather-related risks arising directly from climate change. These include changes in the frequency and severity of events, floods, storms, freeze, subsidence or wildfire. The Group's use of catastrophe reinsurance mitigates against many of the worst potential impacts and the Group regularly reassesses its use of external catastrophe models with the aim of ensuring they fully capture climate-related risk.
- Transitional risks arise from efforts to mitigate or adapt to climate change. These include the strategic and operational risks from the transition towards electric-powered vehicles. Whilst insuring electric vehicles doesn't fundamentally change the business model, the business seeks to develop the new processes, skills and technical knowledge required to keep pace with these changes in technology.
- Liability risks arise when parties, who have suffered losses from climate change, seek to recover from those they believe may have been responsible. There is some potential exposure to liability risk through commercial liability insurance. However, Pollution and Professional Indemnity covers, which carry the highest risk, are almost fully reinsured.

There are also potential physical, transition and liability risks arising through the investment portfolio. During 2018 a significant new initiative was approved to strengthen further the Group's investment strategy with regard to environmental, social and governance issues. More information can be found in the Investment Committee's report in the Group's 2018 Annual Report & Accounts.

Technological developments change consumer needs for insurance

New car technologies, such as crash-prevention aids, car sharing and driverless cars, could significantly affect the size and nature of the insurance market and the role of insurers. The Group continues to build strong collaborative relationships with key manufacturers and has established an 'In-Car Technology' programme to help manage the response to developing car technology.

Furthermore, our diverse business model allows us to seek to take advantage of changes in technology and customer behaviours, through the development of new capabilities, new partnerships, and by seeking to enable us to have the flexibility to adapt/react to these changes.

Fairness and pricing practices

The FCA is conducting a market study into Fair Pricing in Financial Services and the Competition and Markets Authority has announced plans to take forward a 'package of reforms' to address the 'loyalty penalty' for long-standing home insurance customers. The Competition and Markets Authority has concluded that it will not be conducting its own market study at this time.

The Group continues to monitor and engage with the regulatory activity on pricing practices and will closely follow developments throughout 2019.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2019

	Notes	6 months 2019 £m Unaudited	6 months 2018[1] £m Unaudited Restated	Full year 2018[1] £m Restated
Gross earned premium	5	**1,590.3**	1,665.4	3,306.7
Reinsurance premium	5	**(107.7)**	(105.8)	(217.2)
Net earned premium	5	**1,482.6**	1,559.6	3,089.5
Investment return	6	**75.7**	95.4	154.6
Instalment income		**56.3**	59.1	119.9
Other operating income	7	**31.7**	40.0	72.1
Total income		**1,646.3**	1,754.1	3,436.1
Insurance claims	8	**(845.5)**	(1,004.7)	(1,966.2)
Insurance claims (payable to) / recoverable from reinsurers	8	**(72.9)**	36.4	55.1
Net insurance claims	8	**(918.4)**	(968.3)	(1,911.1)
Commission expenses	9	**(90.6)**	(101.2)	(200.4)
Operating expenses	10	**(363.0)**	(379.1)	(718.2)
Total expenses		**(453.6)**	(480.3)	(918.6)
Operating profit		**274.3**	305.5	606.4
Finance costs	11	**(13.0)**	(12.7)	(25.9)
Profit before tax		**261.3**	292.8	580.5
Tax charge	12	**(49.5)**	(54.8)	(108.5)
Profit for the period attributable to owners of the Company		**211.8**	238.0	472.0
Earnings per share:				
Basic (pence)	14	**14.9**	16.8	33.3
Diluted (pence)	14	**14.7**	16.6	32.9

Note:

1. Results for the period ended 30 June 2018 and year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 ‘Leases’, see note 24.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	6 months 2019 £m Unaudited	6 months 2018[1] £m Unaudited Restated	Full year 2018[1] £m Restated
Profit for the period	**211.8**	238.0	472.0
Other comprehensive income			
Items that will not be reclassified subsequently to the income statement:			
Actuarial gain on defined benefit pension scheme	–	–	2.7
Tax relating to item that will not be reclassified	–	–	(0.4)
	–	–	2.3
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges	–	(0.5)	0.5
Fair value gain/(loss) on available-for-sale investments	**90.4**	(69.0)	(121.4)
Less: realised net gains on available-for sale investments included in income statement	**(13.2)**	(18.4)	(19.5)
Tax relating to items that may be reclassified	**(13.1)**	14.9	23.9
	64.1	(73.0)	(116.5)
Other comprehensive profit/(loss) for the period net of tax	**64.1**	(73.0)	(114.2)
Total comprehensive income for the period attributable to owners of the Company	**275.9**	165.0	357.8

Note:

1. Results for the period ended ended 30 June 2018 and year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 24.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2019

	Notes	30 Jun 2019 £m Unaudited	31 Dec 2018[1] £m Restated
Assets			
Goodwill and other intangible assets		629.3	566.8
Property, plant and equipment		298.0	309.6
Investment property		321.4	322.1
Reinsurance assets	16	1,101.2	1,208.7
Deferred acquisition costs		175.9	170.4
Insurance and other receivables		928.3	875.9
Prepayments, accrued income and other assets		118.6	124.5
Derivative financial instruments		43.5	48.2
Retirement benefit asset		17.0	17.0
Financial investments	17	4,657.6	4,737.8
Cash and cash equivalents	18	1,139.6	1,154.4
Total assets		9,430.4	9,535.4
Equity			
Shareholders' equity		2,530.3	2,558.2
Tier 1 notes	19	346.5	346.5
Total equity		2,876.8	2,904.7
Liabilities			
Subordinated liabilities	20	260.6	259.5
Insurance liabilities	21	3,784.6	4,005.9
Unearned premium reserve		1,490.3	1,505.5
Borrowings	18	56.4	62.0
Derivative financial instruments		95.0	25.9
Lease liabilities		162.8	167.3
Trade and other payables, including insurance payables		645.9	554.1
Deferred tax liabilities		15.7	4.5
Current tax liabilities		42.3	46.0
Total liabilities		6,553.6	6,630.7
Total equity and liabilities		9,430.4	9,535.4

Note:

1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 24.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Share capital £m	Employee trust shares £m	Capital reserves £m	Available for sale revaluation reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Shareholders' equity £m	Tier 1 notes (note 19) £m	Total equity £m
Balance at 1 January 2018 (audited)	150.0	(34.1)	1,450.0	80.2	0.3	1,068.7	2,715.1	346.5	3,061.6
First application of IFRS 16[1]	–	–	–	–	–	(13.2)	(13.2)	–	(13.2)
Balance at 1 January 2018 (restated)	150.0	(34.1)	1,450.0	80.2	0.3	1,055.5	2,701.9	346.5	3,048.4
Profit for the year	–	–	–	–	–	472.0	472.0	–	472.0
Other comprehensive loss	–	–	–	(117.0)	0.5	2.3	(114.2)	–	(114.2)
Dividends and appropriations paid (note 13)	–	–	–	–	–	(503.8)	(503.8)	–	(503.8)
Shares acquired by employee trusts	–	(19.5)	–	–	–	–	(19.5)	–	(19.5)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	21.0	21.0	–	21.0
Shares distributed by employee trusts	–	18.4	–	–	–	(18.4)	–	–	–
Tax on share-based payments	–	–	–	–	–	0.8	0.8	–	0.8
Balance at 31 December 2018 (restated)	150.0	(35.2)	1,450.0	(36.8)	0.8	1,029.4	2,558.2	346.5	2,904.7
Profit for the year	–	–	–	–	–	**211.8**	**211.8**	–	**211.8**
Other comprehensive profit	–	–	–	**64.1**	–	–	**64.1**	–	**64.1**
Dividends and appropriations paid (note 13)	–	–	–	–	–	**(313.8)**	**(313.8)**	–	**(313.8)**
Shares acquired by employee trusts	–	**(0.5)**	–	–	–	–	**(0.5)**	–	**(0.5)**
Credit to equity for equity-settled share-based payments	–	–	–	–	–	**10.0**	**10.0**	–	**10.0**
Shares distributed by employee trusts	–	**11.6**	–	–	–	**(11.6)**	–	–	–
Tax on share-based payments	–	–	–	–	–	**0.5**	**0.5**	–	**0.5**
Balance at 30 June 2019 (unaudited)	**150.0**	**(24.1)**	**1,450.0**	**27.3**	**0.8**	**926.3**	**2,530.3**	**346.5**	**2,876.8**

	Share capital £m	Employee trust shares £m	Capital reserves £m	Available for sale revaluation reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Shareholders' equity £m	Tier 1 notes (note 19) £m	Total equity £m
Balance at 1 January 2018 (restated)	150.0	(34.1)	1,450.0	80.2	0.3	1,055.5	2,701.9	346.5	3,048.4
Profit for the year	–	–	–	–	–	238.0	238.0	–	238.0
Other comprehensive loss	–	–	–	(72.5)	(0.5)	–	(73.0)	–	(73.0)
Dividends and appropriations paid (note 13)	–	–	–	–	–	(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 (unaudited)(restated)	150.0	(31.6)	1,450.0	7.7	(0.2)	892.2	2,468.1	346.5	2,814.6

Note:

1. Results for the period ended 30 June 2018 and year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 24.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019

	Notes	6 months 2019 £m Unaudited	6 months 2018[1] £m Unaudited Restated	Full year 2018[1] £m Restated
Net cash generated from / (used in) operating activities before investment of insurance assets		**50.4**	(17.3)	23.5
Cash generated from investment of insurance assets		**364.4**	125.6	468.1
Net cash generated from operating activities		**414.8**	108.3	491.6
Cash flows used in investing activities				
Purchases of property, plant and equipment		**(6.4)**	(6.1)	(13.3)
Purchases of goodwill and other intangible assets		**(83.7)**	(53.4)	(142.4)
Proceeds on disposals of assets held for sale		**–**	13.8	13.8
Proceeds on disposal of property, plant and equipment		**0.2**	–	0.1
Net cash used in investing activities		**(89.9)**	(45.7)	(141.8)
Cash flows used in financing activities				
Dividends and appropriations paid	13	**(313.8)**	(399.7)	(503.8)
Finance costs		**(13.2)**	(12.8)	(26.1)
Principal elements of lease payments		**(6.6)**	(6.1)	(12.5)
Purchase of employee trust shares		**(0.5)**	(11.3)	(19.5)
Net cash used in financing activities		**(334.1)**	(429.9)	(561.9)
Net decrease in cash and cash equivalents		**(9.2)**	(367.3)	(212.1)
Cash and cash equivalents at the beginning of the year	18	**1,092.4**	1,304.5	1,304.5
Cash and cash equivalents at the end of the period	18	**1,083.2**	937.2	1,092.4

Note:

1. Results for the period ended 30 June 2018 and year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 24.

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 2018 and included in the condensed consolidated financial statements does not constitute statutory accounts as defined in S.434 of the Companies Act 2006, but has been abridged from the statutory accounts for that year which have been delivered to the Registrar of Companies. The independent auditor's report on the Group accounts for the year ended 31 December 2018 is unqualified, does not draw attention to any matters by way of emphasis and does not include a statement under S.498(2) or (3) of the Companies Act 2006.

2. Accounting polices

Basis of preparation

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

Adoption of IFRS 16 'Leases'

The Group has adopted IFRS 16 'Leases' for the first time in 2019. IFRS 16 replaces IAS 17 'Leases' and sets out the principles for recognition, measurement and disclosure of lease arrangements entered into by the Group. For all contractual arrangements where the Group is a lessee, it is required to account for these leases under a single on-balance sheet model with exemptions available for low value and short-term leases. The Group recognises a lease liability measured at the present value of future lease payments from the commencement of all lease arrangements which were previously classified as 'operating leases' under IAS 17. These lease payments have been discounted using the lessees' incremental borrowing rate at the commencement of the lease. A corresponding right-of-use asset is recognised within property, plant & equipment. Lease payments are allocated between the liability and finance cost, and the right-of-use asset is depreciated on a straight-line basis over the lease term.

IFRS 16 has been adopted on a fully retrospective basis and therefore, in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and errors', prior periods have been restated. The opening equity and prior period impact of IFRS 16 on the primary financial statements are presented in note 24 to 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 2019. 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 condensed consolidated financial statements.

Accounting policies and developments

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

The Group has applied the following accounting policy for first the time during 2019:

Leases

At inception, the Group assesses whether a contract contains a lease arrangement which involves assessing whether it obtains substantially all the economic benefits from the use of a specific asset, and it has the right to direct the use of that asset. The Group recognises a right-of-use asset and a lease liability at the commencement of the lease (when the underlying asset is available for use), except for short-term leases of 12 months or less and low value leases which are expensed on a straight-line basis in the income statement. The right-of-use asset is initially measured based on the present value of the lease payments, plus initial direct costs less any incentives received. Lease payments include fixed payments and variable payments. Variable payments relate to contractual rent increases linked to inflation indices. The right-of-use asset is depreciated over the lease term and is subject to impairment testing if there is an indicator of impairment. When leases contain an extension or purchase option which is reasonably expected to be exercised this is included in the cost of the lease.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date unless the interest rate implicit in the lease is readily determinable. The incremental borrowing rate is determined based on available risk-free market yield to maturity pricing linked to the lease amount and term, and includes a credit spread. The lease liability is subsequently measured at amortised cost using the effective interest rate method and remeasured, with a corresponding adjustment to the right-of-use asset when there is a change in future lease payments, terms or reassessment of options.

The Group's leasehold property mainly relates to office space and vehicle repair centres. Leases in respect of motor vehicles relate to recovery and replacement vehicles, and management cars. The Group also leases certain IT equipment which is not a significant portion of the total leased asset portfolio.

3. Critical accounting judgements and key sources of estimation uncertainty

Full details of critical accounting judgements and key sources of estimation uncertainty used in applying the Group's accounting policies are outlined on pages 144 to 145 of the Annual Reports & Accounts 2018. There have been no significant changes to the principles or assumptions of these critical accounting judgements and key sources of estimation uncertainty during the six months to 30 June 2019.

4. Segmental analysis

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

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

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

4. Segmental analysis continued

The table below analyses the Group's revenue and results by reportable segment for the period ended 30 June 2018[1] (restated).

	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	(495.9)	(230.1)	(144.6)	(134.1)	(1,004.7)
Insurance claims recoverable from / (payable to) reinsurers	32.6	0.7	(0.1)	3.2	36.4
Net insurance claims	(463.3)	(229.4)	(144.7)	(130.9)	(968.3)
Commission expenses	(13.6)	(38.1)	(8.7)	(40.8)	(101.2)
Operating expenses	(185.6)	(88.8)	(48.3)	(56.4)	(379.1)
Total expenses	(199.2)	(126.9)	(57.0)	(97.2)	(480.3)
Operating profit	239.5	21.5	15.2	29.3	305.5
Finance costs					(12.7)
Profit before tax					292.8

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total Group £m
Underwriting profit / (loss)	103.3	(1.7)	3.8	5.6	111.0
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	24.2%	25.0%	23.5%	24.1%	24.3%
Combined operating ratio	86.5%	100.4%	98.1%	97.6%	92.9%

Note:

1. Results for the period ended 30 June 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 24.

4. Segmental analysis continued

The table below analyses the Group's revenue and results by reportable segment for the year ended 31 December 2018[1] (restated).

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total Group £m
Gross written premium	1,671.2	606.9	422.8	511.0	3,211.9
Gross earned premium	1,684.3	698.0	416.6	507.8	3,306.7
Reinsurance premium	(142.5)	(30.2)	(1.9)	(42.6)	(217.2)
Net earned premium	1,541.8	667.8	414.7	465.2	3,089.5
Investment return	105.9	15.9	5.2	27.6	154.6
Instalment income	89.2	21.9	2.5	6.3	119.9
Other operating income	48.3	2.7	15.8	5.3	72.1
Total income	1,785.2	708.3	438.2	504.4	3,436.1
Insurance claims	(1,026.0)	(421.0)	(277.1)	(242.1)	(1,966.2)
Insurance claims recoverable from / (payable to) reinsurers	46.7	7.7	(0.1)	0.8	55.1
Net insurance claims	(979.3)	(413.3)	(277.2)	(241.3)	(1,911.1)
Commission expenses	(30.9)	(62.6)	(19.0)	(87.9)	(200.4)
Operating expenses	(356.9)	(148.5)	(98.0)	(114.8)	(718.2)
Total expenses	(387.8)	(211.1)	(117.0)	(202.7)	(918.6)
Operating profit	418.1	83.9	44.0	60.4	606.4
Finance costs					(25.9)
Profit before tax					580.5

	Motor	Home	Rescue and other personal lines	Commercial	Total Group
Underwriting profit	174.7	43.4	20.5	21.2	259.8
Loss ratio	63.5%	61.9%	66.8%	51.8%	61.9%
Commission ratio	2.0%	9.4%	4.6%	18.9%	6.5%
Expense ratio	23.1%	22.2%	23.6%	24.7%	23.2%
Combined operating ratio	88.6%	93.5%	95.0%	95.4%	91.6%

Note:

1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 24.

5. Net earned premium

	6 months 2019 £m	6 months 2018 £m	Full year 2018 £m (audited)
Gross earned premium:			
Gross written premium	1,575.1	1,610.3	3,211.9
Movement in unearned premium reserve	15.2	55.1	94.8
	1,590.3	1,665.4	3,306.7
Reinsurance premium:			
Premium payable	(87.0)	(93.1)	(223.5)
Movement in reinsurance unearned premium reserve	(20.7)	(12.7)	6.3
	(107.7)	(105.8)	(217.2)
Total	1,482.6	1,559.6	3,089.5

6. Investment return

	6 months 2019 £m	6 months 2018 £m	Full year 2018 £m (audited)
Investment income:			
Interest income from debt securities	55.5	62.7	124.0
Interest income from cash and cash equivalents	4.8	3.0	6.2
Interest income from infrastructure debt	3.6	3.3	6.9
Interest income from commercial real estate loans	3.3	2.7	6.2
Interest income	67.2	71.7	143.3
Rental income from investment property	8.2	7.9	15.9
	75.4	79.6	159.2
Net realised gains / (losses):			
Available for sale debt securities	13.2	18.4	19.5
Derivatives	46.3	23.7	(32.2)
	59.5	42.1	(12.7)
Net unrealised (losses) / gains:			
Impairment of loans and receivables	–	–	(6.0)
Derivatives	(58.4)	(38.4)	1.4
Investment property	(0.8)	12.1	12.7
	(59.2)	(26.3)	8.1
Total	75.7	95.4	154.6

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

	Realised	Unrealised	Realised	Unrealised
	6 months 2019 £m	6 months 2019 £m	6 months 2018 £m	6 months 2018 £m
Derivative gains / (losses):				
Foreign exchange forward contracts[1]	15.7	(33.0)	(3.6)	(58.7)
Associated foreign exchange risk	32.7	(30.6)	36.2	11.3
Net gains / (losses) on foreign exchange forward contracts	48.4	(63.6)	32.6	(47.4)
Interest rate swaps[1]	(7.7)	(41.9)	6.3	32.3
Associated interest rate risk on hedged items	5.6	47.1	(15.2)	(23.3)
Net (losses) / gains on interest rate derivatives	(2.1)	5.2	(8.9)	9.0
Total	46.3	(58.4)	23.7	(38.4)

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

6. Investment return continued

	Realised Full year 2018 £m (audited)	Unrealised Full year 2018 £m (audited)
Derivative losses:		
Foreign exchange forward contracts[1]	(102.6)	(41.3)
Associated foreign exchange risk	72.6	41.3
Net losses on foreign exchange forward contracts	(30.0)	–
Interest rate swaps[1]	22.1	(1.8)
Associated interest rate risk on hedged items	(24.3)	3.2
Net (losses) / gains on interest rate derivatives	(2.2)	1.4
Total	(32.2)	1.4

Note:

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

7. Other operating income

	6 months 2019 £m	6 months 2018 £m	Full year 2018 £m (audited)
Vehicle replacement referral income	**9.0**	8.4	17.2
Revenue from vehicle recovery and repair services	**6.2**	5.8	11.7
Legal services income	**5.3**	5.8	11.2
Other income[1,2]	**11.2**	20.0	32.0
Total	**31.7**	40.0	72.1

Notes:

1. Other income includes salvage income and fee income from insurance intermediary services.
2. In 2018 other income included a £9.6 million gain on the sale of an own property.

8. Net insurance claims

	Gross 6 months 2019 £m	**Reinsurance 6 months 2019 £m**	**Net 6 months 2019 £m**	Gross 6 months 2018[1] £m (restated)	Reinsurance 6 months 2018 £m	Net 6 months 2018[1] £m (restated)
Current accident year claims paid	**479.9**	**–**	**479.9**	503.5	(0.1)	503.4
Prior accident year claims paid	**586.9**	**(13.9)**	**573.0**	574.9	(10.9)	564.0
(Decrease) / increase in insurance liabilities	**(221.3)**	**86.8**	**(134.5)**	(73.7)	(25.4)	(99.1)
Total	**845.5**	**72.9**	**918.4**	1,004.7	(36.4)	968.3

	Gross Full year 2018[1] £m (restated)	Reinsurance Full year 2018 £m (audited)	Net Full year 2018[1] £m (restated)
Current accident year claims paid	1,307.8	(0.2)	1,307.6
Prior accident year claims paid	878.2	(30.9)	847.3
Decrease in insurance liabilities	(219.8)	(24.0)	(243.8)
Total	1,966.2	(55.1)	1,911.1

Claims handling expenses[2] for the period ended 30 June 2019 of £100.1 million (30 June 2018[1]: £90.8 million, 31 December 2018[1]: £192.2 million) have been included in the claims figures above.

Notes:

1. Results for the period ended 30 June 2018 and year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 24.
2. Includes costs in respect of low value leases of £0.1 million (30 June 2018: £0.1 million, 31 December 2018 £0.3 million).

9. Commission expenses

	6 months 2019 £m	6 months 2018 £m	Full year 2018 £m (audited)
Commission expenses	82.3	97.7	188.5
Expenses incurred under profit participations	8.3	3.5	11.9
Total	**90.6**	101.2	200.4

10. Operating expenses

	6 months 2019 £m	6 months 2018[1] £m (restated)	Full year 2018[1] £m (restated)
Staff costs[2]	134.1	137.0	269.9
Other operating expenses[2,3]	128.4	128.7	235.2
Marketing	59.3	65.9	121.2
Amortisation and impairment of other intangible assets	21.2	24.4	46.7
Depreciation[4]	20.0	23.1	45.2
Total	**363.0**	379.1	718.2

Notes:

1. Results for the period ended 30 June 2018 and year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 24.
2. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
3. Other operating expenses include information technology costs, insurance levies, professional fees and property costs.
4. Includes depreciation on right of use assets of £7.4 million (30 June 2018: £6.9 million, 31 December 2018: £14.1 million).

11. Finance costs

	6 months 2019 £m	6 months 2018[1] £m (restated)	Full year 2018[1] £m (restated)
Interest expense on subordinated liabilities	11.5	11.5	23.1
Net interest received on designated hedging instrument	(1.7)	(2.2)	(3.8)
Unrealised (gains) / losses on designated hedging instrument	(1.4)	3.7	5.0
Unrealised losses / (gains) on associated interest rate risk on hedged item	1.0	(3.9)	(5.6)
Amortisation of arrangement costs and discount on issue of subordinated liabilities	0.2	0.2	0.4
Interest expense on lease liabilities	3.4	3.4	6.8
Total	**13.0**	12.7	25.9

Note:

1. Results for the period ended 30 June 2018 and year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 24.

12. Tax charge

	6 months 2019 £m	6 months 2018[1] £m (restated)	Full year 2018[1] £m (restated)
Current taxation:			
Credit for the period	**51.9**	56.9	114.4
Over provision in respect of the prior period	**(0.3)**	(2.8)	(4.8)
	51.6	54.1	109.6
Deferred taxation:			
Credit for the period	**(1.9)**	(2.3)	(4.6)
(Over) / under provision in respect of the prior period	**(0.2)**	3.0	3.5
	(2.1)	0.7	(1.1)
Current taxation	**51.6**	54.1	109.6
Deferred taxation	**(2.1)**	0.7	(1.1)
Tax charge for the period	**49.5**	54.8	108.5

Note:

1. Results for the period ended 30 June 2018 and year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 24.

13. Dividends and appropriations

	6 months 2019 £m	6 months 2018 £m	Full year 2018 £m (audited)
Amounts recognised as distributions to equity holders in the period:			
2018 final dividend of 14.0 pence per share paid on 16 May 2019	**191.8**	–	–
2017 final dividend of 13.6 pence per share paid on 17 May 2018	**–**	186.1	186.1
2018 interim dividend of 7.0 pence per share paid on 7 September 2018	**–**	–	95.8
2018 special dividend of 8.3 pence per share paid on 16 May 2019	**113.7**	–	–
2017 special dividend of 15.0 pence per share paid on 17 May 2018	**–**	205.3	205.3
Coupon payments in respect of Tier 1 notes[1]	**8.3**	8.3	16.6
	313.8	399.7	503.8

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 the Long-Term Incentive Plan, Deferred Annual Incentive Plan and Restrictive Share Plan awards, which reduced the total dividends paid for the period ended 30 June 2019 by £1.1 million (period ended 30 June 2018: £1.8 million).

14. Earnings per share

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

Basic

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

	6 months 2019 £m	6 months 2018[1] £m (restated)	Full year 2018[1] £m (restated)
Earnings attributable to the owners of the Company	211.8	238.0	472.0
Coupon payments in respect of Tier 1 notes	(8.3)	(8.3)	(16.6)
Profit for the calculation of earnings per share	203.5	229.7	455.4
Weighted average number of Ordinary Shares (millions)	1,366.5	1,366.5	1,366.5
Basic earnings per share (pence)	14.9	16.8	33.3

Diluted

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

	6 months 2019 £m	6 months 2018[1] £m (restated)	Full year 2018[1] £m (restated)
Earnings attributable to the owners of the Company	211.8	238.0	472.0
Coupon payments in respect of Tier 1 notes	(8.3)	(8.3)	(16.6)
Profit for the calculation of earnings per share	203.5	229.7	455.4
Weighted average number of Ordinary Shares (millions)	1,366.5	1,366.5	1,366.5
Effect of dilutive potential of share options and contingently issuable shares (millions)	14.4	14.5	15.8
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	1,380.9	1,381.0	1,382.3
Diluted earnings per share (pence)	14.7	16.6	32.9

Note:

1. Results for the period ended 30 June 2018 and year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 24.

15. Net assets per share and return on equity

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

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

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

	30 Jun 2019 £m	Full year 2018[1] £m (restated)
Net assets	2,530.3	2,558.2
Goodwill and other intangible assets[2]	(629.3)	(566.8)
Tangible net assets	1,901.0	1,991.4
Number of Ordinary Shares (millions)	1,375.0	1,375.0
Shares held by employee share trusts (millions)	(8.1)	(10.4)
Closing number of Ordinary Shares (millions)	1,366.9	1,364.6
Net asset value per share (pence)	185.1	187.5
Tangible net asset value per share (pence)	139.1	145.9

Notes:

1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 24.
2. Goodwill has arisen on acquisition by the Group of subsidiary companies and on acquisition of new accident repair centres. 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 2019 £m	6-months 2018[1] £m (restated)	Full year 2018[1] £m (restated)
Earnings attributable to the owners of the Company	211.8	238.0	472.0
Coupon payments in respect of Tier 1 notes	(8.3)	(8.3)	(16.6)
Profit for the calculation of return on equity	203.5	229.7	455.4
Annualised profit for the calculation of return on equity[2]	407.0	459.4	455.4
Opening shareholders' equity	2,558.2	2,701.9	2,701.9
Closing shareholders' equity	2,530.3	2,468.1	2,558.2
Average shareholders' equity	2,544.3	2,585.0	2,630.1
Return on equity for period	8.0%	8.9%	17.3%
Return on equity annualised	16.0%	17.8%	17.3%

Notes:

1. Results for the period ended 30 June 2018 and the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 24.
2. Profit has been annualised using the profit for the period ended 30 June 2019 (2018: period ended 30 June 2018).

16. Reinsurance assets

	Note	30 Jun 2019 £m	Full year 2018 £m (audited)
Reinsurers' share of general insurance liabilities		1,076.7	1,159.9
Impairment provision[1]		(58.3)	(54.7)
Total excluding reinsurers unearned premium reserves	21	1,018.4	1,105.2
Reinsurers' unearned premium reserve		82.8	103.5
Total		1,101.2	1,208.7

Note:

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

17. Financial investments

	30 Jun 2019 £m	Full year 2018 £m (audited)
Available-for-sale debt securities		
Corporate	3,890.0	3,916.0
Supranational	23.6	43.2
Local government	29.8	29.5
Sovereign	144.9	156.9
Total	4,088.3	4,145.6
Held-to-maturity debt securities		
Corporate	104.1	101.0
Total debt securities	4,192.4	4,246.6
Total debt securities		
Fixed interest rate[1]	4,160.7	4,211.1
Floating interest rate	31.7	35.5
Total	4,192.4	4,246.6
Loans and receivables		
Infrastructure debt	283.9	289.6
Commercial real estate loans	181.3	201.6
Total	4,657.6	4,737.8

Note:

1. The Group swaps a fixed interest rate for a floating rate of interest on a portion of its US Dollar and Euro debt securities by entering into interest rate derivatives. The hedged amount at 30 June 2019 was £1,017.9 million (31 December 2018: £1,206.1 million).

18. Cash and cash equivalents and borrowings

	30 Jun 2019 £m	Full year 2018 £m (audited)
Cash at bank and in hand	273.0	157.4
Short-term deposits with credit institutions[1]	866.6	997.0
Cash and cash equivalents	1,139.6	1,154.4
Bank overdrafts[2]	(56.4)	(62.0)
Cash and bank overdrafts[3]	1,083.2	1,092.4

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 condensed consolidated cash flow statement.

The effective interest rate on short-term deposits with credit institutions for the period ended 30 June 2019 was 0.4% (31 December 2018: 0.5%) and average maturity at 30 June 2019 was 10 days (31 December 2018: 10 days).

19. Tier 1 notes

	30 Jun 2019 £m	Full year 2018 £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 2019 £m	Full year 2018 £m (audited)
Subordinated guaranteed dated notes	260.6	259.5

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 3-month LIBOR plus a spread of 706 basis points which was credit value adjusted to 707 basis points with effect from 29 July 2013.

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

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

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

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

21. Insurance liabilities

Movements in gross and net insurance liabilities

	Gross £m	Reinsurance £m	Net £m
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 1 January 2018 (audited)	4,225.7	(1,081.2)	3,144.5
Cash paid for claims settled in the year[1] (restated)	(2,186.0)	31.1	(2,154.9)
Increase / (decrease) in liabilities:			
Arising from current-year claims[1] (restated)	2,489.7	(174.2)	2,315.5
Arising from prior-year claims	(523.5)	119.1	(404.4)
At 31 December 2018	4,005.9	(1,105.2)	2,900.7
Claims reported	3,001.0	(809.8)	2,191.2
Incurred but not reported	924.9	(295.4)	629.5
Claims handling provision	80.0	–	80.0
At 31 December 2018	4,005.9	(1,105.2)	2,900.7
Cash paid for claims settled in the year	**(1,066.8)**	**13.9**	**(1,052.9)**
Increase / (decrease) in liabilities:			
Arising from current-year claims	**1,158.7**	**(68.7)**	**1090.0**
Arising from prior-year claims	**(313.2)**	**141.6**	**(171.6)**
At 30 June 2019	**3,784.6**	**(1,018.4)**	**2,766.2**
Claims reported	**2,913.6**	**(803.5)**	**2,110.1**
Incurred but not reported	**791.0**	**(214.9)**	**576.1**
Claims handling provision	**80.0**	**–**	**80.0**
At 30 June 2019	**3,784.6**	**(1,018.4)**	**2,766.2**

Notes:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 24.
2. Included within the incurred but not reported claims provision is a £30 million net release (gross: £103 million release) relating to the change in the Ogden discount rate from -0.75% to -0.25% which has not yet been reflected in claims reported (31 December 2018: £55 million net provision decrease; £175 million gross provision decrease for an assumed change in the Ogden discount rate from minus 0.75% to 0%).

Movement in prior-year net insurance liabilities by operating segment

	6 months 2019 £m	6 months 2018 £m	Full year 2018 £m (audited)
Motor	**(106.1)**	(137.7)	(276.3)
Home	**(20.7)**	(24.7)	(32.6)
Rescue and other personal lines	**(5.3)**	(5.7)	(16.1)
Commercial	**(39.5)**	(38.4)	(79.4)
Total	**(171.6)**	(206.5)	(404.4)

22. Fair Value

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

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

– Level 1 financial assets are measured in whole or in part by reference to published quotes in an active market. In an active market quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

– Level 2 financial assets and liabilities are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. These are assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, or financial assets with fair values based on broker quotes or assets that are valued using the Group's own models whereby the majority of assumptions are market-observable.

22. Fair value continued

- Level 3 fair value measurements used for investment properties, held-to-maturity 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 180 of the Annual Report & Accounts 2018.

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

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

At 30 June 2019	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	43.5	–	43.5	–	43.5
Available-for-sale debt securities (note 17)	4,088.3	144.9	3,943.4	–	4,088.3
Other financial assets:					
Held-to-maturity debt securities (note 17)	104.1	–	14.2	93.1	107.3
Infrastructure debt (note 17)	283.9	–	–	286.7	286.7
Commercial real estate loans (note 17)	181.3	–	–	180.6	180.6
Total assets	5,022.5	144.9	4,001.1	881.8	5,027.8
Liabilities held at fair value:					
Derivative liabilities	95.0	–	95.0	–	95.0
Other financial liabilities:					
Subordinated liabilities	260.6	–	300.9	–	300.9
Total liabilities	355.6	–	395.9	–	395.9

At 31 December 2018 (audited)	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m
Assets held at fair value:					
Investment property	322.1	–	–	322.1	322.1
Derivative assets	48.2	–	48.2	–	48.2
Available-for-sale debt securities (note 17)	4,145.6	156.9	3,988.7	–	4,145.6
Other financial assets:					
Held-to-maturity debt securities (note 17)	101.0	–	13.9	87.4	101.3
Infrastructure debt (note 17)	289.6	–	–	286.3	286.3
Commercial real estate loans (note 17)	201.6	–	–	201.6	201.6
Total assets	5,108.1	156.9	4,050.8	897.4	5,105.1
Liabilities held at fair value:					
Derivative liabilities	25.9	–	25.9	–	25.9
Other financial liabilities:					
Subordinated liabilities	259.5	–	297.8	–	297.8
Total liabilities	285.4	–	323.7	–	323.7

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

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

The movements in assets held at fair value and classified as level 3 in the fair value hierarchy are within investment property. 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 2018.

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

	Investment property £m
At 31 December 2018 (audited)	322.1
Decrease in fair value in the period (note 6)	(0.7)
At 30 June 2019	321.4

23. Related party transactions

During the first half of 2019, there have been no related party transactions that have materially affected the financial position or results for the period. There have been no changes to the nature of the related party transactions as disclosed in note 41 on page 181 of the Annual Report and Accounts for the year ended 31 December 2018.

24. First-time adoption of IFRS 16

The Group adopted IFRS 16 for the first time on 1 January 2019 as explained in note 2 to the condensed consolidated financial statements. As a result, leased assets in respect of property and motor vehicles are now recognised on the balance sheet, along with corresponding lease liabilities. The impact of the adoption of the new standard on the income statement has been to replace rental expenses with a depreciation charge and a finance cost in respect of the leased assets. An element of the depreciation charge is attributed to claims handling expenses, which are included in claims costs.

The following tables reconcile the restated comparative financial statements to amounts previously presented under IAS 17:

Impact on the consolidated income statement for six months to 30 June 2018

	6 months 2018 £m	IFRS 16 first time adoption £m	6 months 2018 £m (restated)
Total income	**1,754.1**	**–**	**1,754.1**
Insurance claims	(1,005.0)	0.3	(1,004.7)
Insurance claims recoverable from reinsurers	36.4	–	36.4
Net insurance claims	**(968.6)**	**0.3**	**(968.3)**
Commission expenses	(101.2)	–	(101.2)
Operating expenses	(381.2)	2.1	(379.1)
Total expenses	**(482.4)**	**2.1**	**(480.3)**
Operating profit	**303.1**	**2.4**	**305.5**
Finance costs	(9.3)	(3.4)	(12.7)
Profit before tax	**293.8**	**(1.0)**	**292.8**
Tax charge	(55.0)	0.2	(54.8)
Profit for the period attributable to owners of the Company	**238.8**	**(0.8)**	**238.0**

Impact on the consolidated statement of comprehensive income for six months to 30 June 2018

	6 months 2018 £m	IFRS 16 first time adoption £m	6 months 2018 £m (restated)
Profit for the period	**238.8**	**(0.8)**	**238.0**
Other comprehensive loss net of tax	**(73.0)**	**–**	**(73.0)**
Total comprehensive income for the period attributable to owners of the Company	**165.8**	**(0.8)**	**165.0**

Impact on the consolidated income statement for the year ended 31 December 2018

	2018 £m (audited)	IFRS 16 first time adoption £m	2018 £m (restated)
Total income	**3,436.1**	**–**	**3,436.1**
Insurance claims	(1,966.9)	0.7	(1,966.2)
Insurance claims recoverable from reinsurers	55.1	–	55.1
Net insurance claims	**(1,911.8)**	**0.7**	**(1,911.1)**
Commission expenses	(200.4)	–	(200.4)
Operating expenses	(722.2)	4.0	(718.2)
Total expenses	**(922.6)**	**4.0**	**(918.6)**
Operating profit	**601.7**	**4.7**	**606.4**
Finance costs	(19.1)	(6.8)	(25.9)
Profit before tax	**582.6**	**(2.1)**	**580.5**
Tax charge	(108.9)	0.4	(108.5)
Profit for the period attributable to owners of the Company	**473.7**	**(1.7)**	**472.0**

24. First-time adoption of IFRS 16 continued

Impact on the consolidated statement of comprehensive income for the year ended 31 December 2018

	2018 £m (audited)	IFRS 16 first time adoption £m	2018 £m (restated)
Profit for the period	473.7	(1.7)	472.0
Other comprehensive loss net of tax	(114.2)	–	(114.2)
Total comprehensive income for the period attributable to owners of the Company	359.5	(1.7)	357.8

Impact on the consolidated balance sheet as at 31 December 2018

	2018 £m (audited)	IFRS 16 first time adoption £m	2018 £m (restated)
Assets			
Property, plant and equipment	156.2	153.4	309.6
Deferred acquisition costs	171.0	(0.6)	170.4
Prepayments, accrued income and other assets	128.0	(3.5)	124.5
Equity			
Shareholders' equity	2,573.1	(14.9)	2,558.2
Liabilities			
Deferred tax	7.6	(3.1)	4.5
Lease liabilities	–	167.3	167.3

Impact on the consolidated cash flow statement for the six months ended 30 June 2018

	6 months 2018 £m	IFRS 16 first time adoption £m	6 months 2018 £m (restated)
Net cash used in operating activities before investment of insurance assets	(26.8)	9.5	(17.3)
Cash flows used in financing activities			
Finance costs	(9.4)	(3.4)	(12.8)
Principal elements of lease payments	–	(6.1)	(6.1)

Impact on the consolidated cash flow statement year ended 31 December 2018

	2018 £m (audited)	IFRS 16 first time adoption £m	2018 £m (restated)
Net cash generated from operating activities before investment of insurance assets	4.2	19.3	23.5
Cash flows used in financing activities			
Finance costs	(19.3)	(6.8)	(26.1)
Principal elements of lease payments	–	(12.5)	(12.5)

GLOSSARY

Term	Definition and explanation
Association of British Insurers ("ABI")	The trade body that represents the insurance and long-term savings industry in the UK.
Available-for-sale ("AFS") investment	Financial assets that are classified as available-for-sale. Please refer to the accounting policy note 1.12 on page 139 of the Annual Report & Accounts 2018.
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 sets aside by the Group 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 and operating expenses, compared to net earned premium generated. A ratio of less than 100% indicates profitable underwriting. Normalised combined operating ratio adjusts loss and commission ratios for a normal level of expected major weather events in the period.
Commission expenses	Payments to brokers, partners and price comparison websites for generating business.
Commission ratio	The ratio of commission expense divided by net earned premium.
Company	Direct Line Insurance Group plc (the "**Company**").
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.
Curent year operating profit	Current-year operating profit is defined as total operating profit minus prior-year reserve releases.
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.
Financial Conduct Authority ("FCA")	The independent body that regulates firms and financial advisers.
Gross written premium	The total premium from contracts that began during the period.
Group	Direct Line Insurance Group plc and its subsidiaries ("**Direct Line Group**" or the "**Group**").
Incremental borrowing rate ("IBR")	The rate of interest that a lessee would have to pay to borrow over a similar term and security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.
Incurred but not reported ("IBNR")	Funds set aside to meet the cost of claims for accidents that have occurred, but have not yet been reported to the Group. This includes an element of uplift on the value of claims reported.
In-force policies	The number of policies on a given date that are active and against which the Group will pay, following a valid insurance claim.
Insurance liabilities	This comprises insurance claims reserves and claims handling provisions, 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 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 45 alternative performance measures.)
Investment return	The investment return earned from the investment portfolio, including unrealised and realised gains and losses, impairments and fair value adjustments.
Investment return yield	The investment return divided by the average AUM. The average AUM derives from the period's opening and closing balances. (See page 45 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 (including Tier 1 notes) from total assets.

Term	Definition and explanation
Net insurance claims	The cost of claims incurred in the period less any claims costs recovered under reinsurance contracts. It includes claims payments and movements in claims reserves.
Net earned premium	The element of gross earned premium less reinsurance premium ceded for the period where insurance cover has already been provided.
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 45 alternative performance measures.)
Ogden discount rate	The discount rate set by the Lord Chancellor and used by courts to calculate lump sum awards in bodily injury cases.
Operating 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 some large personal injury claims. They generally provide a lump-sum award plus inflation-linked annual payments to claimants who require long-term care.
Prudential Regulation Authority ("PRA")	The PRA is a part of the Bank of England. It is responsible for regulating and supervising insurers and financial institutions in the UK.
Reinsurance	Contractual arrangements where the Group transfers part or all of the accepted insurance risk to another insurer.
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 adjusted profit after tax divided by the Group's average shareholders' equity less goodwill and other intangible assets. Profit after tax is adjusted to include the Tier 1 coupon payments dividend. (See page 45 alternative performance measures.)
Right of use ("ROU") asset	A lessee's right to use an asset over the life of a lease, calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received.
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 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 28 of the consolidated financial statements presents a reconciliation of the Group's business activities on a segmental basis to the consolidated income statement. All note references in the table below are to the notes to the consolidated financial statements on pages 27 to 41.

Group APM	Closest equivalent IFRS measure	Definition and / or reconciliation	Rationale for APM
Current-year attritional loss ratio	Net insurance claims	Current-year attritional loss ratio is defined in the glossary on page 42 and is reconciled to loss ratio (discussed below) on page 11.	Expresses claims performance in the current accident year in relation to net earned premium.
Combined operating ratio	Operating profit	Combined operating ratio is defined in the glossary on page 42.	This is a measure of underwriting profitability and excludes non-insurance income, whereby a ratio of less than 100% represents an underwriting profit and a ratio of more than 100% represents an underwriting loss.
Current-year operating profit	Operating profit	Combined operating ratio is defined in the glossary on page 42.	Removes the effect of prior-year underwriting decisions from the operating profit.
Investment income yield	Investment income	Investment income yield is defined in the glossary on page 42 and is reconciled on page 45.	Expresses a relationship between the investment income and the associated opening and closing assets adjusted for portfolio hedging instruments.
Investment return yield	Investment return	Investment return yield is defined in the glossary on page 42 and is reconciled on page 45.	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 42 and is reconciled in note 4.	Expresses claims performance in relation to net earned premium.
Net investment income yield	Investment income	Net investment income yield is defined in the glossary on page 43 and is reconciled on page 45.	Expresses a relationship between the investment income and the associated opening and closing assets adjusted for portfolio hedging instruments.
Return on tangible equity	Return on Equity	Return on tangible equity is defined in the glossary on page 43 and is reconciled on page 45.	This shows performance against a measure of equity that is more easily comparable to that of other companies.
Tangible equity	Equity	Tangible equity is defined as equity (excluding Tier 1 notes) less intangible assets within the balance sheet and is reconciled on page 45.	This shows the equity excluding Tier 1 notes and intangible assets for comparability with companies who have not acquired businesses or capitalised intangible assets.
Tangible net assets per share	Net assets per share	Tangible net assets per share is defined as tangible equity (as above) expressed as a value per share and is reconciled in note 15 on page 35.	This shows the equity excluding Tier 1 notes and intangible assets per share for comparability with companies who have not acquired businesses or capitalised intangible assets.

Additionally, the current-year attritional loss ratio within the analysis by division section has also been identified as an alternative performance measure, similarly reconciled to the financial statements and notes on page 11, and defined in the glossary.

Return on tangible equity[1]

	H1 2019 £m	H1 2018 £m (restated)
Operating profit	274.3	305.5
Finance costs	(13.0)	(12.7)
Profit before tax	261.3	292.8
Coupon payments in respect of Tier 1 notes	(8.3)	(8.3)
Adjusted profit before tax	253.0	284.5
Tax charge	(49.5)	(54.8)
Adjusted profit after tax	203.5	229.7
Annualised adjusted profit after tax	407.0	459.4
Opening shareholders' equity	2,558.2	2,701.9
Opening goodwill and other intangible assets	(566.8)	(471.1)
Opening shareholders' tangible equity	1,991.4	2,230.8
Closing shareholders' equity	2,530.3	2,468.1
Closing goodwill and other intangible assets	(629.3)	(500.0)
Closing shareholders' tangible equity	1,901.0	1,968.1
Average shareholders' tangible equity[2]	1,946.2	2,099.5
Return on tangible equity annualised	20.9%	21.9%

Investment income and return yields[1]

	Notes[3]	H1 2019 £m	H1 2018 £m (restated)
Investment income	6	75.4	79.6
Hedging to a sterling floating rate basis[4]	6	(12.1)	(14.7)
Net investment income		63.3	64.9
Net realised and unrealised gains excluding hedging		12.4	30.5
Investment return	6	75.7	95.4
Opening investment property		322.1	309.3
Opening financial investments		4,737.8	5,040.4
Opening cash and cash equivalents		1,154.4	1,358.6
Opening borrowings		(62.0)	(54.1)
Opening derivatives asset[5]		11.8	55.1
Opening investment holdings		6,164.1	6,709.3
Closing investment property		321.4	321.4
Closing financial investments	17	4,657.6	4,996.5
Closing cash and cash equivalents	18	1,139.6	1,000.5
Closing borrowings	18	(56.4)	(63.3)
Closing derivatives (liability) / asset[5]		(63.1)	28.4
Closing investment holdings		5,999.1	6,283.5
Average investment holdings		6,081.6	6,496.4
Annualised investment income yield		2.5%	2.5%
Annualised net investment income yield		2.1%	2.0%
Annualised investment return yield		2.5%	2.9%

Notes:

1. See glossary on pages 42 and 43 for definitions.
2. Mean average of opening and closing balances.
3. See notes to the condensed consolidated financial statements.
4. Includes net realised and unrealised gains / (losses) of derivatives in relation to AUM.
5. See footnote 1 on page 14 (Investment holdings).

DIRECTOR'S 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 current financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Disclosure and Transparency Rule 4.2.8R being related parties transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the entity during that period, and any changes in the related parties transactions described in the last Annual Report & Accounts that could do so.

Signed on behalf of the Board

Penny James

CHIEF EXECUTIVE OFFICER

30 July 2019

LEI: 213800FF2R23ALJQOP04

INDEPENDENT REVIEW REPORT TO DIRECT LINE INSURANCE GROUP PLC

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 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 24. 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 Guidance 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 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, UK
30 July 2019