3 August 2021

DIRECT LINE INSURANCE GROUP PLC
HALF YEAR REPORT 2021
STRONG FINANCIAL PERFORMANCE, MOMENTUM IN STRATEGIC TRANSFORMATION

PENNY JAMES, CEO OF DIRECT LINE GROUP, COMMENTED

"I'm delighted we've made significant progress on our strategic transformation during the first half of the year at the same time as delivering strong operating profit. We returned to growth in Q2, which is testament to our diversified business model, with Commercial, Home and Rescue performing strongly. We have declared an interim dividend of 7.6 pence per share, up by 2.7% over 2020. We are also launching the second £50 million tranche of the £100 million share buyback programme we announced with our last year end results.

"In Motor we saw claims frequency remain below normal levels, fewer new car sales and a reduction in new drivers entering the market. These factors were strongest in Q1 and have started to reverse in Q2 at the same time as motor market premium stabilised. We maintained underwriting discipline throughout the first half, continuing to price for our view of risk, and this, combined with the benefits of achieving a major technology milestone with our new Motor platform now rolled out across Direct Line, Churchill and Privilege, positions us well as we look ahead. We recently announced a new partnership, with Motability Operations, demonstrating the value others place on our exemplary customer service and claims capabilities. This partnership is expected to come into effect in 2023 and to increase our Motor customer base by around 15%.

"This is an exciting and pivotal point for the business, we've completed the majority of our tech transformation, and we're starting to reap the benefits of what the new systems offer us. This is driving real momentum and means we are entering the second half of the year with ambition and confidence."

Results summary

	H1 2021 £m	H1 2020 £m	Change
In-force policies (thousands)	**14,471**	14,633	(1.1%)
Of which: direct own brands[1] (thousands)	**7,465**	7,370	1.3%
Gross written premium	**1,556.5**	1,580.8	(1.5%)
Of which: direct own brands[1]	**1,063.7**	1,090.3	(2.4%)
Operating profit[2]	**369.9**	264.9	39.6%
Combined operating ratio[2,3]	**84.2%**	90.3%	6.1pts
Profit before tax	**261.3**	236.4	10.5%
Return on tangible equity annualised[2]	**30.1%**	19.9%	10.2pts
Dividend per share – interim (pence)[4]	**7.6**	7.4	2.7%
– special (pence)	**–**	14.4	n/a
	30 Jun 2021	31 Dec 2020	Change
Solvency capital ratio post-dividends and share buyback[5]	**195%**	191%	4pts

Financial highlights

- Direct own brands in-force policies grew by 1.3% with growth across Commercial direct own brands, Green Flag and Home more than offsetting declines in Motor. Total policies reduced 1.1% as lockdown restrictions impacted partnership volumes in Travel.
- Gross written premium reduced by 1.5% as continued growth in Commercial, Home and Green Flag Rescue was offset by declines in Motor and Travel. During H1, we focused on maintaining the quality of our Motor book resulting in some lost competitiveness and saw reduced risk mix from lower new car sales and fewer new drivers entering the market, with Motor gross written premium falling 6.2%. The reduction was lower in Q2, as pricing in the motor market stabilised and risk mix trends started to reverse. Overall, gross written premium increased by 1.6% in Q2 compared to Q2 2020, demonstrating the benefits of our diversified business model.
- Motor's current-year attritional loss ratio was relatively stable at 66.9% (H1 2020: 65.5%), driven by claims frequency remaining below normal levels together with lower premium. In July, claims frequency returned close to the level assumed in our pricing and consequently we expect our Motor current-year attritional loss ratio in H2 to return closer to underlying 2020 levels, which we estimated was around 79%.
- Operating profit increased by £105.0 million to £369.9 million benefiting broadly equally from benign weather conditions, strong prior-year reserve releases, the non-repeat of Covid-19 impacts on Travel claims and the reversal of investment losses. Progress continued on underlying profitability following a reduction in operating expenses and good current-year trading across the book.
- Profit before tax of £261.3 million was £24.9 million higher than H1 2020 following the increased operating profit partially offset by £91.5 million of restructuring and one-off costs which primarily relate to the Group's site strategy announced with the full year 2020 results.

- Proposed interim ordinary dividend of 7.6 pence per share, an increase of 2.7% over H1 2020. On or about 4 August 2021, we expect to commence the second £50 million tranche of the £100 million share buyback programme announced in March 2021. There was strong capital generation during H1 with a solvency ratio after dividends of 195%.
- We reiterate our medium-term target of achieving a combined operating ratio in the range of 93% to 95%, normalised for weather. For 2021, following lower than normal claims frequency in Motor and strong prior-year reserve releases, we expect a combined operating ratio in the range of 90% to 92%, normalised for weather.

Strategic highlights

We continued to transform into a data and technology-led insurer. With the major elements of the Motor technology transformation now complete, our focus turns to extracting the benefits from this new capability.

- We rolled out successfully our new Motor platform to our biggest brands, Direct Line and Churchill. We are already seeing benefits in pricing sophistication and digitalisation with further benefits scheduled to come through over the next 18 months.
- We saw gross written premium growth of 16.2% in Commercial which is furthest through its transformation and is demonstrating what can be achieved when new technology is paired with great service for our customers and brokers.
- We announced our new partnership with Motability Operations demonstrating our core strengths in delivering great customer service and efficient car repair. The partnership is forecast to increase Motor gross written premium by around £500 million each year from H1 2023, with 80% reinsured back to Motability Operations.
- We continued to expand our claims capabilities through the acquisition of our 22nd auto services repair centre. This acquisition supports our competitive advantage in vehicle repairs and we continue to invest in capability to repair more advanced and electric vehicles.
- We delivered strong growth in Darwin as we continued to enhance pricing across the four main price comparison websites ("**PCWs**"), growing policy count to over 90,000 at the end of H1 2021, an increase of over 66% compared to the end of 2020.
- We continue to find new areas to innovate, including an online customer portal in claims which enables digital claims management and a new cloud-based telephony system in Green Flag which enables enhanced customer service and more efficient claims handling.
- We remain focused on achieving our 20% expense ratio target in 2023. We completed the first key step in our new property site strategy by purchasing our head office, giving us the flexibility to fundamentally reposition the way we use our buildings and deliver long-term savings, which are incremental to our original cost target plans, in excess of £10 million each year from 2022.

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Notes:

1. Direct own brands include in-force policies for Home and Motor under the Direct Line, Churchill, Darwin and Privilege brands, Rescue policies under the Green Flag brand and Commercial under the Direct Line for Business and Churchill brands.
2. See glossary on pages 46 to 48 for definitions and appendix A – Alternative performance measures on pages 49 to 52 for reconciliation to financial statement line items.
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 46 to 48 for definitions.
4. The Group's dividend policy includes an expectation that generally one-third of the regular annual dividend will be paid in the third quarter as an interim dividend and two-thirds will be paid as a final dividend in the second quarter of the following year.
5. Estimates based on the Group's Solvency II partial internal model.

Forward-looking statements disclaimer

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

The Group's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this document, for example directly or indirectly as a result of, but not limited to:

- United Kingdom ("**UK**") domestic and global economic business conditions;
- the direct and indirect impacts and implications of the coronavirus Covid-19 pandemic on the economy, nationally and internationally, on the Group, its operations and prospects, and on the Group's customers and their behaviours and expectations;
- the Trade and Co-operation Agreement between the UK and the European Union ("**EU**") regarding the terms, following the end of the Brexit transition period, of the trading relationships between the UK and the EU and its implementation, and any subsequent trading and other relationship arrangements between the UK and the EU and their implementation;
- the terms of trading and other relationships between the UK and other countries following Brexit;
- the impact of the FCA pricing practices report and any new rules and regulations arising as a result of that report and of responses by insurers, customers and other third parties;
- market-related risks such as fluctuations in interest rates, exchange rates and credit spreads;
- the policies and actions and/or new principles, rules and/or changes to, or changes to interpretations of existing principles, rules and/or regulations, of regulatory authorities and bodies (including changes related to capital and solvency requirements or to the Ogden discount rate or rates or in response to the Covid-19 pandemic and its impact on the economy and customers) and changes to law and/or understandings of law and/or legal interpretation following the decisions and judgements of courts;
- the impact of competition, currency changes, inflation and deflation;
- the timing, impact and other uncertainties of future acquisitions, disposals, partnership arrangements, joint ventures or combinations within relevant industries; and
- the impact of tax and other legislation and other regulation and of regulator expectations, interventions and requirements and of court, arbitration, regulatory or ombudsman decisions and judgements (including in any of the foregoing in connection with the Covid-19 pandemic) in the jurisdictions in which the Group and its affiliates operate.

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

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

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

Financial summary

	H1 2021 £m	H1 2020 £m	Change
In-force policies (thousands)	**14,471**	14,633	(1.1%)
Of which: direct own brands (thousands)	**7,465**	7,370	1.3%
Gross written premium	**1,556.5**	1,580.8	(1.5%)
Of which: direct own brands	**1,063.7**	1,090.3	(2.4%)
Net earned premium	**1,455.6**	1,474.4	(1.3%)
Underwriting profit	**229.3**	143.6	59.7%
Instalment and other operating income	**72.2**	80.0	(9.8%)
Investment return	**68.4**	41.3	65.6%
Operating profit	**369.9**	264.9	39.6%
Restructuring and one-off costs	**(91.5)**	(15.0)	510.0%
Operating profit after restructuring and one-off costs	**278.4**	249.9	11.4%
Finance costs	**(17.1)**	(13.5)	(26.7%)
Profit before tax	**261.3**	236.4	10.5%
Tax	**(57.5)**	(43.8)	(31.3%)
Profit after tax	**203.8**	192.6	5.8%
Key metrics			
Current-year attritional loss ratio[1,2]	**62.3%**	65.3%	3.0pts
Loss ratio[1,2]	**52.0%**	59.0%	7.0pts
Commission ratio[1,2]	**7.3%**	6.1%	(1.2pts)
Expense ratio[1,2]	**24.9%**	25.2%	0.3pts
Combined operating ratio[1,2]	**84.2%**	90.3%	6.1pts
Return on tangible equity annualised[2]	**30.1%**	19.9%	10.2pts
Investment income yield annualised[2]	**2.0%**	2.1%	(0.1pts)
Net investment income yield annualised[2]	**1.7%**	1.8%	(0.1pts)
Investment return yield annualised[2]	**2.3%**	1.4%	0.9pts
Basic earnings per share (pence)	**14.5**	13.6	6.6%
Diluted earnings per share (pence)	**14.3**	13.4	6.7%
Return on equity annualised	**14.7%**	13.7%	1.0pt
Dividend per share – interim (pence)	**7.6**	7.4	2.7%
– special (pence)	**–**	14.4	n/a
Share buyback actioned	**50.3**	30.0	n/a
Share buyback - 2nd tranche	**50.0**	–	n/a

	30 Jun 2021	31 Dec 2020	Change
Net asset value per share (pence)	**195.1**	199.7	(2.3%)
Tangible net asset value per share (pence)	**134.6**	141.5	(4.9%)
Solvency capital ratio post-dividends and share buyback[3]	**195%**	191%	4pts

Notes:

1. 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 46 to 48 for definitions.
2. See glossary on pages 46 to 48 for definitions and appendix A – Alternative performance measures on pages 49 to 52 for reconciliation to financial statement line items.
3. Estimates based on the Group's Solvency II partial internal model.

CEO REVIEW

I am delighted with the progress we have made in the first half of the year towards being a digital and technology driven business whilst delivering another strong set of results.

We've successfully rolled out our new Motor platform, the largest component of our technology transformation, and have continued to enhance our claims management capability by purchasing another DLG Auto Services garage and expanding our digital offering. Across much of the business we have now completed our technology transformation and we are focusing on how we embed and optimise the capability we have delivered to drive competitive advantage. A key enabler of this is our new Agile operating model, which was implemented at the end of last year and provides the platform from which to deliver change at pace and at lower cost.

These strategic changes underpin our strong financial performance, with own brand policy growth in the first half, and also support our new partnership with Motability Operations, which will be expected to increase our Motor customer base around 15% from 2023. This new partnership demonstrates the competitive advantage that can be delivered by our vertically integrated claims model and leading customer service levels.

We are at an incredibly exciting point in our transformation and we look ahead with confidence.

Business performance

In the first half of 2021 we delivered another strong set of results, growing our own brand policy count and increasing profitability, enabling us to increase the interim dividend. We continued to make good progress in improving our underlying profitability and, alongside benign weather conditions, a strong contribution from prior-year reserve releases, the non-repeat of the Covid-19 travel claims from last year and the reversal of investment losses, we increased operating profit by £105.0 million to £369.9 million, compared to H1 2020.

We grew policy count and gross written premium across Commercial, Home and Green Flag Rescue. In Motor, average premiums across the market continued to deflate in Q1, before stabilising in Q2, as insurers reflected frequency below historic levels in their pricing. We were disciplined in our trading, focusing on maintaining the quality of our book and pricing to our best view of risk. Our prices therefore reduced by less than the market and we lost some competitiveness as a result, leading to Motor gross written premium reducing by 6.2% in the first half with most of the fall coming in the first quarter. As our average premiums came down less than the market, we remain well placed as lockdown restrictions are removed and claims frequency increases back towards pre-Covid-19 levels.

We continue to focus on the quality of our earnings and increasing the proportion of operating profit that comes from the current year. We are targeting above 50% in 2021 when normalised for weather, and achieved 55% in the first half. The current year contribution benefited from low claims frequency in Motor, and this was partially offset by higher prior year reserve releases. Increasingly the contribution from prior year reserve releases is coming from more recent accident years and therefore we see these as more sustainable than the prior year releases we were generating a few years ago. We believe this is an important inflection point in the quality of our earnings.

Supporting our current year earnings is our cost transformation and we made good progress during the first half. Excluding levies, amortisation and depreciation, which increased by £20.6 million, primarily due to the roll out of our new Motor platform, our operating expenses fell by £30.0 million as our cost saving initiatives took effect, alongside the non-repeat of £9 million of "Force for Good" initiatives in 2020. Our property strategy continues as we completed the acquisition of our Bromley office and have now put actions in place to reduce its site footprint significantly.

To have sustainable success every business, including ours, needs to move at pace to address the effects of climate change. We continue to work towards our own ambitious sustainability targets as well as helping to drive change across the industry and beyond. We have signed the Business Ambition for 1.5˚C as part of the UN-led Race to Zero campaign where we are aiming to set Science-Based Targets by 2022. This builds on the action we took last year in becoming carbon neutral from 2020, by offsetting our emissions under our direct control by investing in high impact international social projects. This year we have engaged in prominent sustainability initiatives through forums such as the UK Government's Build Back Better Business Council, which is looking to accelerate electric vehicle adoption, the ABI's Climate Change Roadmap and the Sustainable Markets Initiative's Insurance Taskforce because we want to influence how the green transition can support our business.

Impact of Covid-19

Consistent with last year, the effects of Covid-19 were a feature of our results, most notably within the Motor segment. We saw similarly low levels of Motor claims frequency across the first half of 2020 and 2021 as lockdown restrictions reduced driving levels. This was partially offset by increased claims severity, from additional cleaning costs and higher used vehicle prices, and increasingly the impact of lower frequency on market premium levels. As motor claims frequency increases we expect the current-year attritional loss ratio in Motor, which was 66.9% in the first half, to return closer to underlying 2020 levels in the second half, which we estimated was around 79%.

We also continued to offer our customers premium refunds, either in the form of a direct refund, or via donations to charity, which so far has raised nearly £950,000 for Mind, NSPCC and the UK Sepsis Trust.

Outside of Motor, new business shopping in Rescue reduced, as did Travel premiums. Other than the non-repeat of Covid-19 related travel claims, the impact on earnings outside of Motor was less marked, with modest claims frequency benefits in Rescue, and Home seeing a different mix of claims with a broadly neutral effect on profit.

Strategy update

The Group aims to create a world where insurance is personal, inclusive and a force for good. Our ambition is to do this by becoming a more fully digital enabled insurer, offering unique products and customer propositions with market-leading customer service. We seek to leverage our scale and data assets to drive better risk selection whilst operating in an agile, cost efficient way.

Core strengths

We started this journey with core strengths that are hard to replicate – we have two of the most recognised brands in the market in Direct Line and Churchill and strong customer service, with a claims net promoter score of 71 across Motor and Home. We are true experts in claims management. We believe our vertically integrated model in Motor enables us to control claims inflation better than the market and that owning the largest garage network of any insurer allows us to build deep expertise in repairing more technologically advanced and electric vehicles.

Our focus on excellent customer outcomes and these core strengths were key to us agreeing new partnership heads of agreement with Motability Operations, which is expected to be worth around £500 million of gross written premium per annum, with 80% of the risk reinsured back to Motability Operations.

Building on these strengths

Critical to building towards the future has been our technology transformation, which uses data, artificial intelligence and digitalisation to drive an increasingly efficient and customer-centric business. This has become even more important, with consumers' willingness to interact digitally higher than ever.

A core component of this has been our new Motor platform which we successfully rolled out across Direct Line and Churchill during H1, following the roll out across Privilege during 2020. This delivers a step change in capability for the Group across a range of areas:

- Pricing and underwriting, through the capability for faster pricing updates at greater granularity, the ability to integrate third-party data sources more easily and greater underwriting sophistication.
- Customer propositions and service, with the ability to provide tiered products, increased self-serve capability and seamless customer journeys between channels.
- Innovation and sustainability, through more efficient on-boarding of new partners and greater speed to market for new products.

Having rolled out the largest single element of our technology transformation, namely in Motor, we are now increasingly focused on operational transformation. The cloud-based and modular architecture of our new Motor system means that we can deploy change at pace and so we can now work on adapting the platform for Home. At the end of 2020 we moved to an Agile operating model for the trading and technology parts of our business, which aims to increase the speed and reduce the cost of change. This ability to increase the pace of change is critical in optimising the benefits from our new capability.

We can see from Commercial Lines the performance that can be achieved when we get customer service claims expertise, new technology capability and an Agile operating model all working together. Commercial has grown gross written premium and delivered compound annual growth of 5.4% since 2018, whilst also improving its current-year attritional loss ratio by 7 percentage points over the same period. It provides us with great confidence and excitement for the potential in our wider transformation.

FCA Pricing Practices review

The final rules for the FCA's General Insurance Pricing Practices review were announced in May 2021 with implementation of the governance elements required by the end of September 2021 and full implementation by the end of the year.

The package of measures aims to ensure retail home and motor insurance products offer fair value to customers. The FCA recognises that insurers do not make excessive profit, and its key reform is that firms should offer a renewal price that is no higher than the equivalent new business price.

This review is something that we have been working closely with the FCA on for several years and we have taken a range of proactive measures to reduce the pricing differential between our new business and renewal customers.

We look ahead to the new rules with confidence – in a market where pricing differentials are reduced, the importance of well-known brands, great customer service and having a wealth of data to price risk accurately becomes increasingly important. We believe this market will play to our strengths.

As with any major market change, there is likely to be a period of short-term volatility as the market rebalances. We have modelled a range of scenarios and believe our diversified business model means we have the tools and capabilities to trade through different outcomes within our existing financial targets.

Motor – underwriting discipline; market premiums stabilised in second quarter

We focused on disciplined underwriting in deflationary market conditions and on maintaining our quality of premium ahead of the market. After deflation in the Motor market premium during Q1, the market stabilised during Q2. Consequently, whilst over the half year gross written premium was down 6.2%, the reduction was only 1.5% in Q2. Average premiums reduced by 2.0% and retention remained strong.

Operating profit was strong at £231.1 million, as claims frequency remained lower than normal and in line with 2020 over the half year. Claims severity inflation started the year above our 3% to 5% medium-term expectations, due to Covid-19 related factors such as higher cleaning costs and increased used car prices. During the period it returned to around the top end of our expected range as some of these factors unwound. We continue to reserve conservatively for inflation including cost of care in bodily injury claims.

We continue to invest in claims capability with the acquisition of our 22nd DLG Auto Services garage. Alongside rapid PCW growth in Darwin, which grew to over 90,000 policies during the half, we also successfully launched our new Motor system across our biggest brands, Direct Line and Churchill. This aims to increase our trading capability significantly and we are already seeing benefits in pricing sophistication come through, leaving us well positioned as we look ahead to 2022.

Home – growth across direct and PCW alongside benign weather

In Home, we took advantage of a buoyant new business market, growing direct own brands' gross written premium and policy count by 2.6% and 5.5% respectively. This growth came across both our PCW and direct channels demonstrating their competitiveness and customer attraction. Retention remained strong. Average premiums fell by 3.5% compared to the first half of 2020, due partly to the mix shifting towards lower risk and therefore lower average premium PCW business, alongside pricing actions to take advantage of a buoyant new business market and to support retention. Partnership business was lower, in part due to run-off books, resulting in total gross written premium in H1 2021 being in line with H1 2020.

Operating profit of £74.7 million increased by £39.4 million over H1 2020, as Home benefited from benign weather conditions alongside higher prior-year reserve releases. Claims severity inflation remained within our medium-term expectations of 3% to 5% and claims frequency remained in line with normal levels. Consistent with 2020 we estimate that the overall impact of the Covid-19 pandemic was not significant for Home.

One of the recent trends in the UK economy has been heightened inflation, especially with construction materials such as concrete and lumber. Whilst we have a large home business, construction materials only make up a small amount of our claims costs, with a greater proportion relating to labour costs and decorating materials where we have not seen significant inflation.

Commercial – double-digit growth at strong margins

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

During H1 2021, Commercial continued to see the benefit of its technology transformation, delivering double digit gross written premium growth, helping it to provide an increasingly strong diversification benefit to the Group. Direct own brands gross written premium grew 15.6% as small to medium enterprise ("**SME**") trading on the new Direct Line for Business platform grew despite lockdown restrictions. NIG and other grew by 16.4% compared to H1 2020, its strongest growth in the last 10 years reflecting its investment in pricing capability over recent years and the high levels of broker and customer service maintained throughout the last 18 months.

Commercial delivered an increase in operating profit to £43.6 million (H1 2020: £25.3 million) and a reduction in its combined operating ratio to 90.2% (H1 2020: 94.9%) driven by benign weather conditions (weather costs H1 2021 £nil: H1 2020: £12.7 million) and growth earning through the business.

Rescue and other personal lines – Green Flag growth and non-repeat of Covid-19 related Travel claims

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

Rescue and other personal lines gross written premium was 11.2% lower in H1 2021 compared to H1 2020, with growth in Green Flag direct more than offset by reduced gross written premium in Travel, following reduced levels of travel. Green Flag returned to growth in Q2 as lockdown restrictions began to be lifted and the new business market recovered, with gross written premium across H1 2021 growing 4.3%.

Overall Rescue and other personal lines operating profit was £20.5 million, reversing the £16.2 million operating loss last year which was primarily the result of Covid-19 impacts on Travel alongside earnings growth in Rescue. Operating profit in Rescue increased by 20.8% to £29.1 million resulting from good claims performance and lower expenses.

Climate

The impact of climate change has far reaching implications for economies around the world. The Planet pillar of our strategy, which aims to protect our business from the impact of climate change and for us to give back to the planet more than we take out, drives our approach. We recognise that our actions as a business can contribute to climate risk mitigation and help accelerate the transition to a low carbon and sustainable future. We take this seriously and have continued to challenge ourselves to reduce emissions and energy consumption including through greater transparency.

We have previously published our Scope 1 and 2 emissions[1], but this year we wanted to go further. For the first time we broke down our emissions across our offices and our DLG Auto Services centres to help us to focus our plans on where we can have the most impact. Alongside this we evaluated our Scope 3 emissions[1] starting with those under our direct control and purchased goods and services which make a substantial contribution to our overall emissions. Our first comprehensive TCFD[1] report provides us with a roadmap to strengthen our strategic response in tackling climate change and we see the Bank of England's Climate Biennial Exploratory Scenario ("**CBES**"), in which the Group has been invited to participate, as a way to help enhance our climate change scenario analysis capability.

The Group's focus in 2021 is to evaluate the Scope 3 emissions[1] arising out of our investment portfolio and we will begin to scope out Science-Based Targets, which are a set of goals to provide a clear route to reduce emissions, to submit to the Science Based Target Initiative ("**SBTi**") for approval. The Group has joined the UN-backed "Race to Zero" campaign which commits the Group to setting Science-Based Targets to a 1.5˚C emissions scenario. Finally, we know that we cannot reduce our emissions immediately, therefore in 2020 we became carbon neutral through offsetting, as we work to reduce our emissions over time.

Note:

1. See glossary on pages 46 to 48 for definitions.

Dividend and capital management

The Board has declared an interim dividend of 7.6 pence per share, an increase of 2.7% over 2020. The Group's strong capital generation during the first half, alongside broadly flat capital requirements, resulted in a solvency capital ratio as at 30 June 2021 of 195% after the interim dividend.

With our 2020 full year results the Group announced a share buyback programme of up to £100 million spread across two £50 million tranches. We completed the first £50 million tranche of the share buyback on 11 June 2021 and we expect to commence the second £50 million tranche on or about 4 August. The £100 million share buyback was taken into account in the 2020 capital position.

The Group has outstanding Tier 2 debt issued in 2012 with nominal value of £250 million and a first call date during the first half of 2022. Excluding this debt, the Group's solvency ratio after the proposed interim dividend would be 177%. The Group solvency ratio is normally higher at half year as the Group expects that one-third of the annual dividend will generally be proposed at the half year and two-thirds with full-year results. In the normal course of events the Board will consider whether it is appropriate to distribute any surplus capital to shareholders once a year, alongside the full-year results.

Outlook

We have made good progress in the first half towards being an increasingly digital and technology driven business whilst delivering a strong financial performance. This gives us the confidence to reiterate our medium-term combined operating ratio target in the range of 93% to 95%, normalised for weather, and our 2023 expense ratio target of 20%.

For 2021, following lower Motor claims frequency and strong prior-year reserve releases in the first half, we now expect our combined operating ratio to be in the range of 90% to 92%, normalised for weather. We continue to expect more than half of 2021's operating profit to be from current-year earnings. Furthermore, we are increasing our net investment income yield expectation to 1.6% for 2021.

Finally, we reiterate our ongoing target of achieving at least a 15% return on tangible equity each year.

We have delivered a strong financial result whilst also continuing to build momentum in our strategic transformation. After a successful roll out of our new Motor platform, our technology transformation is largely complete and we're firmly into our business transformation phase. Commercial has shown through its sustained growth what can be achieved when we add this new technology capability to our existing core strengths in claims management and customer service, underpinned by agile ways of working. We look ahead with confidence in delivering our vision of being a technology and data led insurance company of the future with our customers at its heart.

PENNY JAMES

CHIEF EXECUTIVE OFFICER

FINANCE REVIEW

Performance

Operating profit[1]

	H1 2021 £m	H1 2020 £m
Underwriting profit	**229.3**	143.6
Instalment and other operating income	**72.2**	80.0
Investment return	**68.4**	41.3
Operating profit	**369.9**	264.9
Of which:		
Current-year operating profit[1]	**217.0**	141.7
Prior-year reserve releases	**152.9**	123.2

Notes:

1. See glossary on pages 46 to 48 for definitions and appendix A – Alternative performance measures on pages 49 to 52 for reconciliation to financial statement line items.

We delivered operating profit of £369.9 million, an increase of £105.0 million over 2020, with continued progress on underlying profitability following a reduction in operating expenses and good current-year trading across the book. The result benefited broadly equally from benign weather conditions, strong prior-year reserve releases, the non-repeat of Covid-19 impacts on Travel claims and the reversal of investment losses. It also benefited, in both years, from lower than normal Motor claims frequency which is not expected to continue through to the end of the year.

Underwriting profits increased by £85.7 million, with increases across both current-year profitability and prior-year reserve releases. Current-year underwriting profits increased primarily due to benign weather (weather costs H1 2021: £3.0 million, H1 2020: £30.4 million), the non-repeat of the Covid-19 impact in Travel, and progress on our cost agenda. We made progress on current-year profitability through reducing operating expenses, alongside improving current-year loss ratios in Home and Rescue, and remain on track to achieve at least 50% of operating profits from the current year in 2021.

Prior-year reserve releases increased by £29.7 million compared to the first half of 2020, due to positive development in escape of water Home claims alongside favourable experience in large bodily injury claims in Motor. We expect prior-year reserve releases for 2021 to be higher than last year but lower than the level seen in 2019 (FY 2020: £173.8 million, FY 2019: £294.5 million).

Lower average premiums in Motor and reduced claims volume drove a reduction in instalment and other income to £72.2 million (H1 2020: £80.0 million).

Investment return increased by £27.1 million in the first half of 2021 following £16.8 million of realised and unrealised gains across our investment property and credit portfolios (H1 2020: £13.9 million of net realised and unrealised losses).

In-force policies and gross written premium

In-force policies (thousands)

At	**30 Jun 2021**	31 Mar 2021	31 Dec 2020	30 Sep 2020	30 Jun 2020
Direct own brands	**3,867**	3,896	3,943	3,971	3,972
Partnerships	**108**	113	118	118	119
Motor	**3,975**	4,009	4,061	4,089	4,091
Direct own brands	**1,880**	1,861	1,837	1,808	1,782
Partnerships	**797**	799	801	808	814
Home	**2,677**	2,660	2,638	2,616	2,596
Rescue	**3,346**	3,375	3,400	3,396	3,380
Travel	**3,424**	3,445	3,499	3,536	3,567
Pet	**141**	142	145	148	152
Other personal lines	**58**	59	61	61	62
Rescue and other personal lines	**6,969**	7,021	7,105	7,141	7,161
Of which: Green Flag direct	**1,134**	1,108	1,114	1,110	1,070
Direct own brands	**584**	571	560	554	546
NIG and other	**266**	260	251	244	239
Commercial	**850**	831	811	798	785
Total in-force policies	**14,471**	14,521	14,615	14,644	14,633
Of which: direct own brands	**7,465**	7,436	7,454	7,443	7,370

Own brand policies have increased to 7.5 million (30 June 2020: 7.4 million) driven by growth in Home, Commercial and Green Flag Rescue partially offset by a reduction in Motor. Total in-force policies reduced slightly to 14.5 million (30 June 2020: 14.6 million) as the growth in own brand policies and NIG and other was offset by lower partnership volumes, particularly in Travel.

Gross written premium

	Q2 2021 £m	Q2 2020 £m	**H1 2021 £m**	H1 2020 £m
Direct own brands	**376.6**	382.4	**733.3**	778.9
Partnerships	**11.7**	12.0	**22.3**	26.4
Motor	**388.3**	394.4	**755.6**	805.3
Direct own brands	**98.7**	97.2	**198.6**	193.6
Partnerships	**39.3**	41.1	**79.7**	82.5
Home	**138.0**	138.3	**278.3**	276.1
Rescue	**43.3**	41.0	**81.8**	81.0
Travel	**23.9**	32.1	**47.6**	71.3
Pet	**17.6**	18.1	**35.1**	36.4
Other personal lines	**11.0**	10.6	**22.0**	21.4
Rescue and other personal lines	**95.8**	101.8	**186.5**	210.1
Of which: Green Flag direct	**21.5**	19.5	**40.9**	39.2
Direct own brands	**45.6**	39.3	**90.9**	78.6
NIG and other	**136.5**	117.4	**245.2**	210.7
Commercial	**182.1**	156.7	**336.1**	289.3
Total gross written premium	**804.2**	791.2	**1,556.5**	1,580.8
Of which: direct own brands	**542.4**	538.4	**1,063.7**	1,090.3

Gross written premium of £1,556.5 million (H1 2020: £1,580.8 million) reduced by 1.5% with strong premium growth in Commercial and growth in Home offset by lower Motor premiums and reduced partnership volumes in Travel. Direct own brands gross written premium reduced by 2.4% to £1,063.7 million (H1 2020: £1,090.3 million) where strong growth across Commercial, Home and Green Flag Rescue was offset by Motor.

Motor

Motor in-force policies reduced by 2.8% to 4.0 million compared to H1 2020, with own brand in-force policies down by 2.6% at 3.9 million. Gross written premium reduced by 6.2% to £755.6 million in the same period, with Motor own brand average premium reducing 1.7% during H1 2021. In deflationary market conditions we maintained underwriting discipline and priced our best view of risk, focusing on maintaining the quality of our book. Consequently, we saw some loss of competitiveness; and, when combined with a continuing pattern of lower new car sales and fewer new drivers entering the market, this led to a reduction of in-force policies and lower average premiums.

These trends were more heavily weighted to the first quarter with some partial reversing in the second quarter as the motor market stabilised. As evidence of this, gross written premium was down 10.6% in Q1 and 1.5% in Q2.

We offered premium refunds to customers where miles driven were expected to be lower than anticipated at policy inception. In particular, we continued our "Mileage MoneyBack" proposition for all Direct Line customers such that customers would be able to receive a refund at the end of the policy period where they had driven less than expected.

Home

In-force policies for Home's own brands increased by 5.5% compared to H1 2020 to 1.9 million policies. High retention levels were stable whilst new business grew across both direct and PCW business. This reflected success in our differentiated trading focus by channel. Partnership volumes reduced by 2.1%; Prudential and Sainsbury's partnerships are closed to new business and continued to run off in line with expectations.

Own brands gross written premium increased by 2.6%, with overall gross written premium 0.8% higher than H1 2020.

Home own brand average premium[1] reduced by 3.5% compared to H1 2020 in part reflecting a change in mix towards lower risk policies, while risk-adjusted prices reduced by 2.1%. This followed pricing actions to take advantage of a buoyant new business market and to support retention.

Notes:

1. Average incepted written premium excluding IPT for Home own brands for the period ending 30 June 2021.

Rescue

Rescue in-force policies reduced by 1.0% to 3.3 million and gross written premium increased by 1.0% to £81.8 million compared to H1 2020.

Green Flag Rescue continued to grow its higher average premium direct business during 2021, increasing in-force policies by 6.0% to 1.1 million and gross written premium by 4.3% to £40.9 million compared to H1 2020. Other Rescue lines, which include the linked channel, where cover can be purchased with a Group Motor policy, and Rescue partnerships, saw in-force policies and gross written premium reduce by 9.9% and 3.7% respectively.

Other personal lines

Other personal lines (comprising Travel, Pet and other) in-force policies reduced by 4.2% to 3.6 million compared to H1 2020 primarily due to continued reductions in packaged bank account volumes. Gross written premium for Other personal lines decreased by 18.9% with reductions across all lines except Pet, where premium levels were maintained. In Travel, gross written premium was down 33.2% reflecting lower upgrade premium, fewer packaged bank account customers and reduced partnership pricing that reflected lower claim expectations in 2021.

Commercial

Commercial in-force policies of 0.9 million increased by 8.3% compared with H1 2020, reflecting strong growth in both Commercial direct own brands and NIG and other.

Commercial direct own brands grew in-force policies by 7.0% and gross written premium increased by 15.6% to £90.9 million with increases across all Commercial direct product lines. We continue to see the benefits of technology transformation driving growth in both SME enterprise trading on the Direct Line for Business platform and Commercial's Churchill brand.

NIG and other in-force policy numbers were 11.3% higher than in H1 2020 and gross written premium grew by 16.4% to £245.2 million. This reflected growth across all categories as the book continued to benefit from improvements arising from the re-platforming of its products, improved pricing sophistication and growth on its award-winning electronic trading platform.

Underwriting profit and combined operating ratio[1]

	H1 2021	H1 2020
Underwriting profit (£ million)	**229.3**	143.6
Loss ratio	**52.0%**	59.0%
Commission ratio	**7.3%**	6.1%
Expense ratio	**24.9%**	25.2%
Combined operating ratio	**84.2%**	90.3%

Note:

1. See glossary on pages 46 to 48 for definitions and appendix A – Alternative performance measures on pages 49 to 52 for reconciliation to financial statement line items.

Overall underwriting profit increased to £229.3 million (H1 2020: £143.6 million) with an improvement in the combined operating ratio to 84.2% (H1 2020: 90.3%).

The loss ratio improved significantly to 52.0% (H1 2020: 59.0%) as a result of lower weather-related claims, increased prior-year reserve releases and the non-repeat of the 2020 Covid-19 impact in Travel.

Continued low levels of Motor claims frequency were partially offset by premium deflation with the Motor current-year loss ratio broadly in line with last year.

The improvement in the loss ratio was partially offset by a higher commission ratio. The commission ratio increased primarily due to increased profit share payments, particularly on packaged bank accounts, and volume-related commission payments to PCWs.

The expense ratio reduced marginally to 24.9% with operating expenses before restructuring and one-off costs 2.5% lower. Progress in the cost reduction programme and the reduction of the one-off Covid-19 "Force for Good" initiatives seen in H1 2020 have been partially offset by increased levies and depreciation and amortisation charges relating to the launch of our new Motor platform.

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 2021						
Net earned premium	4	**727.9**	**274.3**	**187.2**	**266.2**	**1,455.6**
Net insurance claims	4	**386.6**	**128.9**	**111.2**	**130.4**	**757.1**
Prior-year reserve releases	22	**100.7**	**17.5**	**2.4**	**32.3**	**152.9**
Major weather events		**n/a**	**(3.0)**	**n/a**	**–**	**(3.0)**
Attritional net insurance claims		**487.3**	**143.4**	**113.6**	**162.7**	**907.0**
Loss ratio – current-year attritional		**66.9%**	**52.3%**	**60.7%**	**61.1%**	**62.3%**
Loss ratio – prior-year reserve releases		**(13.8%)**	**(6.4%)**	**(1.3%)**	**(12.1%)**	**(10.5%)**
Loss ratio – major weather events[1]		**n/a**	**1.1%**	**n/a**	**n/a**	**0.2%**
Loss ratio – reported	4	**53.1%**	**47.0%**	**59.4%**	**49.0%**	**52.0%**
Commission ratio	4	**3.1%**	**5.8%**	**8.2%**	**19.8%**	**7.3%**
Expense ratio	4	**25.6%**	**26.2%**	**25.4%**	**21.4%**	**24.9%**
Combined operating ratio[2]	4	**81.8%**	**79.0%**	**93.0%**	**90.2%**	**84.2%**
Current-year combined operating ratio[2]		**95.6%**	**85.4%**	**94.3%**	**102.3%**	**94.7%**
For the period ended 30 June 2020						
Net earned premium	4	740.4	277.8	213.2	243.0	1,474.4
Net insurance claims	4	401.8	162.2	179.3	125.7	869.0
Prior-year reserve releases	22	83.4	2.5	4.0	33.3	123.2
Major weather events		n/a	(17.7)	n/a	(12.7)	(30.4)
Attritional net insurance claims		485.2	147.0	183.3	146.3	961.8
Loss ratio – current-year attritional		65.5%	53.0%	86.0%	60.2%	65.3%
Loss ratio – prior-year reserve releases		(11.2%)	(0.9%)	(1.9%)	(13.7%)	(8.4%)
Loss ratio – major weather events[1]		n/a	6.4%	n/a	5.2%	2.1%
Loss ratio – reported	4	54.3%	58.5%	84.1%	51.7%	59.0%
Commission ratio	4	2.9%	6.8%	3.0%	17.7%	6.1%
Expense ratio	4	24.7%	27.1%	24.2%	25.5%	25.2%
Combined operating ratio[2]	4	81.9%	92.4%	111.3%	94.9%	90.3%
Current-year combined operating ratio[2]		93.1%	93.3%	113.2%	108.6%	98.7%

Notes:

1. Home and Commercial claims for major weather events, including inland and coastal flooding and storms.
2. See glossary on pages 46 to 48 for definitions and appendix A – Alternative performance measures on pages 49 to 52 for reconciliation to financial statement line items.

Ratio analysis by division continued

The current-year attritional loss ratio excludes prior-year reserve releases and claims costs from major weather events and is therefore an indicator of underlying accident year performance. Our current-year attritional loss ratio of 62.3% improved by 3.0 percentage points compared to H1 2020 with the main driver being the non-repeat of the 2020 Covid-19 Travel related claims. H1 2021 and H1 2020 have both been similarly affected by lockdown restrictions and the ensuing reductions in driving levels and therefore claims frequency.

Prior-year reserve releases increased in H1 2021 to £152.9 million (H1 2020: £123.2 million), equivalent to 10.5% of net earned premium (H1 2020: 8.4%) and were concentrated towards more recent accident years. Reserve releases arose mainly from Motor large bodily injury, Commercial and escape of water in Home. Prior-year reserve releases in 2021 are expected to be above the level experienced in 2020 but lower than 2019.

Our current-year combined operating ratio improved by 4.0 percentage points to 94.7% (H1 2020: 98.7%) as a 3.0 percentage point improvement to the current-year attritional loss ratio and a 1.9 percentage point reduction in claims due to major weather events was partially offset by a 1.2 percentage point increase in the commission ratio.

Motor

The Motor result has been affected by the extended lockdown restrictions in 2020 and 2021 and deflationary market pricing in 2021. Overall, the effect of these factors was similar with the current-year attritional loss ratio increasing marginally by 1.4 percentage points to 66.9% (H1 2020: 65.5%) but remaining below pre-pandemic levels.

Although the shape of motor claims frequency was very different in H1 2020 and H1 2021, and closely followed lockdown restrictions, the overall claims frequency across H1 2020 and H1 2021 was similar. As expected, claims frequency increased during Q2 2021 and is now approaching levels consistent with our pricing assumptions.

Claims severity at the start of the year was above our medium-term expectation of 3% to 5% inflation each year, primarily impacted by Covid-19 related factors of higher cleaning costs and higher used car prices affecting total loss settlements. However, over the course of the first half it returned to around the top end of our normal expectations. Our vertically integrated business, including the largest insurer-owned network of vehicle repair centres, provides a competitive advantage.

In total, prior-year reserve releases were £17.3 million higher year on year at £100.7 million reflecting, primarily, favourable development of large bodily injury claims reserves.

Overall Motor's reported combined operating ratio improved by 0.1 percentage points to 81.8% (H1 2020: 81.9%). A 2.6 percentage point increase in prior-year reserve releases due to favourable development in bodily injury claims was offset by a 1.4 percentage point increase in the current-year attritional loss ratio and a 0.9 percentage point increase in the expense ratio.

Home

The current-year attritional loss ratio, excluding major weather event claims, improved by 0.7 percentage points to 52.3% compared to H1 2020. This reflected continuing positive trends in escape of water claims following action taken over the last few years.

The commission ratio of 5.8% was 1.0 percentage point lower than H1 2020 due to lower profit share payments to partners.

Home's combined operating ratio improved by 13.4 percentage points to 79.0% (H1 2020: 92.4%). This was driven primarily by a 5.5 percentage point improvement as a result of higher prior-year reserve releases from escape of water claims and a 5.3 percentage point improvement as a result of lower major weather events as well as an improvement in the current-year attritional loss ratio. Normalised for weather, the combined operating ratio was 8.0 percentage points better than H1 2020 at 86.2%[1] (H1 2020: 94.2%).

Rescue and other personal lines

The combined operating ratio for Rescue and other personal lines improved by 18.3 percentage points to 93.0% (H1 2020: 111.3%) due to the non-repeat of the 2020 Covid-19 related claims in Travel and improvements in Rescue.

The combined operating ratio for **Rescue** of 71.5% was 5.0 percentage points better than H1 2020's ratio of 76.5%. This reflected lower claims frequency in part due to continued pandemic restrictions alongside lower costs,

Other personal lines combined operating ratio improved by 8.4 percentage points compared to H1 2020 to 110.1%. The improvement is entirely due to the non-repeat of 2020 Covid-19 related claims in Travel.

Commercial

The current-year attritional loss ratio in Commercial was broadly stable, increasing by 0.9 percentage points compared with H1 2020 to 61.1%. In H1 2020 we had some claims frequency benefits due to Covid-19 restrictions and during H1 2021 we saw improvements to underwriting through pricing and risk selection translated into significant growth.

Total prior-year reserve releases were stable at £32.3 million (H1 2020: £33.3 million).

Overall, the combined operating ratio for Commercial improved by 4.7 percentage points to 90.2% (H1 2020: 94.9%) reflecting lower claims from major weather events. Other movements in the loss ratio were offset by an improvement in the expense ratio reflecting good cost control and operational leverage reflecting Commercial growth.

Note:

1. See glossary on pages 46 to 48 for definitions and appendix A – Alternative performance measures on pages 49 to 52 for reconciliation to financial statement line items.

Operating expenses before restructuring and one-off costs

	Note	H1 2021 £m	H1 2020 £m
Staff costs[1]		**132.5**	132.3
IT and other operating expenses[1,2]		**76.2**	100.2
Marketing	10	**48.0**	54.2
Sub-total		**256.7**	286.7
Insurance levies	10	**55.3**	49.9
Depreciation and amortisation[3,4]	10	**50.6**	35.4
Total operating expenses before restructuring and one-off costs		**362.6**	372.0

Notes:

1. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
2. IT and other operating expenses include professional fees and property costs.
3. Depreciation and amortisation includes a £0.5 million impairment charge for the period ended 30 June 2021 (H1 2020: £nil), which relates to capitalised software development costs for ongoing IT projects primarily relating to the development of new systems.
4. Includes depreciation on right-of-use assets of £5.8 million (H1 2020: £7.2 million).

We continued to reduce our operating expenses in line with our target of a 20% expense ratio in 2023. Overall operating expenses before restructuring and one-off costs reduced by £9.4 million to £362.6 million (H1 2020: £372.0 million) and resulted in a decrease in the expense ratio of 0.3 percentage points to 24.9% (H1 2020: 25.2%).

Costs before insurance levies and depreciation and amortisation were 10.5% lower at £256.7 million reflecting lower costs in relation to the Covid-19 response and reductions arising from the Group's cost saving initiatives.

Instalment and other operating income

	Note	H1 2021 £m	H1 2020 £m
Instalment income		**49.1**	54.8
Other operating income:			
Revenue from vehicle recovery and repair services	7	**10.0**	11.2
Vehicle replacement referral income	7	**5.3**	6.3
Legal services income	7	**3.8**	4.7
Other income[1]	7	**4.0**	3.0
Other operating income		**23.1**	25.2
Total instalment and other operating income		**72.2**	80.0

Note:

1. Other income includes mainly fee income from insurance intermediary services.

Instalment and other operating income, which is primarily driven by premium and claims volumes, decreased by £7.8 million to £72.2 million. Instalment income fell primarily due to lower motor gross written premium, whereas other operating income reduced due to lower motor claims frequency and lower recovery after accident volumes.

Investment return

	Note	H1 2021 £m	H1 2020 £m
Investment income		**58.9**	64.8
Hedging to a sterling floating rate basis		**(7.3)**	(9.6)
Net investment income		**51.6**	55.2
Net realised and unrealised gains / (losses) excluding hedging		**16.8**	(13.9)
Total investment return	6	**68.4**	41.3

Investment yields

	H1 2021	H1 2020
Investment income yield[1]	**2.0%**	2.1%
Net investment income yield[1]	**1.7%**	1.8%
Investment return yield[1]	**2.3%**	1.4%

Note:

1. See glossary on pages 46 to 48 for definitions and appendix A – Alternative performance measures on pages 49 to 52 for reconciliation to financial statement line items.

Total investment return increased by £27.1 million to £68.4 million (H1 2020: £41.3 million) primarily reflecting positive fair value adjustments in investment properties and realised gains in bond portfolios reversing losses from the previous year. Lower investment rates, driven by central banks' policy actions in 2020, led to a lower net investment income yield of 1.7% (H1 2020: 1.8%).

In 2021 net investment income has been modestly ahead of expectations and, accordingly, we are revising upwards our 2021 net investment income yield expectation from 1.5% to 1.6%.

Our 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 our risk appetite.

Investment holdings

At	30 Jun 2021 £m	31 Dec 2020 £m
Investment-grade credit[1]	**3,783.9**	3,736.6
High yield	**389.5**	349.0
Investment-grade private placements	**98.7**	103.9
Credit	**4,272.1**	4,189.5
Sovereign[1]	**13.8**	25.5
Total debt securities	**4,285.9**	4,215.0
Infrastructure debt	**257.7**	264.5
Commercial real estate loans	**214.4**	206.7
Cash and cash equivalents[2]	**805.2**	1,168.2
Investment property	**302.1**	292.1
Equity investments[3]	**4.7**	3.2
Total investment holdings	**5,870.0**	6,149.7

Notes:

1. Asset allocation at 30 June 2021 includes investment portfolio derivatives, which have a mark-to-market liability value of £52.6 million included in investment grade credit and £0.2 million in sovereign debt (31 December 2020: mark-to-market asset value of £7.7 million and £0.3 million respectively). This excludes non-investment derivatives that have been used to hedge interest on subordinated debt and operational cash flows.
2. Net of bank overdrafts: includes cash at bank and in hand and money market funds.
3. Equity investments consist of an equity fund which is valued based on external valuation reports received from a third-party fund manager.

At 30 June 2021, total investment holdings of £5,870.0 million were 4.5% lower than at the start of the year. Total debt securities were £4,285.9 million (31 December 2020: £4,215.0 million), of which 3.1% were rated as 'AAA' and a further 75.2% were rated as 'AA' or 'A'. The average duration at 30 June 2021 of total debt securities was 2.7 years (31 December 2020: 2.8 years).

At 30 June 2021, total unrealised gains, net of tax, on available-for-sale ("**AFS**") investments were £45.5 million (31 December 2020: £83.9 million).

Reconciliation of operating profit

	Notes	H1 2021 £m	H1 2020 £m
Motor	4	**231.1**	220.5
Home	4	**74.7**	35.3
Rescue and other personal lines	4	**20.5**	(16.2)
Commercial	4	**43.6**	25.3
Operating profit	4	**369.9**	264.9
Restructuring and one-off costs	4	**(91.5)**	(15.0)
Finance costs	11	**(17.1)**	(13.5)
Profit before tax	4	**261.3**	236.4
Tax	12	**(57.5)**	(43.8)
Profit for the period attributable to the owners of the Company		**203.8**	192.6

Operating profit by segment

All divisions contributed to profit in H1 2021, demonstrating the diversity of our multi-product, multi-brand and multi-channel portfolio. Motor operating profit increased due to the increase in prior-year reserve releases partially offset by lower instalment and other income, whilst Home operating profit increased primarily due to lower weather-related costs and higher prior-year reserve releases. Commercial operating profit increased significantly due to lower weather-related claims costs and increased gross written premium. Rescue operating profit of £29.0 million (H1 2020: £24.0 million) is included in the Rescue and other personal lines result.

Restructuring and one-off costs

We incurred £91.5 million of restructuring and one-off costs in H1 2021. £84.5 million of these costs were in relation to the purchase of the lease of our Bromley office announced earlier this year. The remainder of the restructuring costs were primarily in relation to additional initiatives including our property rationalisation strategy and our cost reduction programme.

Finance costs

Finance costs increased to £17.1 million (H1 2020: £13.5 million) primarily due to the full six-month effect of interest payments on the £260 million Tier 2 subordinated debt issued in June 2020 included in the 2021 figure.

Effective corporation tax rate

The effective tax rate for H1 2021 was 22.0% (H1 2020: 18.5%), higher than the standard UK corporation tax rate of 19.0% (H1 2020: 19.0%) driven primarily by the impact of a disallowable payment to buy out the lease on the Bromley office and disallowable expenses partly offset by tax relief for the Tier 1 coupon payments. The effective rate is higher than H1 2020 which also benefited from tax relief for the Tier 1 coupon payments.

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

Profit for the period ended 30 June 2021 increased by £11.2 million to £203.8 million (H1 2020: £192.6 million) as the increase in operating profit was partially offset by increased restructuring and one-off costs and finance costs.

Annualised return on tangible equity increased to 30.1% (H1 2020: 19.9%) due primarily to the higher operating profit. Profit after tax was adjusted for restructuring and one-off costs and coupon payments in respect of Tier 1 notes. As return on tangible equity excludes restructuring costs and intangible assets, return on equity, which includes these items, was lower for the period at 14.7% (H1 2020: 13.7%). For further details see note 15 to the condensed consolidated financial statements.

Note:

1. See glossary on pages 46 to 48 for definitions and appendix A – Alternative performance measures on pages 49 to 52 for reconciliation to financial statement line items.

Earnings per share

Basic earnings per share increased by 6.6% to 14.5 pence (H1 2020: 13.6 pence). Diluted earnings per share increased by 6.7% to 14.3 pence (H1 2020: 13.4 pence) mainly reflecting an increase in profit after tax.

Net asset value

	Note	30 Jun 2021 £m	31 Dec 2020 £m
Net assets[1]	15	**2,606.3**	2,699.7
Goodwill and other intangible assets	15	**(807.6)**	(786.8)
Tangible net assets	15	**1,798.7**	1,912.9
Closing number of Ordinary Shares (millions)	15	**1,336.0**	1,351.8
Net asset value per share (pence)	15	**195.1**	199.7
Tangible net asset value per share (pence)	15	**134.6**	141.5

Note:

1. See glossary on pages 46 to 48 for definitions and appendix A – Alternative performance measures on pages 49 to 52 for reconciliation to financial statement line items.

Net assets at 30 June 2021 decreased by £93.4 million to £2,606.3 million (31 December 2020: £2,699.7 million) and tangible net assets decreased to £1,798.7 million (31 December 2020: £1,912.9 million) following the payment of the 2020 final dividend and the completion of the first £50 million of the share buyback programme, a reduction in available-for-sale reserves and additional expenditure on intangible assets as we continued to invest in the business.

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

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

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

The Board has declared an interim dividend of 7.6 pence per share (2020: 7.4 pence), an increase of 0.2 pence per share (2.7%). At the Group's 2020 full year results it announced a share buyback programme of up to £100 million, with an initial tranche of £50 million completed in H1 2021. The second tranche of up to £50 million is expected to commence on or about 4 August and is expected to be completed ahead of the full-year results for 2021. This reflects the Board's continued confidence in the Group's capital position and the sustainability of its earnings. The £100 million share buyback was taken into account in the 2020 capital position.

After the interim dividend, the estimated solvency capital ratio was 195% as at 30 June 2021. The Group has outstanding Tier 2 debt issued in 2012 with nominal value of £250 million and a first call date during the first half of 2022. Excluding this debt, the Group's solvency ratio after the interim dividend would be 177% as at 30 June 2021.

The interim dividend is scheduled to be paid on 3 September 2021 to shareholders on the register on 13 August 2021. The ex-dividend date will be 12 August 2021.

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 2021.

Capital position

At 30 June 2021, the Group held a Solvency II capital surplus of £1.31 billion above its regulatory capital requirements, which was equivalent to an estimated solvency capital ratio of 195%, after the proposed interim dividend.

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

At	30 Jun 2021	31 Dec 2020
Solvency capital requirement (£ billion)	**1.37**	1.34
Capital surplus above solvency capital requirement (£ billion)	**1.31**	1.22
Solvency capital ratio post-dividends and share buyback	**195%**	191%

Movement in capital surplus

	30 Jun 2021 £bn	31 Dec 2020 £bn
Capital surplus at 1 January	**1.22**	0.85
Capital generation excluding market movements	**0.29**	0.59
Market movements	**(0.02)**	(0.02)
Capital generation	**0.27**	0.57
Change in solvency capital requirement	**(0.03)**	(0.02)
Surplus generation	**0.24**	0.55
Capital expenditure	**(0.05)**	(0.16)
Tier 2 debt issue	**–**	0.26
Cancellation of 2019 year-end distribution and reinstatement for 2020 half-year[1]	**–**	0.12
Interim dividend[2]	**(0.10)**	(0.10)
Final dividend[2]	**–**	(0.20)
Share buyback	**–**	(0.10)
Net surplus movement	**0.09**	0.37
Capital surplus at 30 June 2021 / 31 December 2020	**1.31**	1.22

Note:

1. Relates to the cancellation of the 2019 cash dividend (£197 million) and share buyback (£120 million); offset by the special dividend subsequently declared at half-year 2020.
2. Foreseeable dividends included above are adjusted to exclude the expected dividend waivers in relation to shares held by the employee share trusts, which are held to meet obligations arising on the various share option awards.

In H1 2021, the Group generated £0.27 billion of Solvency II capital, of which £0.05 billion related to a change in the Group's deferred tax rate, following the change to the UK corporation tax rate from 19% to 25% with effect from 1 April 2023. This was offset by £0.05 billion of capital expenditure and interim dividends of £0.10 billion. In 2021, capital expenditure levels are expected to reduce to around £120 million as core systems are being delivered. In addition, £84.5 million of restructuring costs in relation to the purchase of the Bromley office lease decreased capital generation in 2021.

Change in solvency capital requirement

	2021 £bn
Solvency capital requirement at 1 January	**1.34**
Model and parameter changes	**(0.04)**
Exposure changes	**0.07**
Solvency capital requirement at 30 June	**1.37**

The Group's SCR has increased by £0.03 billion in the year. Exposure changes resulted in a £0.07 billion increase, which was offset by a decrease of £0.04 billion relating to model and parameter changes.

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 2021. 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[1]	
Scenario	**30 Jun 2021**	31 Dec 2020
Deterioration of small bodily injury motor claims equivalent to that experienced in 2008/09	**(6pts)**	(6pts)
One-off catastrophe loss equivalent to the 1990 storm "Daria"	**(9pts)**	(8pts)
One-off catastrophe loss based on extensive flooding of the River Thames	**(9pts)**	(8pts)
Change in Solvency II reserving basis for PPOs to use a real discount rate of minus 1%[2]	**(9pts)**	(10pts)
100bps increase in credit spreads[3]	**(9pts)**	(9pts)
100bps decrease in interest rates with no change in the PPO real discount rate	**(2pts)**	(2pts)

Notes:

1. 2021 figures exclude from own funds the value of the £250 million Tier 2 subordinated debt which has a first call date of 27 April 2022. The comparative period has been represented on this basis, with the only change being the interest rate sensitivity which was reported as (3pts) at 31 December 2020.
2. 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 PRA discount rate curve.
3. Only includes the impact on AFS assets (excludes illiquid assets such as infrastructure debt) and assumes no change to the SCR.

Own funds

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

At	30 Jun 2021 £bn	31 Dec 2020 £bn
Tier 1 capital before foreseeable distributions	**1.79**	1.84
Foreseeable dividend and share buyback	**(0.15)**	(0.30)
Tier 1 capital – unrestricted	**1.64**	1.54
Tier 1 capital – restricted	**0.37**	0.38
Tier 1 capital	**2.01**	1.92
Tier 2 capital – subordinated debt	**0.52**	0.53
Tier 3 capital – deferred tax	**0.15**	0.11
Total own funds	**2.68**	2.56

During H1 2021, the Group's own funds increased from £2.56 billion to £2.68 billion. Tier 1 capital after foreseeable distributions represents 75% of own funds and 147% of the estimated SCR. Tier 2 capital relates solely to the Group's £0.52 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 is less than 15%. Therefore, the Group currently has no ineligible capital to meet the consolidated Group SCR. 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 2021 £bn	31 Dec 2020 £bn
Total shareholders' equity	**2.61**	2.70
Goodwill and intangible assets	**(0.81)**	(0.79)
Change in valuation of technical provisions	**0.08**	0.04
Other asset and liability adjustments	**(0.09)**	(0.11)
Foreseeable dividend and share buyback	**(0.15)**	(0.30)
Tier 1 capital – unrestricted	**1.64**	1.54
Tier 1 capital – restricted	**0.37**	0.38
Tier 1 capital	**2.01**	1.92
Tier 2 capital – subordinated debt	**0.52**	0.53
Tier 3 capital – deferred tax	**0.15**	0.11
Total own funds	**2.68**	2.56

Leverage

The Group's financial leverage increased by 0.6 percentage points to 24.8% (2020: 24.2%). The increase was primarily due to a decrease in shareholder's equity following the payment of the 2020 final dividend and the first £50 million tranche of the share buyback programme, partially offset by H1 2021 profits.

At	30 Jun 2021 £m	31 Dec 2020 £m
Shareholders' equity	**2,606.3**	2,699.7
Tier 1 notes	**346.5**	346.5
Financial debt – subordinated debt	**515.0**	516.6
Total capital employed	**3,467.8**	3,562.8
Financial-leverage ratio[1]	**24.8%**	24.2%

Notes:

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

Credit ratings

Moody's Investors Service provide insurance financial-strength ratings for U K Insurance Limited, our principal underwriter. Moody's rate U K Insurance Limited as 'A1' for insurance financial strength (strong) with a stable outlook.

Reserving

We make provision for the full cost of outstanding claims from the general insurance business at the balance sheet date, including claims estimated to have been incurred but not yet reported at that date and associated claims handling costs. We consider 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.

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

The most common method of settling bodily injury claims is by a lump sum. When this includes an element of indemnity for recurring costs, such as loss of earnings or ongoing medical care, the settlement calculations apply the statutory discount rate (known as the Ogden discount rate) to reflect the fact that payment is made on a one-off basis rather than periodically over time. The current Ogden discount rate is minus 0.25% for England and Wales, minus 0.75% in Scotland, and minus 1.75% in Northern Ireland.

We reserve our large bodily injury claims at the relevant discount rate for each jurisdiction, with the overwhelming majority now case reserved at minus 0.25% as most will be settled under the law of England and Wales. The Ogden discount rate will be reviewed again at the latest in 2024. There has been an ongoing reduction in large bodily injury exposures as a result of continued positive prior-year development of claims reserves, and a higher proportion of reserves being covered by reinsurance as a result of the decision to opt for a lower reinsurance attachment point from 2014 onwards.

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

Higher claims inflation continues to be a risk given the recent rise in global inflation across a wide range of sectors and commodities, which has also been evident in the UK. Many commentators expect inflation to overshoot central bank targets, in some cases to a material extent. The UK's emergence from Covid lockdowns and prospects for the pandemic to continue beyond the end of 2021 are further sources of uncertainty and potential economic strain. Claims inflation scenarios therefore remain relevant.

Prior-year reserve releases were £152.9 million (H1 2020: £123.2 million) concentrated towards more recent accident years with good experience in large bodily injury claims in later accident years also being a key contributor.

Looking forward, we expect to continue setting our initial management best estimate with an appropriate degree of conservatism. Assuming current claims trends continue, the contribution from prior-year reserve releases is expected to remain significant.

Claims reserves net of reinsurance

At	**30 Jun 2021**	31 Dec 2020
	£m	£m
Motor	**1,592.6**	1,678.9
Home	**288.2**	289.5
Rescue and other personal lines	**122.4**	104.8
Commercial	**511.1**	518.5
Total	**2,514.3**	2,591.7

Sensitivity analysis – the discount rate used in relation to PPOs, changes in the assumed Ogden discount rate and claims inflation

The table below provides a sensitivity analysis of the potential net impact of a change in a single factor (the internal discount rate used for PPOs, the Ogden discount rate or claims inflation) with all other assumptions left unchanged. Other potential risks beyond the ones described could have additional financial impacts.

	Increase/(decrease) in profit before tax[1,2]	
At	**30 Jun 2021**	31 Dec 2020
	£m	£m
PPOs[3]		
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	**45.6**	45.9
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(61.9)**	(62.7)
Ogden discount rate[4]		
Impact of the Group reserving at a discount rate of 0.75% compared to minus 0.25% (2020: 0.75% compared to minus 0.25%)	**39.5**	43.7
Impact of the Group reserving at a discount rate of minus 1.25% compared to minus 0.25% (2020: minus 1.25% compared to minus 0.25%)	**(55.0)**	(61.1)
Claims inflation		
Impact of a decrease in claims inflation by 100 basis points for two consecutive years	**36.0**	32.4
Impact of an increase in claims inflation by 100 basis points for two consecutive years	**(35.7)**	(32.2)

Notes:

1. These sensitivities are net of reinsurance and exclude the impact of taxation.
2. These sensitivities reflect one-off impacts at the balance sheet date 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 assumed level of 0% for reserving. The PPO sensitivity has been calculated on the direct impact of the change in the real internal discount rate with all other factors remaining unchanged.
4. Ogden discount rate sensitivity has been calculated on the direct impact of a permanent change in the discount rate in England and Wales with all other factors remaining unchanged. We will consider the statutory discount rate when setting its reserves but not necessarily provide on this basis. This is intended to ensure that reserves are appropriate for current and potential future developments.

The PPO sensitivity above is calculated on the basis of a change in the internal discount rate used for the actuarial best estimate reserves as at 30 June 2021. It does not take into account any second order impacts such as changes in PPO propensity or reinsurance bad debt assumptions.

Principal risks and uncertainties

We carefully assess the principal risks facing us. Principal risks are defined as having a residual risk impact of £40 million or more on a 1-in-200 years basis, taking into account customer, financial and reputational impacts. The Group considers that the Risk profile remains broadly unchanged over the last six months and since the profile disclosed in the Annual Report and Accounts 2020 Risk management section on pages 71 to 72.

Principal risk
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. Key drivers of the outlook for Insurance risk across our business plan include reserve, underwriting, distribution, pricing and reinsurance risks.
Market risk The risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. Key drivers of market risk are the sensitivity of the values of our assets and investments to changes in credit spreads, and our exposure to losses as a result of changes in interest rate term structure or volatility.
Operational risk The risk of loss due to inadequate or failed internal processes or systems, human error or from external events. The key risks within this category are Cyber, Technology & Infrastructure, Operational Resilience, Change, People, Information Management, Outsourcing, Partnerships and Fraud.
Regulatory and compliance risk The risks leading to reputational damage, regulatory or legal censure, fines or prosecutions and other types of non-budgeted operational risk losses associated with the Group's conduct and activities.
Credit risk The risk of loss resulting from default in obligations due from and/or changes in the credit standing of issuers of securities, counterparties or any debtors to which the Group is exposed.
Strategic risk The risk of direct or indirect adverse effects resulting from strategies not being optimally chosen, implemented or adapted to changing conditions.

Potential effects of Covid-19 and Brexit on inflation

In 2021 and beyond, Brexit and potential recession may have an impact on claims inflation together with market and customer behaviour.

The entering into of a trade and co-operation agreement between the UK and the EU helped avoid the more disruptive potential outcomes of Brexit, however the Covid-19 pandemic has to some extent masked certain effects of Brexit. Certain risks related to Brexit could still occur or be exacerbated to some degree, and we continue to be alert to possible developments.

Our business model has demonstrated resilience in the face of Covid-19 disruption, however the risk of further market shocks is ongoing and economic uncertainty is expected to remain high throughout H2 2021.

Globally, the market shock caused by the Covid-19 pandemic initially resulted in credit spreads in Europe and the US moving to levels last seen in the 2008/09 credit crisis and equity markets posted extremely steep percentage falls. Whilst markets have recovered to a degree, there still remains uncertainty over the duration and continued impact of the pandemic. As a result of the Covid-19 pandemic, the UK Government has acted to support UK employees and prevent lasting damage to the economy. However, the current economic recovery progress could slow or revert when governments unwind support in H2 2021. The disruption to global trade and supply-chains caused by the pandemic could increase the risk of inflation in the long-term. Specific examples where this may be relevant to the Group include cost of care inflation and motor claims inflation.

The Group's investment portfolio is positioned relatively defensively; however, if global financial instability were to worsen significantly, additional steps could be taken such as further shifting the portfolio towards 'defensive' sectors or increasing more allocation to cash.

The Group portfolio contains a proportion of short-maturity bonds which could be sold relatively quickly if necessary. Recent stress and scenario testing has highlighted that the largest impacts of market shocks would be on the Group's asset portfolio. The Group believes that the risks from market shocks are being appropriately monitored.

Emerging risks

Emerging risks are defined in the Group as newly developing risks that are often difficult to quantify but may materially affect the Group. Emerging risks are usually highly uncertain risks which are external to the Group. The Group has in place an emerging risks process designed to enable it to:

- have a proactive approach to emerging risk management;
- identify, manage and monitor a broad range of potential emerging risks; and
- mitigate the impact of emerging risks which could impact the delivery of the Plan.

The Group records emerging risks within an Emerging Risk Register. An update on emerging risks is presented to the Board Risk Committee annually and is supplemented by deep dives into selected emerging risks. During 2020, the Group Risk Function worked with first line of defence subject matter experts to enhance the quality and detail of emerging risk updates.

Key emerging risks are outlined below:

Climate change

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

Following the issue of the PRA's Supervisory Statement SS3/19, the Group has appointed the Chief Risk Officer as the Senior Management Function holder for Climate Change and put an initial plan in place to address the expectations set out in the supervisory statement.

The Group has updated risk policies and minimum standards explicitly to reference the risks from climate change, and we reviewed climate-related key performance indicators for energy usage and emissions across the business throughout H2 2020, to help inform future climate-related financial disclosures.

The risks and impacts of climate change are wide ranging; the Group is focusing increasingly on climate change, with related risk management activity which includes monitoring climate change through the Emerging Risk process, forming a Climate Change working group and continuing its journey to implement the recommendations of the TCFD.

As part of embedding the management of these climate-related financial risks in 2021, the Group is currently participating in the Bank of England's CBES exercise, which is designed to test the resilience of the financial system to the physical and transition risks from climate change.

Finally, we have committed to Science-Based Targets for Scope 1,2 and 3 to help the Group to reduce its carbon footprint and we continue to make good progress towards becoming a 100% carbon neutral business by investing in high impact social projects to offset scope 1,2 and 3 emissions.

Ethical use of data

The Group identified the need to establish a framework to address the increased focus from the Group's regulators on data ethics as an Emerging Risk in H2 2019, with activity underway to mitigate against associated risks. The industry and policymakers' view of this risk is still emerging, as legislation and regulation in this area is yet to mature; however, it is a growing area of focus for the Group's regulators and for the Group itself.

A Data Ethics Framework has been created which forms part of the Group's Data Governance structure. The Data Ethics Framework outlines how the Group will incorporate emerging data ethics considerations into current Customer Conduct processes and forums and the escalation route for ethical issues to the Customer Conduct Committee, with a new Data Governance Forum and Data Governance Steering Committee set up to provide oversight.

It is intended that data ethics principles will be incorporated into the data governance roll out across business areas, and work will continue through 2021 to confirm and embed the proposed principles-based approach.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2021

	Notes	**6 months 2021 £m unaudited**	6 months 2020 £m unaudited	Full year 2020 £m audited
Gross earned premium		**1,566.8**	1,585.3	3,189.3
Reinsurance premium		**(111.2)**	(110.9)	(228.8)
Net earned premium	5	**1,455.6**	1,474.4	2,960.5
Investment return	6	**68.4**	41.3	95.1
Instalment income		**49.1**	54.8	109.3
Other operating income	7	**23.1**	25.2	49.9
Total income		**1,596.2**	1,595.7	3,214.8
Insurance claims		**(814.4)**	(738.2)	(1,730.4)
Insurance claims recoverable from / (payable to) reinsurers		**57.3**	(130.8)	16.8
Net insurance claims	8	**(757.1)**	(869.0)	(1,713.6)
Commission expenses	9	**(106.6)**	(89.8)	(254.7)
Operating expenses (including restructuring and one-off costs)	10	**(454.1)**	(387.0)	(763.8)
Total expenses		**(560.7)**	(476.8)	(1,018.5)
Finance costs	11	**(17.1)**	(13.5)	(31.3)
Profit before tax		**261.3**	236.4	451.4
Tax charge	12	**(57.5)**	(43.8)	(84.2)
Profit for the period attributable to owners of the Company		**203.8**	192.6	367.2
Earnings per share:				
Basic (pence)	14	**14.5**	13.6	25.8
Diluted (pence)	14	**14.3**	13.4	25.5

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	6 months 2021 £m unaudited	6 months 2020 £m unaudited	Full year 2020 £m audited
Profit for the period attributable to owners of the Company	**203.8**	192.6	367.2
Other comprehensive (loss) / income			
Items that will not be reclassified subsequently to the income statement:			
Actuarial loss on defined benefit plan	**–**	–	(0.4)
Tax relating to items that will not be reclassified	**0.2**	0.2	0.3
	0.2	0.2	(0.1)
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges	**(0.1)**	(0.3)	(0.1)
Fair value (loss) / gain on AFS investments	**(36.2)**	(46.1)	47.4
Less: realised net (gains) / losses on AFS investments included in the income statement	**(6.8)**	3.6	(1.1)
Tax relating to items that may be reclassified	**4.6**	6.9	(9.9)
	(38.5)	(35.9)	36.3
Other comprehensive (loss) / income for the period net of tax	**(38.3)**	(35.7)	36.2
Total comprehensive income for the period attributable to the owners of the Company	**165.5**	156.9	403.4

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2021

	Notes	30 Jun 2021 £m unaudited	31 Dec 2020 £m audited
Assets			
Goodwill and other intangible assets		**807.6**	786.8
Property, plant and equipment		**158.5**	146.1
Right-of-use-assets		**77.0**	137.8
Investment property		**302.1**	292.1
Reinsurance assets	16	**1,110.6**	1,129.2
Deferred acquisition costs		**181.4**	172.2
Insurance and other receivables		**836.6**	848.2
Prepayments, accrued income and other assets		**128.1**	126.0
Derivative financial instruments		**23.6**	73.4
Retirement benefit asset		**9.0**	9.0
Financial investments	17	**4,815.5**	4,681.4
Cash and cash equivalents	18	**859.5**	1,220.1
Total assets		**9,309.5**	9,622.3
Equity			
Shareholders' equity		**2,606.3**	2,699.7
Tier 1 notes	20	**346.5**	346.5
Total equity		**2,952.8**	3,046.2
Liabilities			
Subordinated liabilities	21	**515.0**	516.6
Insurance liabilities	22	**3,556.9**	3,617.0
Unearned premium reserve		**1,486.8**	1,497.1
Borrowings	18	**54.3**	51.9
Derivative financial instruments		**71.1**	57.2
Provisions		**104.2**	114.8
Trade and other payables including insurance payables		**475.2**	549.9
Lease liabilities		**83.9**	152.4
Deferred tax liabilities		**2.0**	8.7
Current tax liabilities		**7.3**	10.5
Total liabilities		**6,356.7**	6,576.1
Total equity and liabilities		**9,309.5**	9,622.3

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	Share capital (note 19) £m	Employee trust shares £m	Capital reserves £m	AFS revaluation reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Share-holders' equity £m	Tier 1 notes (note 20) £m	Total Equity £m
Balance at 1 January 2020 (audited)	150.0	(30.2)	1,450.0	47.5	0.1	1,026.2	2,643.6	346.5	2,990.1
Profit for the year	—	—	—	—	—	367.2	367.2	—	367.2
Other comprehensive income	—	—	—	36.4	(0.1)	(0.1)	36.2	—	36.2
Dividends and appropriations paid (note 13)	—	—	—	—	—	(312.5)	(312.5)	—	(312.5)
Shares acquired by employee trusts	—	(23.8)	—	—	—	—	(23.8)	—	(23.8)
Shares cancelled following buyback	(1.1)		1.1			(30.0)	(30.0)		(30.0)
Credit to equity for equity-settled share-based payments	—	—	—	—	—	18.5	18.5	—	18.5
Shares distributed by employee trusts	—	13.7	—	—	—	(13.7)	—	—	—
Tax on share-based payments	—	—	—	—	—	0.5	0.5	—	0.5
Balance at 31 December 2020 (audited)	148.9	(40.3)	1,451.1	83.9	—	1,056.1	2,699.7	346.5	3,046.2
Profit for the year	**–**	**–**	**–**	**–**	**–**	**203.8**	**203.8**	**–**	**203.8**
Other comprehensive loss	**–**	**–**	**–**	**(38.4)**	**(0.1)**	**0.2**	**(38.3)**	**–**	**(38.3)**
Dividends and appropriations paid (note 13)	**–**	**–**	**–**	**–**	**–**	**(207.2)**	**(207.2)**	**–**	**(207.2)**
Shares acquired by employee trusts	**–**	**(10.3)**	**–**	**–**	**–**	**–**	**(10.3)**	**–**	**(10.3)**
Shares cancelled following buyback	**(1.8)**	**–**	**1.8**	**–**	**–**	**(50.3)**	**(50.3)**	**–**	**(50.3)**
Credit to equity for equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**8.8**	**8.8**	**–**	**8.8**
Shares distributed by employee trusts	**–**	**13.1**	**–**	**–**	**–**	**(13.1)**	**–**	**–**	**–**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**0.1**	**0.1**	**–**	**0.1**
Balance at 30 June 2021 (unaudited)	**147.1**	**(37.5)**	**1,452.9**	**45.5**	**(0.1)**	**998.4**	**2,606.3**	**346.5**	**2,952.8**

	Share capital (note 19) £m	Employee trust shares £m	Capital reserves £m	AFS revaluation reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Share-holders' equity £m	Tier 1 notes (note 20) £m	Total Equity £m
Balance at 1 January 2020 (audited)	150.0	(30.2)	1,450.0	47.5	0.1	1,026.2	2,643.6	346.5	2,990.1
Profit for the year	—	—	—	—	—	192.6	192.6	—	192.6
Other comprehensive loss	—	—	—	(35.6)	(0.3)	0.2	(35.7)	—	(35.7)
Dividends and appropriations paid (note 13)	—	—	—	—	—	(8.3)	(8.3)	—	(8.3)
Shares acquired by employee trusts	—	(14.9)	—	—	—	—	(14.9)	—	(14.9)
Shares cancelled following buyback	(1.1)	—	1.1	—	—	(30.0)	(30.0)	—	(30.0)
Credit to equity for equity-settled share-based payments	—	—	—	—	—	9.0	9.0	—	9.0
Shares distributed by employee trusts	—	8.8	—	—	—	(8.8)	—		—
Tax on share-based payments	—	—	—	—	—	0.2	0.2	—	0.2
Balance at 30 June 2020 (unaudited)	148.9	(36.3)	1,451.1	11.9	(0.2)	1,181.1	2,756.5	346.5	3,103.0

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2021

	Notes	**6 months 2021 £m unaudited**	6 months 2020 £m unaudited	Full year 2020 £m audited
Net cash generated from operating activities before investment of insurance assets		**107.5**	50.8	268.8
Cash (used by) / generated from investment of insurance assets		**(9.0)**	368.9	315.9
Net cash generated from operating activities		**98.5**	419.7	584.7
Cash flows used in investing activities				
Purchases of goodwill and other intangible assets		**(53.6)**	(59.4)	(140.7)
Purchases of property, plant and equipment		**(20.0)**	(6.2)	(20.1)
Net cash flows from acquisition of subsidiaries		**–**	–	(0.2)
Net cash used in investing activities		**(73.6)**	(65.6)	(161.0)
Cash flows used in financing activities				
Dividends and appropriations paid	13	**(207.2)**	(8.3)	(312.5)
Finance costs (including lease interest)		**(15.7)**	(13.0)	(30.2)
Principal element of lease payments		**(104.4)**	(6.5)	(12.5)
Purchase of employee trust shares		**(10.3)**	(14.9)	(23.8)
Proceeds on issue of subordinated Tier 2 notes		**–**	257.2	257.2
Shares purchased in buyback		**(50.3)**	(30.0)	(30.0)
Net (cash used in) / generated from financing activities		**(387.9)**	184.5	(151.8)
Net (decrease) / increase in cash and cash equivalents		**(363.0)**	538.6	271.9
Cash and cash equivalents at the beginning of the year	18	**1,168.2**	896.3	896.3
Cash and cash equivalents at the end of the period	18	**805.2**	1,434.9	1,168.2

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 2020 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 2020 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 policies

Basis of preparation

Prior to the UK's exit from the European Union on 31 December 2020, the annual financial statements of the Group were 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 UK.

Going concern

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

The Directors have assessed the principal risks of the Group over the duration of the planning cycle. These included the implementation of the FCA's Pricing Practices review, change risk and possible challenging market conditions due to the impact of the Covid-19 pandemic on the economy, customer behaviour and the pricing environment. The 2020 Strategic Plan modelled a number of different scenarios which were directly and indirectly influenced by the Covid-19 pandemic. These included delay to improvements in technological capability, the impact of the pandemic on claims frequency levels and the impact on the investment return. The key judgements applied were in relation to the likely time period of Covid-19 related restrictions, and the subsequent impact on customer behaviour and the economic recovery. The Strategic Plan has been refreshed in the first part of 2021 and indicates that the Group will continue to maintain levels of solvency in line with its risk appetite across the planning cycle (to 31 December 2025).

In addition, the Group's Risk Function has carried out an assessment of the risks to the Strategic Plan and the dependencies for the success of the Plan. This included running stress tests on the Plan to consider the 1 in 8 years and 1 in 25 years loss simulations based on the internal economic capital model. In both scenarios, it was concluded that the Group's solvency capital requirement would not be breached following the implementation of management actions.

A reverse stress test was also performed to identify the most probable combination of stresses that would result in capital loss and thus threaten the viability of U K Insurance Limited, the Group's principal underwriter, i.e. a reduction of own funds to below the solvency capital requirement. The purpose of this reverse stress test was to assess the coverage and scope of the internal economic capital model and no material findings were identified to invalidate the internal model.

Therefore, having made due enquiries, the Directors reasonably expect that the Group has adequate resources to continue in operational existence for at least 12 months from 2 August 2021 (the date of approval of the condensed consolidated financial statements). Accordingly, the Directors have adopted the going concern basis in preparing the condensed consolidated financial statements.

Accounting policies and developments

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

The Group has adopted Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 'Interest Rate Benchmark Reform – Phase 2' from 1 January 2021.

The Group has applied the Phase 2 amendments retrospectively. However, in accordance with the exceptions permitted in the Phase 2 amendments, the Group has elected not to restate the prior period to reflect the application of these amendments, including not providing additional disclosures for 2020. There is no impact on the opening equity balance as a result of retrospective application.

IFRS 17 'Insurance Contracts' was issued by the IASB in May 2017 to replace IFRS 4 'Insurance Contracts' and is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. IFRS 17 is a comprehensive new accounting standard for all insurance contracts covering recognition and measurement, presentation and disclosure. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers and to replace the requirements of IFRS 4 that allowed insurers to apply grandfathering of previous local accounting policies.

The core of IFRS 17 is the general model, supplemented by an optional simplified premium allocation approach which is permitted for the liability for the remaining coverage for short-duration contracts. The general model measures insurance contracts using the building blocks of: discounted probability-weighted cash flows; an explicit risk adjustment; and a contractual service margin representing the unearned profit of the contract which is recognised as revenue over the coverage period.

An initial assessment of the impact of IFRS 17 on the Group's financial statements has been completed and work continues on the design and building of the systems that will provide the foundation for reporting under IFRS 17 from 1 January 2023. The Group expects to be able to apply the simplified premium allocation approach to all material insurance and reinsurance contract groups. The standard is yet to be endorsed in the UK.

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

3. Critical accounting judgements and key sources of estimation uncertainty

Full details of critical accounting judgements and key sources of estimation uncertainty used in applying the Group's accounting policies are outlined on pages 170 to 171 of the Annual Report & Accounts 2020. The judgements and assumptions involved in the Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition have been reviewed by the Board and it has been determined, following the successful implementation of the Group's new Motor platform, that 'impairment provisions - intangible assets' is no longer a critical accounting judgement or source of estimation uncertainty. This is because the Group's most significant intangible asset, the Motor platform as above, has begun amortisation over the period of its expected useful economic life. There have been no other significant changes since 31 December 2020; however, in the light of the continuing pandemic, an update is provided below.

3.1 Impairment provisions – financial assets

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

The majority of the Group's financial assets are classified as AFS (30 June 2021: £4,240.0 million; 31 December 2020: £4,103.1 million). Impairment losses and exchange differences arising from translating the amortised cost of foreign currency monetary AFS financial assets are recognised in the income statement. Other changes in fair value are recognised in a separate component of equity. No impairments have been recognised in the AFS portfolio. Had all of the declines in AFS asset values from 1 January 2021 to 30 June 2021 met the criteria explained on page 170 of the Annual Report & Accounts 2020, this would have resulted in a loss of £9.5 million (year ended 31 December 2020: loss £3.0 million).

The Group has a small portfolio of investments classified as HTM (30 June 2021: £98.7 million 31 December 2020: £103.9 million). These assets are measured at amortised cost and there have been no impairment losses.

The Group has a portfolio of investments classified as loans and receivables, comprising infrastructure debt and commercial real estate loans (total 30 June 2021: £472.1 million; 31 December 2020: £471.2 million). There have been no impairment losses for either infrastructure or commercial real estate loans included in the condensed consolidated financial statements for the six months ending 30 June 2021, and the Group will continue to monitor developments accordingly.

3.2 Fair value of investment properties

The Group holds a portfolio of investment properties, with a fair value at 30 June 2021 of £302.1 million (31 December 2020: £292.1 million). Where quoted market prices are not available, valuation techniques are used to value these properties. The fair value is determined using a methodology based on recent market transactions for similar properties, which have been adjusted for the specific characteristics of each property within the portfolio. The valuation in the financial statements is based on valuations by independent registered valuers and the techniques used include some unobservable inputs. The valuations used for investment properties are classified in the level 3 category of the fair value hierarchy (see note 23).

3.3 General insurance: outstanding claims provisions and related reinsurance recoverables

General insurance claims provisions are £3,556.9 million at 30 June 2021 (31 December 2020: £3,617.0 million) and reinsurance recoverables are £1,042.6 million at 30 June 2021 (31 December 2020: £1,025.3 million).

The Group's reserves are exposed to the risk of changes in claims development patterns and claims inflation. Changes in claims frequency present greater uncertainty for the unearned part of the business, whereas uncertainty over the level of claims severity has a greater impact on the earned claims reserves. Claims severity risk is particularly acute with respect to care costs for large bodily injury claims and car repair costs due to potential supply chain interruptions from the pandemic, Brexit and other causes.

An increase in general claims inflation continues to be a risk given the recent rise in global inflation across a wide range of sectors and commodities, which has also been evident in the UK. Many commentators expect inflation to overshoot central bank targets, in some cases to a material extent. The UK's emergence from Covid-19 lockdowns and prospects for the pandemic to continue beyond the end of 2021 are further sources of uncertainty and potential economic strain.

There have been no other significant changes to the principles or assumptions of these critical accounting judgements and key sources of estimation uncertainty during the six months to 30 June 2021.

4. Segmental analysis

The table below analyses the Group's revenue and results by reportable segment for the period ended 30 June 2021 (unaudited).

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	**Total Group £m**
Gross written premium	755.6	278.3	186.5	336.1	**1,556.5**
Gross earned premium	796.4	287.2	188.7	294.5	**1,566.8**
Reinsurance premium	(68.5)	(12.9)	(1.5)	(28.3)	**(111.2)**
Net earned premium	727.9	274.3	187.2	266.2	**1,455.6**
Investment return	45.6	6.9	2.0	13.9	**68.4**
Instalment income	35.9	9.1	1.5	2.6	**49.1**
Other operating income	17.2	1.0	3.9	1.0	**23.1**
Total income	826.6	291.3	194.6	283.7	**1,596.2**
Insurance claims	(420.7)	(131.4)	(103.4)	(158.9)	**(814.4)**
Insurance claims recoverable from / (payable to) reinsurers	34.1	2.5	(7.8)	28.5	**57.3**
Net insurance claims	(386.6)	(128.9)	(111.2)	(130.4)	**(757.1)**
Commission expenses	(22.7)	(16.0)	(15.3)	(52.6)	**(106.6)**
Operating expenses before restructuring and one-off costs	(186.2)	(71.7)	(47.6)	(57.1)	**(362.6)**
Total expenses	(208.9)	(87.7)	(62.9)	(109.7)	**(469.2)**
Operating profit	**231.1**	**74.7**	**20.5**	**43.6**	**369.9**
Restructuring and one-off costs					**(91.5)**
Finance costs					**(17.1)**
Profit before tax					**261.3**

Underwriting profit	**132.4**	**57.7**	**13.1**	**26.1**	**229.3**
Loss ratio	53.1%	47.0%	59.4%	49.0%	**52.0%**
Commission ratio	3.1%	5.8%	8.2%	19.8%	**7.3%**
Expense ratio	25.6%	26.2%	25.4%	21.4%	**24.9%**
Combined operating ratio	**81.8%**	**79.0%**	**93.0%**	**90.2%**	**84.2%**

The table below analyses the Group's assets and liabilities by reportable segment for the period ended 30 June 2021 (unaudited).

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	**Total Group £m**
Goodwill	130.4	45.8	28.7	10.1	**215.0**
Other segment assets	6,526.9	743.4	338.6	1,485.6	**9,094.5**
Segment liabilities	(4,526.4)	(543.9)	(218.1)	(1,068.3)	**(6,356.7)**
Segment net assets	**2,130.9**	**245.3**	**149.2**	**427.4**	**2,952.8**

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

	Motor	Home	Rescue and other personal lines	Commercial	Total Group
	£m	£m	£m	£m	£m
Gross written premium	805.3	276.1	210.1	289.3	1,580.8
Gross earned premium	813.7	290.6	214.8	266.2	1,585.3
Reinsurance premium	(73.3)	(12.8)	(1.6)	(23.2)	(110.9)
Net earned premium	740.4	277.8	213.2	243.0	1,474.4
Investment return	27.4	4.3	1.5	8.1	41.3
Instalment income	40.2	9.7	1.4	3.5	54.8
Other operating income	18.9	0.1	4.9	1.3	25.2
Total income	826.9	291.9	221.0	255.9	1,595.7
Insurance claims	(255.8)	(169.9)	(198.2)	(114.3)	(738.2)
Insurance claims (payable to) / recoverable from reinsurers	(146.0)	7.7	18.9	(11.4)	(130.8)
Net insurance claims	(401.8)	(162.2)	(179.3)	(125.7)	(869.0)
Commission expenses	(21.4)	(19.0)	(6.4)	(43.0)	(89.8)
Operating expenses before restructuring and one-off costs	(183.2)	(75.4)	(51.5)	(61.9)	(372.0)
Total expenses	(204.6)	(94.4)	(57.9)	(104.9)	(461.8)
Operating profit / (loss)	220.5	35.3	(16.2)	25.3	264.9
Restructuring and one-off costs					(15.0)
Finance costs					(13.5)
Profit before tax					236.4

Underwriting profit / (loss)	134.0	21.2	(24.0)	12.4	143.6
Loss ratio	54.3%	58.5%	84.1%	51.7%	59.0%
Commission ratio	2.9%	6.8%	3.0%	17.7%	6.1%
Expense ratio	24.7%	27.1%	24.2%	25.5%	25.2%
Combined operating ratio	81.9%	92.4%	111.3%	94.9%	90.3%

The table below analyses the Group's assets and liabilities by reportable segment for the period ended 30 June 2020 (unaudited).

	Motor	Home	Rescue and other personal lines	Commercial	Total Group
	£m	£m	£m	£m	£m
Goodwill	129.6	45.8	28.7	10.1	214.2
Other segment assets	6,669.5	780.3	417.4	1,490.4	9,357.6
Segment liabilities	(4,576.7)	(560.8)	(280.5)	(1,050.8)	(6,468.8)
Segment net assets	2,222.4	265.3	165.6	449.7	3,103.0

4. Segmental analysis continued

The table below analyses the Group's revenue and results by reportable segment for the year ended 31 December 2020 (audited).

	Motor	Home	Rescue and other personal lines	Commercial	Total Group
	£m	£m	£m	£m	£m
Gross written premium	1,616.9	577.9	417.8	567.8	3,180.4
Gross earned premium	1,635.3	581.9	425.6	546.5	3,189.3
Reinsurance premium	(150.5)	(26.1)	(2.7)	(49.5)	(228.8)
Net earned premium	1,484.8	555.8	422.9	497.0	2,960.5
Investment return	62.8	10.3	3.4	18.6	95.1
Instalment income	80.1	19.2	3.0	7.0	109.3
Other operating income	38.4	0.2	8.9	2.4	49.9
Total income	1,666.1	585.5	438.2	525.0	3,214.8
Insurance claims	(889.2)	(316.5)	(279.1)	(245.6)	(1,730.4)
Insurance claims recoverable from / (payable to) reinsurers	1.1	7.4	18.0	(9.7)	16.8
Net insurance claims	(888.1)	(309.1)	(261.1)	(255.3)	(1,713.6)
Commission expenses	(47.4)	(45.0)	(69.4)	(92.9)	(254.7)
Operating expenses before restructuring and one-off costs	(367.1)	(130.0)	(100.9)	(126.4)	(724.4)
Total expenses	(414.5)	(175.0)	(170.3)	(219.3)	(979.1)
Operating profit	363.5	101.4	6.8	50.4	522.1
Restructuring and one-off costs					(39.4)
Finance costs					(31.3)
Profit before tax					451.4

	Motor	Home	Rescue and other personal lines	Commercial	Total Group
Underwriting profit / (loss)	182.2	71.7	(8.5)	22.4	267.8
Loss ratio	59.8%	55.6%	61.7%	51.4%	57.9%
Commission ratio	3.2%	8.1%	16.4%	18.7%	8.6%
Expense ratio	24.7%	23.4%	23.9%	25.4%	24.5%
Combined operating ratio	87.7%	87.1%	102.0%	95.5%	91.0%

The table below analyses the Group's assets and liabilities by reportable segment for the year ended 31 December 2020 (audited).

	Motor	Home	Rescue and other personal lines	Commercial	Total Group
	£m	£m	£m	£m	£m
Goodwill	129.6	45.8	28.7	10.1	214.2
Other segment assets	6,874.0	765.5	304.2	1,464.4	9,408.1
Segment liabilities	(4,771.6)	(558.7)	(196.2)	(1,049.6)	(6,576.1)
Segment net assets	2,232.0	252.6	136.7	424.9	3,046.2

5. Net earned premium

	6 months 2021 £m unaudited	6 months 2020 £m unaudited	Full year 2020 £m audited
Gross earned premium:			
Gross written premium	**1,556.5**	1,580.8	3,180.4
Movement in unearned premium reserve	**10.3**	4.5	8.9
	1,566.8	1,585.3	3,189.3
Reinsurance premium paid and payable:			
Premium payable	**(75.3)**	(97.2)	(231.0)
Movement in reinsurance unearned premium reserve	**(35.9)**	(13.7)	2.2
	(111.2)	(110.9)	(228.8)
Total	**1,455.6**	1,474.4	2,960.5

6. Investment return

	6 months 2021 £m unaudited	6 months 2020 £m unaudited	Full year 2020 £m audited
Investment income			
Interest income from:			
Debt securities	**46.7**	49.6	98.6
Cash and cash equivalents	**0.1**	2.2	2.5
Infrastructure debt	**2.2**	3.2	5.8
Commercial real estate loans	**2.9**	3.3	6.5
Interest income	**51.9**	58.3	113.4
Rental income from investment property	**7.0**	6.5	13.7
	58.9	64.8	127.1
Net realised gains / (losses)			
AFS debt securities	**6.8**	(3.6)	1.1
Derivatives	**79.7**	(6.3)	69.9
	86.5	(9.9)	71.0
Net unrealised (losses) / gains			
Impairment of loans and receivables	**–**	–	(2.7)
Derivatives	**(87.0)**	(3.3)	(90.2)
Investment property	**10.0**	(10.3)	(10.1)
	(77.0)	(13.6)	(103.0)
Total	**68.4**	41.3	95.1

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

	Realised 6 months 2021 £m unaudited	**Unrealised 6 months 2021 £m unaudited**	Realised 6 months 2020 £m unaudited	Unrealised 6 months 2020 £m unaudited
Derivative gains / (losses):				
Foreign exchange forward contracts[1]	**103.5**	**(82.0)**	(17.2)	(113.7)
Associated foreign exchange risk	**(19.6)**	**(3.1)**	21.5	100.7
Net gains / (losses) on foreign exchange forward contracts	**83.9**	**(85.1)**	4.3	(13.0)
Interest rate swaps[1]	**(7.0)**	**21.4**	(17.9)	(39.4)
Associated interest rate risk on hedged items	**2.8**	**(23.3)**	7.3	49.1
Net (losses) / gains on interest rate derivatives	**(4.2)**	**(1.9)**	(10.6)	9.7
Total	**79.7**	**(87.0)**	(6.3)	(3.3)

6. Investment return continued

	Realised Full year 2020 £m audited	Unrealised Full year 2020 £m audited
Derivative gains / (losses):		
Foreign exchange forward contracts[1]	57.4	(50.8)
Associated foreign exchange risk	28.1	(45.7)
Net gains / (losses) on foreign exchange forward contracts	85.5	(96.5)
Interest rate swaps[1]	(26.2)	(23.0)
Associated interest rate risk on hedged items	10.6	29.3
Net (losses) / gains on interest rate derivatives	(15.6)	6.3
Total	69.9	(90.2)

Note:

1. All foreign exchange forward contracts and certain interest rate swaps are measured at fair value through profit and loss. There are also interest rate swaps designated as hedging instruments.

7. Other operating income

	6 months 2021 £m unaudited	6 months 2020 £m unaudited	Full year 2020 £m audited
Revenue from vehicle recovery and repair services	**10.0**	11.2	24.0
Vehicle replacement referral income	**5.3**	6.3	12.2
Legal services income	**3.8**	4.7	8.8
Other income[1]	**4.0**	3.0	4.9
Total	**23.1**	25.2	49.9

Note:

1. Other income mainly includes fee income from insurance intermediary services.

8. Net insurance claims

	Gross 6 months 2021 £m unaudited	**Reinsurance 6 months 2021 £m unaudited**	**Net 6 months 2021 £m unaudited**	Gross 6 months 2020 £m unaudited	Reinsurance 6 months 2020 £m unaudited	Net 6 months 2020 £m unaudited
Current accident year claims paid	**373.6**	**(0.3)**	**373.3**	409.5	—	409.5
Prior accident year claims paid	**500.9**	**(39.7)**	**461.2**	558.4	(58.7)	499.7
Movement in claims provision	**(60.1)**	**(17.3)**	**(77.4)**	(229.7)	189.5	(40.2)
Total	**814.4**	**(57.3)**	**757.1**	738.2	130.8	869.0

	Gross Full year 2020 £m audited	Reinsurance Full year 2020 £m audited	Net Full year 2020 £m audited
Current accident year claims paid	1,056.4	(18.1)	1,038.3
Prior accident year claims paid	876.6	(123.0)	753.6
Movement in claims provision	(202.6)	124.3	(78.3)
Total	1,730.4	(16.8)	1,713.6

Claims handling expenses[1] for the period ended 30 June 2021 of £90.4 million (30 June 2020: £93.5 million, 31 December 2020: £208.2 million) have been included in the claims figures above.

Note:

1. Costs in respect of low value leases of £0.5 million are included in claims handling expenses (30 June 2020: £0.1 million, 31 December 2020: £0.8 million).

9. Commission expenses

	6 months 2021 £m unaudited	6 months 2020 £m unaudited	Full year 2020 £m audited
Commission expenses	**95.6**	87.6	180.9
Expenses incurred under profit participations	**11.0**	2.2	73.8
Total	**106.6**	89.8	254.7

10. Operating expenses

	6 months 2021 £m unaudited	6 months 2020 £m unaudited	Full year 2020 £m audited
Staff costs[1]	**134.2**	142.3	270.3
IT and other operating expenses[1,2]	**79.7**	105.2	220.2
Marketing	**48.0**	54.2	106.6
Insurance levies	**55.3**	49.9	80.4
Depreciation and amortisation[3,4]	**52.4**	35.4	86.3
Loss on termination of property lease[5]	**84.5**	—	—
Total other operating expenses (including restructuring and one-off costs)	**454.1**	387.0	763.8
Of which restructuring and one-off costs[5]	**91.5**	15.0	39.4
Total excluding restructuring and one-off costs	**362.6**	372.0	724.4

Notes:

1. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
2. IT and other operating expenses include professional fees and property costs.
3. For the period ended 30 June 2021, depreciation and amortisation includes a £0.5 million impairment charge (30 June 2020: £nil, 31 December 2020: £6.6 million), which relates to capitalised software development costs for ongoing IT projects primarily relating to the development of new systems.
4. Includes depreciation on right-of-use assets of £5.8 million (30 June 2020: £7.2 million, 31 December 2020: £14.8 million).
5. As part of the review of the Group's office site property strategy on 10 February 2021, U K Insurance Limited signed a contract in relation to its Bromley site to surrender the current lease and DL Insurance Services Limited signed a contract to purchase the head lease. The loss on terminating the lease was £84.5 million and the value of the fixed asset capitalised was £17.9 million. This expense has been included in restructuring and one-off costs.

11. Finance costs

	6 months 2021 £m unaudited	6 months 2020 £m unaudited	Full year 2020 £m audited
Interest expense on subordinated liabilities[1]	**16.6**	12.2	29.1
Net interest received on interest rate swap[2]	**(2.7)**	(1.8)	(4.1)
Unrealised losses on interest rate swap[2]	**3.1**	—	1.9
Unrealised gains on designated hedging instrument[2]	**–**	(1.2)	(1.2)
Unrealised losses on associated interest rate risk on hedged item[2]	**–**	0.9	0.9
Amortisation of arrangement costs, discount on issue and fair value hedging adjustment of subordinated liabilities	**(1.5)**	0.2	(1.3)
Interest expense on lease liabilities	**1.6**	3.2	6.0
Total	**17.1**	13.5	31.3

Notes:

1. On 5 June 2020, the Group issued subordinated Tier 2 notes at a fixed rate of 4.0%.
2. As described in note 21, on 27 April 2012 the Group issued subordinated guaranteed dated Tier 2 notes with a nominal value of £500 million at a fixed rate of 9.25%. On the same date, the Group also entered into a 10-year interest rate swap to exchange the fixed rate of interest on the notes for a floating rate. This was treated as a designated hedging instrument. On 8 December 2017, the Group redeemed £250 million nominal value of the notes and the hedging agreement was redesignated accordingly. On 31 July 2020, the Group identified that the hedge no longer met the criteria of hedge effectiveness under IAS 39 and, under the rules of the standard, the accumulated hedging adjustment has begun to be amortised to the income statement from the date of the last successful hedge effectiveness test over the remaining life of the subordinated debt using an effective interest rate calculation.

12. Tax charge

	6 months 2021 £m unaudited	6 months 2020 £m unaudited	Full year 2020 £m audited
Current taxation:			
Charge for the period	**59.3**	46.3	95.2
Under / (over)-provision in respect of prior period	**0.2**	—	(0.5)
Total	**59.5**	46.3	94.7
Deferred taxation:			
Credit for the period	**(1.8)**	(2.5)	(11.1)
(Under) / over-provision in respect of prior period	**(0.2)**	—	0.6
Total	**(2.0)**	(2.5)	(10.5)
Tax charge for the period	**57.5**	43.8	84.2

13. Dividends and appropriations

	6 months 2021 £m unaudited	6 months 2020 £m unaudited	Full year 2020 £m audited
Amounts recognised as distributions to equity holders in the period:			
2020 final dividend of 14.7 pence per share paid on 20 May 2021	**198.9**	—	—
2020 interim dividend of 7.4 pence per share paid on 4 September 2020	**–**	—	100.4
2020 special interim dividend of 14.4 pence per share paid on 4 September 2020	**–**	—	195.5
	198.9	—	295.9
Coupon payments in respect of Tier 1 notes[1]	**8.3**	8.3	16.6
	207.2	8.3	312.5
Proposed dividends:			
2021 interim dividend of 7.6 pence per share	**102.4**	n/a	n/a

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 proposed interim dividend for 2021 has not been included as a liability in these financial statements.

On 8 March 2021, the Group announced that the Board had approved a share buyback programme of up to £100 million, with the initial tranche of £50 million completed by 30 June 2021.

On 3 March 2020, the Group announced that the Board had approved a share buyback of up to £150 million. On 19 March 2020, the Board cancelled that share buyback programme given the uncertainty in the capital markets at the time, driven by the rapidly emerging Covid-19 pandemic.

Following the cancellation of the final dividend for 2019 as announced on 8 April 2020, the final dividend for 2019 was not paid. A special interim dividend of 14.4 pence per share reflecting a full catch-up of the cancelled 2019 final dividend was paid on 4 September 2020.

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 Restricted Share Plan awards, which reduced the total dividends paid by £1.1 million (30 June 2020: £1.1 million, 31 December 2020: £1.6 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.

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, excluding Ordinary Shares held as employee trust shares, 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 2021 £m unaudited	6 months 2020 £m unaudited	Full year 2020 £m audited
Earnings attributable to owners of the Company	**203.8**	192.6	367.2
Coupon payments in respect of Tier 1 notes	**(8.3)**	(8.3)	(16.6)
Profit for the calculation of earnings per share	**195.5**	184.3	350.6
Weighted average number of Ordinary Shares for the purpose of basic earnings per share (millions)	**1,345.7**	1,355.6	1,356.5
Effect of dilutive potential of share options and contingently issuable shares (millions)	**20.3**	16.6	18.6
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	**1,366.0**	1,372.2	1,375.1
Basic earnings per share (pence)	**14.5**	13.6	25.8
Diluted earnings per share (pence)	**14.3**	13.4	25.5

On 8 March 2021, the Group announced that the Board had approved a share buyback programme of up to £100 million, with the initial tranche of £50 million completed by 30 June 2021. The Group has repurchased 16,623,215 Ordinary Shares for an aggregate consideration of £50,311,788.

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 values per share.

	6 months 2021 £m unaudited	Full year 2020 £m audited
Net assets	**2,606.3**	2,699.7
Goodwill and other intangible assets[1]	**(807.6)**	(786.8)
Tangible net assets	**1,798.7**	1,912.9
Number of Ordinary Shares (millions)	**1,347.9**	1,364.6
Shares held by employee trusts (millions)	**(11.9)**	(12.8)
Closing number of Ordinary Shares (millions)	**1,336.0**	1,351.8
Net asset value per share (pence)	**195.1**	199.7
Tangible net asset value per share (pence)	**134.6**	141.5

Note:

1. Goodwill has arisen on acquisition by the Group of subsidiary companies and on acquisition of new accident repair centres. Intangible assets primarily comprise 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 2021 £m unaudited	6 months 2020 £m unaudited	Full year 2020 £m audited
Earnings attributable to owners of the Company	**203.8**	192.6	367.2
Coupon payments in respect of Tier 1 notes	**(8.3)**	(8.3)	(16.6)
Profit for the calculation of return on equity	**195.5**	184.3	350.6
Annualised profit for the calculation of return on equity[1]	**391.0**	368.6	350.6
Opening shareholders' equity	**2,699.7**	2,643.6	2,643.6
Closing shareholders' equity	**2,606.3**	2,756.5	2,699.7
Average shareholders' equity	**2,653.0**	2,700.1	2,671.7
Return on equity for period	**7.4%**	6.8%	13.1%
Return on equity annualised	**14.7%**	13.7%	13.1%

Note:

1. Profit has been annualised using the profit for the period ended 30 June 2021 (2020: period ended 30 June 2020).

16. Reinsurance assets

	30 Jun 2021 £m unaudited	Full year 2020 £m audited
Reinsurers' share of general insurance liabilities	**1,082.7**	1,071.6
Impairment provision[1]	**(40.1)**	(46.3)
Total excluding reinsurers' unearned premium reserves	**1,042.6**	1025.3
Reinsurers' unearned premium reserve	**68.0**	103.9
Total	**1,110.6**	1,129.2

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 it may have difficulty in meeting its obligations.

17. Financial investments

	30 Jun 2021 £m unaudited	Full year 2020 £m audited
AFS debt securities		
Corporate	**4,173.3**	4,021.0
Supranational	**21.2**	21.3
Local government	**31.5**	35.6
Sovereign	**14.0**	25.2
Total	**4,240.0**	4,103.1
HTM debt securities		
Corporate	**98.7**	103.9
Total debt securities	**4,338.7**	4,207.0
Total debt securities		
Fixed interest rate[1]	**4,321.2**	4,184.5
Floating interest rate	**17.5**	22.5
Total	**4,338.7**	4,207.0
Loans and receivables		
Infrastructure debt	**257.7**	264.5
Commercial real estate loans	**214.4**	206.7
Total loans and receivables	**472.1**	471.2
Equity investments[2]	**4.7**	3.2
Total	**4,815.5**	4,681.4

Notes:

1. The Group swaps a fixed interest rate for a floating rate of interest on its US dollar and Euro corporate debt securities by entering into interest rate derivatives. The hedged amount at 30 June 2021 was £1,032.6 million (31 December 2020: £971.1 million).
2. An equity fund which is valued based on external valuation reports received from a third-party fund manager.

18. Cash and cash equivalents and borrowings

	30 Jun 2021 £m unaudited	Full year 2020 £m audited
Cash at bank and in hand	**210.0**	224.9
Short term deposits with credit institutions[1]	**649.5**	995.2
Cash and cash equivalents	**859.5**	1,220.1
Bank overdrafts[2]	**(54.3)**	(51.9)
Cash and bank overdrafts[3]	**805.2**	1,168.2

Notes:

1. This represents money market funds.
2. Bank overdrafts represent short-term timing differences between transactions posted in the records of the Group and transactions flowing through the accounts at the bank.
3. Cash and bank overdrafts total 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 2021 was 0.012% (31 December 2020: 0.25%) and average maturity was 10 days (31 December 2020: 10 days).

19. Share capital

Issued and fully paid: equity shares	30 Jun 2021			Full year 2020		
	Number of shares	**Share capital**	**Transfer to capital redemption reserve**	Number of shares	Share capital	Transfer to capital redemption reserve
Ordinary Shares of 10 10/11 pence each[1]	**millions**	**£m**	**£m**	millions	£m	£m
At 1 January	**1,364.6**	**148.9**	**–**	1,375.0	150.0	–
Shares cancelled following buyback[2,3]	**(16.7)**	**(1.8)**	**1.8**	(10.4)	(1.1)	1.1
At 31 June 2021 (unaudited) / 30 December 2020 (audited)	**1,347.9**	**147.1**	**1.8**	1,364.6	148.9	1.1

Notes:

1. The shares have full voting dividend and capital distribution rights (including wind-up) attached to them; these do not confer any rights of redemption.
2. On 8 March 2021, the Group announced that the Board had approved a share buyback programme of up to £100 million, with the initial tranche of £50 million completed by 30 June 2021. The Group has repurchased 16,623,215 Ordinary Shares for an aggregate consideration of £50,311,788 as reflected in retained earnings. The shares have subsequently been cancelled giving rise to a capital redemption reserve of an equivalent amount as required by the Companies Act 2006.
3. On 3 March 2020, the Group announced a share buyback of Ordinary Shares for an aggregate purchase price of £150 million. On 19 March 2020 the buyback programme was cancelled, given the uncertainty in the capital markets at the time driven by the rapidly emerging Covid-19 pandemic. At the time of cancellation, the Group had repurchased 10,448,395 Ordinary Shares for an aggregate consideration of £30,014,567 as reflected in retained earnings. The shares were subsequently cancelled giving rise to a capital redemption reserve of an equivalent amount as required by the Companies Act 2006.

20. Tier 1 notes

	30 Jun 2021	Full year 2020
	£m	£m
	unaudited	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. Cancellation becomes mandatory if: the Solvency condition[1] is not met at the time of, or following, coupon payment; there is non-compliance with the SCR or the minimum capital requirement; the Group has insufficient distributable reserves; or the relevant regulator requires the coupon payment to be cancelled.

Note:

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

21. Subordinated liabilities

	30 Jun 2021 £m unaudited	Full year 2020 £m audited
£250 million 9.25% subordinated Tier 2 notes due 2042	**256.8**	258.4
£260 million 4.0% subordinated Tier 2 notes due 2032	**258.2**	258.2
Subordinated Tier 2 notes	**515.0**	516.6

£250 million 9.25% subordinated Tier 2 notes due 2042

Subordinated guaranteed dated notes with a nominal value of £500 million were issued on 27 April 2012 at a fixed rate of 9.25%. On the same date, the Group also entered into a 10-year interest rate swap 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. This was treated as a designated hedging instrument.

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 designated hedging agreement was adjusted accordingly.

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 terms of the notes provide that the rate of interest will be reset at a rate of 6-month LIBOR plus 7.91%. If LIBOR has been discontinued by this time, the terms of the notes provide for an ultimate fall back rate of interest of 9.25% for subsequent interest periods. The terms of the notes do not automatically provide for the transition of LIBOR to SONIA, which would require a separate agreement between the Group and the noteholders.

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

During 2020 the Group identified that the hedge no longer met the criteria of hedge effectiveness under IAS 39 'Financial Instruments: Recognition and Measurement' and, under the rules of the standard, the accumulated hedging adjustment has begun to be amortised to the income statement from the date of the last successful hedge effectiveness test over the remaining life of the subordinated debt using an effective interest rate calculation.

£260 million 4.0% subordinated Tier 2 notes due 2032

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

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

The 2032 and 2042 notes are unsecured and subordinated obligations of the Group and rank pari passu and 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 and will rank at least pari passu with the claims of holders of other Tier 2 capital.

22. Insurance liabilities

	30 Jun 2021 £m unaudited	Full year 2020 £m audited
Insurance liabilities	**3,556.9**	3,617.0

Movements in gross and net insurance liabilities

	Gross £m	Reinsurance £m	Net £m
Claims reported	2,916.0	(829.3)	2,086.7
Incurred but not reported	825.4	(320.3)	505.1
Claims handling provision	78.2	—	78.2
At 1 January 2020 (audited)	3,819.6	(1,149.6)	2,670.0
Cash paid for claims settled in the year	(1,933.0)	141.1	(1,791.9)
Increase / (decrease) in liabilities:			
Arising from current-year claims	2,057.3	(169.9)	1,887.4
Arising from prior-year claims	(326.9)	153.1	(173.8)
At 31 December 2020 (audited)	3,617.0	(1,025.3)	2,591.7
Claims reported	2,762.0	(842.8)	1,919.2
Incurred but not reported	777.0	(182.5)	594.5
Claims handling provision	78.0	—	78.0
At 31 December 2020 (audited)	3,617.0	(1,025.3)	2,591.7
Cash paid for claims settled in the year	**(874.5)**	**40.0**	**(834.5)**
Increase / (decrease) in liabilities:			
Arising from current-year claims	**975.9**	**(65.9)**	**910.0**
Arising from prior-year claims	**(161.5)**	**8.6**	**(152.9)**
At 30 June 2021 (unaudited)	**3,556.9**	**(1,042.6)**	**2,514.3**
Claims reported	**2,738.1**	**(902.1)**	**1,836.0**
Incurred but not reported	**740.6**	**(140.5)**	**600.1**
Claims handling provision	**78.2**	**–**	**78.2**
At 30 June 2021 (unaudited)	**3,556.9**	**(1,042.6)**	**2,514.3**

Movement in prior-year net claims liabilities by operating segment

	6 months 2021 £m unaudited	6 months 2020 £m unaudited	Full year 2020 £m audited
Motor	**(100.7)**	(83.4)	(100.6)
Home	**(17.5)**	(2.5)	(10.8)
Rescue and other personal lines	**(2.4)**	(4.0)	(5.6)
Commercial	**(32.3)**	(33.3)	(56.8)
Total	**(152.9)**	(123.2)	(173.8)

23. Fair value

Fair value hierarchy

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 include AFS debt security 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. Derivatives are valued using broker quotes or appropriate valuation models. Model inputs include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of underlying instruments.
- Level 3 fair value measurements used for investment properties, HTM debt securities, infrastructure debt, commercial real estate loans and equity investments are those derived from a valuation technique that includes inputs for the asset that are unobservable.

Comparison of carrying value to fair value of financial instruments and assets where fair value is disclosed

At 30 June 2021 (unaudited)	Notes	**Carrying value £m**	Level 1 £m	Level 2 £m	Level 3 £m	**Fair value £m**
Assets held at fair value:						
Investment property		**302.1**	–	–	302.1	**302.1**
Derivative assets		**23.6**	–	23.6	–	**23.6**
AFS debt securities	17	**4,240.0**	14.0	4,226.0	–	**4,240.0**
Equity investments	17	**4.7**	–	–	4.7	**4.7**
Other financial assets:						
HTM debt securities	17	**98.7**	–	13.9	88.6	**102.5**
Infrastructure debt	17	**257.7**	–	–	268.5	**268.5**
Commercial real estate loans	17	**214.4**	–	–	211.0	**211.0**
Total		**5,141.2**	**14.0**	**4,263.5**	**874.9**	**5,152.4**
Liabilities held at fair value:						
Derivative liabilities		**71.1**	–	71.1	–	**71.1**
Other financial liabilities:						
Subordinated liabilities	21	**515.0**	–	565.4	–	**565.4**
Total		**586.1**	**–**	**636.5**	**–**	**636.5**

At 31 December 2020 (audited)	Notes	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m
Assets held at fair value:						
Investment property		292.1	–	–	292.1	292.1
Derivative assets		73.4	–	73.4	–	73.4
AFS debt securities	17	4,103.1	25.2	4,077.9	–	4,103.1
Equity investments	17	3.2	–	–	3.2	3.2
Other financial assets:						
HTM debt securities	17	103.9	–	14.2	93.7	107.9
Infrastructure debt	17	264.5	–	–	273.6	273.6
Commercial real estate loans	17	206.7	–	–	202.9	202.9
Total		5,046.9	25.2	4,165.5	865.5	5,056.2
Liabilities held at fair value:						
Derivative liabilities		57.2	–	57.2	–	57.2
Other financial liabilities:						
Subordinated liabilities	21	516.6	–	589.0	–	589.0
Total		573.8	–	646.2	–	646.2

23. Fair value continued

Differences arise between carrying value and fair value where the measurement basis of the asset or liability 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.

The movements in assets held at fair value and classified as level 3 in the fair value hierarchy relate to investment property and equity investments. A summary of realised and unrealised gains or losses in relation to investment property at fair value are presented in note 6. 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 2020.

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

At 30 June 2021 (unaudited)	Fair value £m	Valuation technique	Unobservable input	Range (weighted average)
Investment property	278.7[1]	Income capitalisation	Equivalent yield	3.50% - 8.06% (average 4.94%)
			Estimated rental value per square foot	£1.81 - £35.00 (average £12.63)

Note:

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

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

	Note	Investment property £m	Equity investment £m
At 1 January		**292.1**	**3.2**
Additions at cost		–	1.2
Increase in fair value in the period through the profit or loss	6	10.0	–
Increase in fair value in the period through other comprehensive income		–	0.3
At 30 June 2021 (unaudited)		**302.1**	**4.7**

24. Related parties

During the first half of 2021, there have been no related party transactions that have materially affected the financial position or results for the period. There have been no changes to the nature of the related party transactions as disclosed in note 43 on page 214 of the Annual Report & Accounts for the year ended 31 December 2020.

GLOSSARY

Term	Definition and explanation
Actuarial best estimate ("ABE")	The probability-weighted average of all future claims and cost scenarios. It is calculated using historical data, actuarial methods and judgement. A best estimate of reserves will therefore normally include no margin for optimism or, conversely, caution.
Assets under management ("AUM")	This represents all assets managed or administered by or on behalf of the Group, including those assets managed by third parties.
Association of British Insurers ("ABI")	The trade body that represents the insurance and long-term savings industry in the UK.
Available-for-sale ("AFS") investments	Available-for-sale investments are non-derivative financial assets that are designated as such, or are not classified as loans and receivables, held-to-maturity, or financial assets at fair value through profit or loss.
Average written premium	The total written premium at inception divided by the number of policies.
Capital	The funds invested in the Group, including funds invested by shareholders and Tier 1 notes. In addition, the subordinated liability in the Group's balance sheet is classified as Tier 2 capital for Solvency II purposes.
Carbon emissions	**Scope 1** – covers direct emissions from owned or controlled sources, including fuels used in office buildings, accident repair centres and owned vehicles. **Scope 2** – covers indirect emissions from the generation of purchased electricity, steam, heating and cooling for office buildings and accident repair centres. **Scope 3 under our direct control** – includes indirect emissions that occur in the Group's value chain, under its direct control, such as waste disposal and business travel. **Total Scope 3** – includes all other indirect emissions that occur in the Group's value chain and purchased goods and services, excluding investments.
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 set 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	The sum of the loss, commission and expense ratios. The ratio measures the amount of claims costs, commission and operating expenses, compared to net earned premium generated. A ratio of less than 100% indicates profitable underwriting. **Normalised combined operating ratio** adjusts loss and commission ratios for weather and changes to the Ogden discount rate. (See page 49 alternative performance measures.)
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. (See page 49 alternative performance measures.)
Company	Direct Line Insurance Group plc.
Current-year attritional loss ratio	The loss ratio for the current accident year, excluding the movement of claims reserves relating to previous accident years and claims relating to major weather events. (See page 49 alternative performance measures.)
Current-year combined operating ratio	This is calculated using the combined operating ratio less movement in prior-year reserves. (See page 49 alternative performance measures)
Current-year normalised operating profit	This is calculated using the normalised operating profit adjusted for prior-year reserve movements. (See page 49 alternative performance measures.)
Direct own brands	Direct own brands include Home and Motor under the Direct Line, Churchill, Darwin and Privilege brands, Rescue under the Green Flag brand and Commercial under the Direct Line for Business and Churchill brands.
Earnings per share	The amount of the Group's profit after deduction of the Tier 1 coupon payments allocated to each Ordinary Share of the Company.
Expense ratio	The ratio of operating expenses divided by net earned premium. (See page 49 alternative performance measures.)
Finance costs	The cost of servicing the Group's external borrowings and including the interest on right-of-use assets.
Financial Conduct Authority ("FCA")	The independent body responsible for regulating the UK's financial services industry.
Financial leverage ratio	Tier 1 notes and financial debt (subordinated Tier 2 notes) as a percentage of total capital employed.
Gross written premium	The total premiums from insurance contracts that were incepted during the period.

Term	Definition and explanation
Group	Direct Line Insurance Group plc and its subsidiaries.
Incremental borrowing rate ("IBR")	The rate of interest that a lessee would have to pay to borrow, over a similar term and security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.
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 provision, which the Group maintains to meet current and future claims.
International Accounting Standards Board ("IASB")	A not-for-profit public interest organisation that is overseen by a monitoring board of public authorities. It develops International Financial Reporting Standards ("**IFRSs**") that aim to make worldwide markets transparent, accountable and efficient.
Investment income yield	The income earned from the investment portfolio, recognised through the income statement during the period (excluding unrealised and realised gains and losses, impairments and fair value adjustments) divided by the average AUM. The average AUM derives from the period's opening and closing balances for the total Group. (See page 49 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 49 alternative performance measures.)
Loss ratio	Net insurance claims divided by net earned premium. (See page 49 alternative performance measures.)
Management's best estimate ("MBE")	These reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal ABE.
Minimum capital requirement ("MCR")	The minimum amount of capital that an insurer needs to hold to cover its risks under the Solvency II regulatory framework. If an insurer's capital falls below the MCR then authorisation will be withdrawn by the regulator unless it is able to meet the MCR within a short period of time.
Net asset value	The difference between the Group's total assets and total liabilities, calculated by subtracting total liabilities (including Tier 1 notes) from total assets.
Net earned premium	The element of gross earned premium less reinsurance premium ceded for the period where insurance cover has already been provided.
Net insurance claims	The cost of claims incurred in the period less any claims costs recovered under reinsurance contracts. It includes claims payments and movements in claims reserves.
Net investment income yield	This is calculated in the same way as investment income yield but includes the cost of hedging. (See page 49 alternative performance measures.)
Ogden discount rate	The discount rate set by the Lord Chancellor and used by courts to calculate lump sum awards in bodily injury cases.
Operating expenses	These are the expenses relating to business activities excluding restructuring and one-off costs. (See page 49 alternative performance measures.)
Operating profit	The pre-tax profit that the Group's activities generate, including insurance and investment activity, but excluding finance costs, restructuring and one-off costs. **Normalised operating profit** is operating profit adjusted for weather and changes to the Ogden discount rate. (See page 50 alternative performance measures.)
Periodic payment order ("PPO")	These are claims payments as awarded under the Courts Act 2003. PPOs are used to settle certain large personal injury claims. They generally provide a lump-sum award plus inflation-linked annual payments to claimants who require long-term care.
Prudential Regulation Authority ("PRA")	The PRA is a part of the Bank of England. It is responsible for regulating and supervising insurers and financial institutions in the UK.
Reinsurance	Contractual arrangements where the Group transfers part or all of the accepted insurance risk to another insurer.
Reserves	Funds that have been set aside to meet outstanding insurance claims and IBNR.

Term	Definition and explanation
Restructuring costs	These are costs incurred in respect of the business activities where the Group has a constructive obligation to restructure its activities.
Return on equity	This is calculated by dividing the profit attributable to the owners of the Company after deduction of the Tier 1 coupon payments by average shareholders' equity for the period.
Return on tangible equity ("RoTE")	This is adjusted profit after tax divided by the Group's average shareholders' equity less goodwill and other intangible assets. Profit after tax is adjusted to exclude restructuring and one-off costs and to include the Tier 1 coupon payments. It is stated after charging tax using the UK standard rate of 19%. (See page 50 alternative performance measures.)
Right-of-use ("ROU") asset	A lessee's right to use an asset over the life of a lease, calculated at initial recognition as the present value of the lease payments, plus any initial direct costs less any incentives received. The ROU asset is depreciated over the lease term and is subject to impairment testing.
Science-Based Targets ("SBT")	Science-Based Targets are a set of goals developed by a business to provide it with a clear route to reduce greenhouse gas emissions. An emissions reduction target is defined as "science-based" if it is developed in line with the scale of reductions required to curb global temperature rise to well below 2˚C above pre-industrial levels.
Scope 1, Scope 2, Scope 3 under our direct control and total Scope 3	Please refer to the glossary definition for carbon emissions on page 46.
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.
Solvency capital requirement ("SCR")	The SCR is the amount of capital the regulator requires an insurer to hold to meet the requirements under the Solvency II regulatory framework. The Group uses a partial internal model to determine SCR.
Tangible equity	This shows the equity excluding Tier 1 notes and intangible assets (for comparability with companies which have not acquired businesses or capitalised intangible assets). (See page 50 alternative performance measures).
Tangible net assets per share	This shows the amount of tangible equity allocated to each ordinary share (for comparability with companies which have not acquired businesses or capitalised intangible assets). (See page 50 alternative performance measures).
Task Force on Climate-related Financial Disclosure ("TCFD")	Established by the Financial Stability Board, the TCFD developed a set of disclosure recommendations on the risks and opportunities presented by climate change. The TCFD aims to improve and increase climate-related disclosure by organisations and promotes the provision of clear, comprehensive and high-quality information.
Underwriting result profit / (loss)	The profit or loss from operational activities, excluding investment return and other operating income. It is calculated as net earned premium less net insurance claims and total expenses, excluding restructuring and one-off costs.

APPENDIX A – ALTERNATIVE PERFORMANCE MEASURES

The Group has identified Alternative Performance Measures ("**APMs**") in accordance with the European Securities and Markets Authority's published Guidelines. The Group uses APMs to improve comparability of information between reporting periods and reporting segments, by adjusting for either uncontrollable or one-off costs which impact the IFRS measures, to aid the user of the annual report and accounts 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 on pages 46 to 48 and reconciled to the most directly reconcilable line items in the financial statements and notes. Note 4 on page 31of 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 29 to 45.

Group APM	Closest equivalent IFRS measure	Definition and / or reconciliation	Rationale for APM
Combined operating ratio	Profit before tax	Combined operating ratio is defined in the glossary on page 46 and reconciled in note 4 on page 31.	This is a measure of underwriting profitability and excludes non-insurance income, whereby a ratio of less than 100% represents an underwriting profit and a ratio of more than 100% represents an underwriting loss.
Commission ratio	Commission expense	Commission ratio is defined in the glossary on page 46 and reconciled in note 4 on page 31.	Expresses commission expense, in relation to net earned premium.
Current-year attritional loss ratio	Net insurance claims	Current-year attritional loss ratio is defined in the glossary on page 46 and is reconciled to the loss ratio (discussed below) on page 13.	Expresses claims performance in the current accident year in relation to net earned premium.
Current-year combined operating ratio	Profit before tax	Current-year combined operating ratio is defined in the glossary on page 46 and is reconciled on page 13.	This is a measure of underwriting profitability, excluding the effect of prior-year reserve movements.
Current-year normalised operating profit ratio	Profit before tax	Current-year normalised operating profit ratio is defined in the glossary on page 46 and reconciled on page 51.	Expresses a relationship between current-year normalised operating profit and normalised operating profit.
Expense ratio	Total expenses	Expense ratio is defined in the glossary on page 46 and reconciled in note 4 on page 31.	Expresses underwriting and policy expenses in relation to net earned premium.
Investment income yield	Investment income	Investment income yield is defined in the glossary on page 47 and is reconciled on page 50.	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 47 and is reconciled on page 50.	Expresses a relationship between the investment return and the associated opening and closing assets adjusted for portfolio hedging instruments.
Loss ratio	Net insurance claims	Loss ratio is defined in the glossary on page 47 and reconciled in note 4 on page 31.	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 47 and is reconciled on page 50.	Expresses a relationship between the net investment income and the associated opening and closing assets adjusted for portfolio hedging instruments.
Normalised combined operating ratio	Profit before tax	Combined operating ratio is defined in the glossary on page 46 and reconciled on page 51.	This is a measure of underwriting profitability excluding the effects of weather, Ogden discount rate changes and restructuring and one-off costs. It also excludes non-insurance income. A ratio of less than 100% represents an underwriting profit and a ratio of more than 100% represents an underwriting loss.
Operating expenses	Total expenses	Operating expenses are defined in the glossary on page 47 and reconciled in note 4 on page 31.	This shows the expenses relating to business activities excluding restructuring and one-off costs.

Group APM	Closest equivalent IFRS measure	Definition and / or reconciliation	Rationale for APM
Operating profit	Profit before tax	Operating profit is defined in the glossary on page 47 and reconciled in note 4 on page 31.	This shows the underlying performance (before tax and excluding finance costs and restructuring and one-off costs) of the business activities.
Return on tangible equity	Return on equity	Return on tangible equity is defined in the glossary on page 48 and is reconciled on page 52.	This shows performance against a measure of equity that is more easily comparable to that of other companies.
Tangible equity	Equity	Tangible equity is defined in the glossary on page 48 and is reconciled on page 52.	This shows the equity excluding Tier 1 notes and intangible assets for comparability with companies which have not acquired businesses or capitalised intangible assets.
Tangible net asset value per share	Net asset value per share	Tangible net assets per share is defined in the glossary on page 48 and reconciled in note 15 on page 38.	This shows the equity excluding Tier 1 notes and intangible assets per share for comparability with companies which have not acquired businesses or capitalised intangible assets.
Underwriting profit	Profit before tax	Underwriting profit is defined in the glossary on page 48 and is reconciled in note 4 on page 31.	This shows underwriting performance calculated as net earned premium less net claims and operating expenses, excluding restructuring and one-off costs.

Investment income and return yields[1]

	Notes[2]	H1 2021 £m	H1 2020 £m
Investment income	6	**58.9**	64.8
Hedging to a sterling floating rate basis[3]	6	**(7.3)**	(9.6)
Net investment income		**51.6**	55.2
Net realised and unrealised gains / (losses) excluding hedging		**16.8**	(13.9)
Total investment return	6	**68.4**	41.3
Opening investment property		**292.1**	291.7
Opening financial investments		**4,681.4**	4,673.4
Opening cash and cash equivalents		**1,220.1**	948.6
Opening borrowings		**(51.9)**	(52.3)
Opening derivatives asset[4]		**8.0**	81.8
Opening investment holdings		**6,149.7**	5,943.2
Closing investment property		**302.1**	281.4
Closing financial investments	17	**4,815.5**	4,521.3
Closing cash and cash equivalents	18	**859.5**	1,500.0
Closing borrowings	18	**(54.3)**	(65.1)
Closing derivatives liability[4]		**(52.8)**	(71.4)
Closing investment holdings		**5,870.0**	6,166.2
Average investment holdings[5]		**6,009.9**	6,054.7
Investment income yield (annualised)		**2.0%**	2.1%
Net investment income yield (annualised)		**1.7%**	1.8%
Investment return yield (annualised)		**2.3%**	1.4%

Notes:
1. See glossary on page 47 for definitions.
2. See notes to the condensed consolidated financial statements.
3. Includes net realised and unrealised gains / (losses) on derivatives in relation to AUM.
4. See footnote 1 on page 16 (Investment holdings).
5. Mean average of opening and closing balances.

Normalised combined operating ratio[1]

	Home H1 2021	Home H1 2020	**Commercial H1 2021**	Commercial H1 2020	**Total H1 2021**	Total H1 2020
Loss ratio	**47.0%**	58.5%	**49.0%**	51.7%	**52.0%**	59.0%
Commission ratio	**5.8%**	6.8%	**19.8%**	17.7%	**7.3%**	6.1%
Expense ratio	**26.2%**	27.1%	**21.4%**	25.5%	**24.9%**	25.2%
Combined operating ratio	**79.0%**	92.4%	**90.2%**	94.9%	**84.2%**	90.3%
Effect of weather						
Loss ratio	**7.8%**	1.9%	**3.8%**	(1.5%)	**2.2%**	0.1%
Commission ratio	**(0.6%)**	(0.1%)	**0.0%**	0.0%	**(0.1%)**	0.0%
Combined operating ratio normalised for weather	**86.2%**	94.2%	**94.0%**	93.4%	**86.3%**	90.4%

Note:

1. See glossary on page 46 for definition.

Normalised operating profit[1]

	Total H1 2021 £m	Total H1 2020 £m
Operating profit	**369.9**	264.9
Effect of:		
Normalised weather – claims	**(31.3)**	(1.5)
Normalised weather – profit share	**1.6**	0.4
Normalised operating profit	**340.2**	263.8
Prior-year adjustments		
Prior-year reserve movement	**152.9**	123.2
Prior-year normalised operating profit	**152.9**	123.2
Current-year normalised operating profit	**187.3**	140.6
Current-year normalised operating profit ratio	**55%**	53%

Note:

1. See glossary on page 47 for definition.

Operating expenses[1]

	Note[2]	**H1 2021 £m**	H1 2020 £m
Operating expenses (including restructuring and one-off costs)	10	**454.1**	387.0
Less restructuring and one-off costs	10	**(91.5)**	(15.0)
Operating expenses	10	**362.6**	372.0

Notes:

1. See glossary on page 47 for definition.
2. See notes to the condensed consolidated financial statements.

Return on tangible equity[1]

	H1 2021 £m	H1 2020 £m
Profit before tax	**261.3**	236.4
Add back restructuring and other one-off costs	**91.5**	15.0
Coupon payments in respect of Tier 1 notes	**(8.3)**	(8.3)
Adjusted profit before tax	**344.5**	243.1
Tax charge (2021 and 2020 UK standard tax rate of 19%)	**(65.5)**	(46.2)
Adjusted profit after tax	**279.0**	196.9
Annualised adjusted profit after tax	**558.0**	393.8
Opening shareholders' equity	**2,699.7**	2,643.6
Opening goodwill and other intangible assets	**(786.8)**	(702.5)
Opening shareholders' tangible equity	**1,912.9**	1,941.1
Closing shareholders' equity	**2,606.3**	2,756.5
Closing goodwill and other intangible assets	**(807.6)**	(741.2)
Closing shareholders' tangible equity	**1,798.7**	2,015.3
Average shareholders' tangible equity[2]	**1,855.8**	1,978.2
Return on tangible equity annualised	**30.1 %**	19.9 %

Notes:

1. See glossary on page 48 for definition.
2. Mean average of opening and closing balances.

ADDITIONAL INFORMATION

We confirm that to the best of our knowledge:

1. the condensed consolidated financial statements, which have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the UK, 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	**NEIL MANSER** CHIEF FINANCIAL OFFICER
2 August 2021	2 August 2021

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 2021 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 25. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure 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 United Kingdom adopted International Financial Reporting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

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 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

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

Deloitte LLP

London, UK

2 August 2021