



# Direct Line Insurance Group plc

## Half Year Report for the first half of 2015

4 August 2015

Direct Line Group's Half Year Report relates to the six months ended 30 June 2015 and contains information to the date of publication.

### Financial highlights

- Gross written premium from ongoing operations<sup>1</sup> up 0.4% to £1,552.0 million (first half 2014: £1,546.0 million). Motor and Home own brand in-force policies broadly stable
- Operating profit from ongoing operations increased to £335.8 million for first half of 2015 (first half 2014: £235.7 million). Combined operating ratio<sup>2</sup> from ongoing operations of 89.4% for the first half of 2015, an improvement of 6.7 percentage points
- Return on tangible equity<sup>3</sup> of 21.2% for the first half of 2015 (first half 2014: 14.9%). Profit before tax for continuing operations<sup>1</sup> increased to £315.0 million (first half 2014: £211.7 million)
- Results benefited from an absence of claims from major weather events and higher than expected reserve releases together with improved operating efficiency. Underlying trends remain broadly in line with prior expectations
- Interim dividend per share of 4.6 pence representing growth of 4.5% over 2014 interim dividend

### Strategic and operational highlights

- Investment in brand differentiation through further enhancements to Direct Line proposition and improved Churchill positioning
- Improved customer retention rates and Net Promoter Scores in Personal Lines
- Reduced total cost base<sup>4</sup> for ongoing operations by 7.6% in first half of 2015, while building on technical pricing and claims management initiatives
- Growth in eTrade and direct Commercial channels and continued momentum in telematics motor insurance in-force policies
- Sale of International division completed with substantially all of the net proceeds returned as a special interim dividend of 27.5 pence per share paid on 24 July 2015, following shareholder approval of an 11 for 12 share consolidation

### Paul Geddes, CEO of Direct Line Group, commented

"Our first half performance shows the benefits of the many improvements that we continue to make to our business. Customers have reacted positively to the refreshed propositions for Direct Line and Churchill, as well as better customer service. This has led to increased retention rates and, in particular for the Direct Line brand, improved Net Promoter Scores. Together, this has helped us to hold our gross written premium flat in competitive markets.

"At the same time, our efforts on efficiency have improved our expense ratio, while improvements in claims and pricing continue to support strong reserve releases from previous years and a good loss ratio so far this year. Action on our investment portfolio has contributed to improving our yield, despite the low interest rate environment.

"With the completion of the International disposal, we are now totally focused on UK general insurance, and our capital and reserves remain strong. We are busy improving our efficiency, propositions and technology to make insurance much easier and better value for our customers."

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Note:

See page 2 for notes

#### Notes:

1. Ongoing operations include Direct Line Group's (the "**Group's**") ongoing divisions: Motor, Home, Rescue and other personal lines, and Commercial. It excludes discontinued operations (the Group's former International division), the Run-off segment and restructuring and other one-off costs. Continuing operations include all activities other than discontinued operations.
2. Combined operating ratio ("**COR**") is the sum of the loss, commission and expense ratios. The ratio is a measure of the amount of claims costs, commission and expenses compared to net earned premium generated.
3. Return on tangible equity ("**RoTE**") is annualised adjusted profit after tax from ongoing operations divided by the Group's average tangible shareholders' equity. Profit after tax is adjusted to exclude discontinued operations, the Run-off segment and restructuring and other one-off costs, and is stated after charging tax (using the UK standard tax rate of 20.25%; 2014: 21.5%).
4. Operating expenses and claims handling expenses from ongoing operations. It excludes discontinued operations, the Run-off segment and restructuring and other one-off costs.

#### **Forward-looking statements disclaimer**

Certain information contained in this document, including any information as to the Group's strategy, plans or future financial or operating performance, constitutes "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "aims", "anticipates", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "outlook", "plans", "predicts", "projects", "seeks", "should", "strategy", "targets" or "will" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, among other things: the Group's results of operations, financial condition, prospects, growth, strategies and the industry in which the Group operates. Examples of forward-looking statements include financial targets which are contained in this document specifically with respect to RoTE, risk-based capital coverage ratio, the Group's COR, and cost reduction. By their nature, all forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Group's control.

Forward-looking statements are not guarantees of future performance. The Group's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this document, for example directly or indirectly as a result of, but not limited to, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities (including changes related to capital and solvency requirements or the Ogden discount rate), the impact of competition, currency changes, inflation and deflation, the timing impact and other uncertainties of future acquisitions, disposals, joint ventures or combinations within relevant industries, as well as the impact of tax and other legislation and other regulation in the jurisdictions in which the Group and its affiliates operate. In addition, even if the Group's actual results of operations, financial condition and the development of the business sector in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

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

## Financial summary

	H1 2015 £m	H1 2014 £m
<b>Ongoing operations<sup>1</sup>:</b>		
In-force policies (thousands) <sup>2</sup>	16,174	16,437
Gross written premium	1,552.0	1,546.0
Net earned premium	1,440.5	1,504.3
Underwriting profit	153.2	58.7
Instalment and other operating income	72.8	72.9
Investment return	109.8	104.1
<b>Operating profit – ongoing operations</b>	<b>335.8</b>	<b>235.7</b>
Run-off	38.3	20.4
Restructuring and other one-off costs	(40.4)	(28.0)
<b>Operating profit – continuing operations<sup>1</sup></b>	<b>333.7</b>	<b>228.1</b>
Finance costs	(18.7)	(18.7)
Gain on disposal of subsidiary	–	2.3
<b>Profit before tax – continuing operations</b>	<b>315.0</b>	<b>211.7</b>
Tax	(68.4)	(47.8)
Profit from discontinued operations, net of tax	181.2	11.7
<b>Profit after tax</b>	<b>427.8</b>	<b>175.6</b>
Of which ongoing operations <sup>3</sup>	252.9	170.3
<b>Key metrics – ongoing operations</b>		
Loss ratio	54.2%	61.1%
Commission ratio	11.6%	11.0%
Expense ratio	23.6%	24.0%
Combined operating ratio	89.4%	96.1%
Adjusted earnings per share <sup>4</sup> – diluted (pence)	16.7	11.3
Return on tangible equity annualised <sup>5</sup>	21.2%	14.9%
<b>Key metrics</b>		
Investment income yield annualised – continuing operations	2.4%	2.3%
Investment return annualised – continuing operations	3.1%	2.8%
Basic earnings per share – continuing operations (pence)	16.5	10.9
Return on equity annualised <sup>6</sup>	23.2%	12.6%
Dividend per share – regular interim (pence)	4.6	4.4
– special interim <sup>7</sup> (pence)	27.5	10.0
– total (pence)	32.1	14.4
	30 Jun 2015	31 Dec 2014
Net asset value per share – total Group (pence)	218.4	188.2
Tangible net asset value per share – total Group (pence)	181.5	153.1
Adjusted tangible net asset value per share <sup>8</sup> – total Group (pence)	151.4	153.1

Notes:

- See note 1 on page 2
- In-force policies at 30 June 2014 have been revised to exclude partner post-accident vehicle recoveries
- See note 1 on page 2, adjusted for finance costs, excluding gain on disposal of subsidiary and stated after charging tax (using the standard tax rate of 20.25%; 2014: 21.5%).
- Adjusted earnings per share – diluted includes ongoing operations and excludes discontinued operations, the Run-off segment, restructuring and other one-off costs, and the gain on disposal of subsidiary (using UK standard tax rate of 20.25%; 2014: 21.5%).
- See note 3 on page 2
- Return on equity ("RoE") includes discontinued operations. The earnings arising from discontinued operations ceased from the date of disposal of these operations on 29 May 2015. The earnings from continuing operations have been annualised using profits for the 6 months ended 30 June 2015.
- The special interim dividend of 27.5 pence per share was paid on 24 July 2015.
- Adjusts for the payment of the special interim dividend on 24 July 2015, in relation to the sale of the Group's International division

## Business update

### Overview

Direct Line Group (the “Group”) achieved good underlying results in the first half of 2015 while making progress on delivering its strategy. A focus on operating efficiency and disciplined underwriting in competitive markets, together with an absence of claims from major weather events and higher than expected prior-year reserve releases, enabled the Group to deliver an improvement in operating profit from ongoing operations.

Operating profit from ongoing operations rose to £335.8 million (first half 2014: £235.7 million) while the COR for ongoing operations improved by 6.7 percentage points to 89.4% (first half 2014: 96.1%) again benefiting from reduced claims from weather and increased prior-year reserve releases of £215.1 million (first half 2014: £212.5 million). Profit before tax for continuing operations of £315.0 million (first half 2014: £211.7 million) increased significantly.

### Strategic update

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

During the first half of 2015, the Group continued to make progress delivering its 2015 strategic objectives and building capability for the future.

#### Great retailer

Work on differentiating the Group’s brands has continued. In the first half of 2015, amendment fees have been removed from all Direct Line branded products, including Direct Line for Business. This builds on Direct Line’s improved claims propositions, which include a seven day car repair service and an eight hour turnaround to dispatch certain lost or damaged household goods.

Churchill’s branding has also been refreshed with a campaign to highlight its dependability and to reinforce the product and service propositions which differentiate it from other brands, including on price comparison websites (“PCW”). This, together with an increased trading capability and pricing initiatives, has contributed to an improvement in PCW sales.

A key measure of the success of the roll out of new propositions and customer claims experience programmes during the first half of 2015 was an improvement in the Net Promoter Score of 3.3 percentage points for the Direct Line brand<sup>1</sup>. The initiatives behind these have also contributed to a further improvement in customer retention in Motor and Home own brands.

The Group’s investment in digital continued with the roll out of a new quote and buy journey for its Home insurance products. This builds on last year’s successful implementation of a new quote and buy journey for Motor.

Commercial products are now more widely available to customers directly, with the launch of Churchill for Business on two of the major PCWs. In addition Commercial’s product offering is being enhanced with the roll-out of Professional Indemnity for Direct Line for Business.

#### Smart and efficient manufacturer

The Group continued to improve its efficiency with a reduction in total cost base in the first half of 2015 of 7.6% while continuing to invest in capability.

New pricing projects have been implemented which aim to broaden Motor and Home’s competitive quote footprint, and claims management projects continue to contribute to the Group’s aim to beat market claims inflation.

The Group is importing relevant Personal Lines capabilities into its Commercial operations, with - in particular - improved Van technical pricing and the launch of webchat for the broker market.

#### Lead and disrupt the market

The Group continues to build on its current strong market positions by investing in market trends that it believes will contribute to future growth. In particular, the Group has continued to grow its telematics-based motor insurance in-force policies, with a 48% increase to 56,000 since the end of 2014.

In Commercial, the Group continues to be recognised for its leading capabilities in eTrade and direct Commercial insurance, both of which are expected to be growing parts of the commercial market place. With its focus on providing insurance to small and medium-sized enterprises in the UK, the Group is planning to launch a Cyber product for the regional broker channel. This product will be fully reinsured.

Note:

1. On a twelve months rolling basis

## Key enablers

Alongside the strategic pillars, the Group has also made progress on its key enablers. In particular, the migration of the Group's IT infrastructure away from RBS Group is now essentially complete and work continues to simplify our legacy IT estate to improve our efficiency. The Group continues to utilise technology; for example the car repair web portal and update services delivered benefits to our customers, reduced call volumes and improved our efficiency. Furthermore, work associated with the implementation of the next generation of customer systems continued. The initial deployment of new systems in Motor is expected in 2016 and aims to bring significant customer benefits.

The Group continued to prepare for the introduction of Solvency II on 1 January 2016. It has submitted preparatory information to the Prudential Regulation Authority and expects to apply for internal model approval during the second half of 2015.

## Sale of International division and gain on disposal

On 29 May 2015, the Group completed the disposal of its International division, which comprised its Italian and German operations, to Mapfre, S.A. Accordingly, this division is treated as discontinued operations in this report. Total cash sale proceeds were £438.1 million. The gain on disposal of £167.1 million is included in profit after tax from discontinued operations of £181.2 million.

## Dividends and capital management

On 24 July 2015, a special interim dividend of 27.5 pence per share was paid which amounted to substantially all of the net proceeds from the sale of the Group's International division. Concurrent with the shares trading ex this dividend, and following approval at the General Meeting on 29 June 2015, an 11 for 12 consolidation of the Group's shares was completed.

The Board has resolved to pay an interim dividend of 4.6 pence per share representing 4.5% growth on 2014. This is in line with the Group's dividend policy which aims to grow the regular dividend annually in real terms.

After deducting these dividends the Group's risk-based capital coverage ratio at 30 June 2015 was 155.9%, which is above the Group's risk appetite range of 125% to 150%. As set out in the Group's Annual Report & Accounts 2014, in view of the transition to Solvency II, the Board is next likely to consider any return of capital alongside the full-year results for 2015. The consideration of any future return of capital that the Board may decide to make will take into account the Group's requirements on a Solvency II basis and, in line with its existing policy, will consider capital requirements over a prolonged period. Alongside this, the Board will consider any changes it should make to its risk-based capital metrics and risk appetite.

## Outlook

The Group's markets remained highly competitive in the first half of 2015; the motor market overall has seen modest price rises and the home market has seen further price deflation. The Rescue market experienced increased competitor activity towards the end of the period.

Against this backdrop, the Group continues to adopt a disciplined approach to managing the trade-off between margin and volumes. Meanwhile, the Group is investing in building future capability and continues to identify opportunities to improve efficiency.

The Group now expects to achieve a COR for 2015 in the range of 92% to 94% (previously 94% to 96%) for ongoing operations assuming a normal annual level of Home claims from major weather events of approximately £80 million. The improved COR is primarily due to higher than expected prior-year reserve releases, while underlying trends remain broadly in line with prior expectations.

## Finance review

### Performance

#### Operating profit – ongoing operations<sup>1</sup>

	H1 2015 £m	H1 2014 £m
Underwriting profit	153.2	58.7
Instalment and other operating income	72.8	72.9
Investment return	109.8	104.1
<b>Operating profit</b>	<b>335.8</b>	<b>235.7</b>

In the first half of 2015, operating profit from ongoing operations increased to £335.8 million (first half 2014: £235.7 million) due to an improvement in the underwriting result, while the investment return and instalment and other operating income remained broadly stable. The underwriting result improved significantly to £153.2 million (first half 2014: £58.7 million) due to an absence of claims from major weather events, a lower total cost base and a reduced current-year loss ratio.

#### In-force policies and gross written premium

##### In-force policies – ongoing operations (thousands)

At	30 Jun 2015	31 Mar 2015 Revised <sup>2</sup>	31 Dec 2014 Revised <sup>2</sup>	30 Sep 2014 Revised <sup>2</sup>	30 Jun 2014 Revised <sup>2</sup>
Own brands	3,435	3,417	3,415	3,405	3,417
Partnerships	251	251	257	262	275
<b>Motor total</b>	<b>3,686</b>	<b>3,668</b>	<b>3,672</b>	<b>3,667</b>	<b>3,692</b>
Own brands	1,696	1,696	1,693	1,692	1,707
Partnerships	1,755	1,782	1,833	1,868	1,886
<b>Home total</b>	<b>3,451</b>	<b>3,478</b>	<b>3,526</b>	<b>3,560</b>	<b>3,593</b>
Rescue	4,034	4,008	3,976	3,975	3,963
Other personal lines	4,374	4,385	4,517	4,527	4,589
<b>Rescue and other personal lines</b>	<b>8,408</b>	<b>8,393</b>	<b>8,493</b>	<b>8,502</b>	<b>8,552</b>
Commercial	629	617	611	606	600
<b>Total</b>	<b>16,174</b>	<b>16,156</b>	<b>16,302</b>	<b>16,335</b>	<b>16,437</b>

##### Gross written premium – ongoing operations

	Q2 2015 £m	Q2 2014 £m	H1 2015 £m	H1 2014 £m
Own brands	332.5	316.2	635.2	617.1
Partnerships	24.4	22.3	48.1	48.3
<b>Motor total</b>	<b>356.9</b>	<b>338.5</b>	<b>683.3</b>	<b>665.4</b>
Own brands	97.0	100.2	193.9	199.9
Partnerships	110.8	116.6	223.9	237.4
<b>Home total</b>	<b>207.8</b>	<b>216.8</b>	<b>417.8</b>	<b>437.3</b>
Rescue	42.7	40.8	80.6	76.7
Other personal lines	57.1	52.5	114.2	104.5
<b>Rescue and other personal lines</b>	<b>99.8</b>	<b>93.3</b>	<b>194.8</b>	<b>181.2</b>
Commercial	141.0	144.1	256.1	262.1
<b>Total</b>	<b>805.5</b>	<b>792.7</b>	<b>1,552.0</b>	<b>1,546.0</b>

Notes:

1. See note 1 on page 2
2. Rescue in-force policies have been revised to exclude partner postaccident vehicle recoveries.

During the first half of 2015, total in-force policies for ongoing operations reduced by 0.8% to 16.2 million (31 December 2014: 16.3 million). The fall primarily related to other personal lines, within the Rescue and other personal lines division, and Home partnerships. Motor and Home own brands in-force policies were stable. Gross written premium of £1,552.0 million stabilised with a marginal increase of 0.4% compared with the first half of 2014 (£1,546.0 million). Growth in Motor and Rescue and other personal lines was partially offset by Home.

Gross written premium for Motor increased by 2.7% in comparison to the first half of 2014 as the Group's own brands performed well with strong retention and increased sales from the Churchill brand on price comparison websites.

#### Motor – effect on premium income of changes in price and risk mix<sup>1</sup>

Change versus same quarter in previous year	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Change in price	5.9%	4.2%	1.7%	–
Change in risk mix	(0.8%)	(2.7%)	(1.1%)	(2.6%)

The motor trading environment improved in the second quarter after experiencing seasonally competitive pressures in the first quarter. Overall risk-adjusted Motor prices increased by 5.9% in the second quarter of 2015 compared with the same quarter last year, while risk mix was broadly stable. At a market level, there have been price rises in the first half of the year, albeit we believe not fully matching claims inflation.

Home own brands in-force policies of 1.7 million remained stable over the first half of 2015 (31 December 2014: 1.7 million), while partner in-force policies reduced by 4.3%. Gross written premium was 4.5% lower than the first half of 2014, with own brands 3.0% lower and partnerships 5.7% lower. The home market became more competitive in the second quarter in comparison to the first quarter of 2015 which affected new business volumes, while previous investments in technical pricing as well as customer initiatives supported a further increase in own brands retention. Risk-adjusted Home own brands prices decreased by 1.9% in the second quarter of 2015 compared with the same quarter last year, while risk mix decreased by 1.3%. One of the Group's partners, Nationwide, is currently reviewing its Home insurance provider as the Group's contract approaches renewal. This partnership arrangement accounted for 22.9% of Home gross written premium in the first half of 2015, albeit it contributed a considerably lower proportion of Home profit.

Rescue and other personal lines experienced gross written premium growth of 7.5% compared with the first half of 2014 despite a reduction in in-force policies since 30 June 2014. Rescue gross written premium grew by 5.1% compared with the first half of 2014 driven primarily by Green Flag direct, supported by take up of higher levels of cover and competitive propositions. Other personal lines saw growth of 9.3% in gross written premium in comparison to the first half of 2014 mainly due to travel repricing. However, in-force policies fell 3.2% since the end of 2014, primarily reflecting lower packaged bank account volumes.

In-force policy growth in Commercial across the first half of 2015 was achieved through increased sales through the Direct Line for Business and eTrade channels. However, gross written premium for Commercial decreased overall following competitive pressures in the regional business where the Group focused on maintaining underwriting discipline. The division continued to benefit from investment in technical pricing, particularly for Commercial Van, which contributed to eTrade growth.

Total in-force policies for ongoing operations were stable across the second quarter of 2015 at 16.2 million (31 March 2015: 16.2 million). In comparison to the second quarter last year, gross written premium from ongoing operations increased by 1.6% to £805.5 million (second quarter 2014: £792.7 million), with growth of 5.4% in Motor partially offset by a reduction in Home.

#### Underwriting profit – ongoing operations

	H1 2015	H1 2014
<b>Underwriting profit</b> (£ million)	<b>153.2</b>	58.7
Loss ratio	<b>54.2%</b>	61.1%
Commission ratio	<b>11.6%</b>	11.0%
Expense ratio	<b>23.6%</b>	24.0%
<b>Combined operating ratio</b>	<b>89.4%</b>	96.1%

The COR for ongoing operations improved significantly in the first half of 2015 to 89.4% (first half 2014: 96.1%) with a similar improvement in the loss ratio. The improvement in the loss ratio reflected an absence of claims from major weather events, an improvement in the Group's current-year loss ratio and stable prior-year reserve releases representing a higher percentage of lower net earned premium. Adjusted for a normal level of claims from weather events, the Group's COR was approximately 92%. The Group continued to invest in technical pricing and claims initiatives.

Note:

1. Risk mix reflects the expected level of claims from the portfolio. It measures the estimated movement based on risk models used in that period and is revised when risk models are updated.

The commission ratio increased 0.6 percentage points to 11.6% (first half 2014: 11.0%). This was mainly due to the Home division's additional profit share commission as a result of benign weather and higher prior-year reserve releases.

The Group's expense ratio reduced 0.4 percentage points to 23.6%, with the effect of the reduction in operating expenses partially offset by the impact of lower net earned premium.

#### Current-year attritional loss ratio – ongoing operations

	H1 2015	H1 2014
Reported loss ratio	54.2%	61.1%
Prior-year reserve releases	14.9%	14.1%
Major weather events – Home <sup>1</sup>	–	(4.2%)
<b>Current-year attritional loss ratio</b>	<b>69.1%</b>	<b>71.0%</b>

The movement in the current-year attritional loss ratio is a key indicator of underlying accident year performance as it excludes prior-year reserve movements and claims from major weather events in the Home division. The Group's current-year attritional loss ratio improved by 1.9 percentage points to 69.1% in the first half of 2015 (first half of 2014: 71.0%) with all divisions either stable or improving.

Prior-year reserve releases from ongoing operations continued to be significant at £215.1 million (first half 2014: £212.5 million) and were equivalent to 14.9% of net earned premium (first half 2014: 14.1% of net earned premium). Reserve releases were higher than expected in the first half of 2015. The overall level for 2015 is expected to be lower than in 2014.

#### Analysis by division

	Motor	Home	Rescue and other personal lines	Commercial	Total ongoing
<b>First half of 2015</b>					
Combined operating ratio	91.4%	80.8%	91.0%	98.8%	89.4%
Current-year attritional loss ratio	85.6%	47.5%	61.4%	71.5%	69.1%
Prior-year reserve releases / (increases) (£ million)	145.5	38.2	(1.2)	32.6	215.1
<b>First half of 2014</b>					
Combined operating ratio	93.6%	97.8%	90.9%	104.6%	96.1%
Current-year attritional loss ratio	87.2%	49.6%	61.4%	73.3%	71.0%
Prior-year reserve releases (£ million)	149.0	33.1	6.6	23.8	212.5

#### Motor

The COR for the Motor division improved by 2.2 percentage points reflecting a better loss ratio while the expense and commission ratios were stable. The loss ratio improvement was due to a lower current-year loss ratio as well as a higher contribution from prior-year reserve releases, as stable reserve releases represented a higher percentage of lower net earned premium. Prior-year reserve releases primarily relate to large bodily injury claims and are expected to be lower in the second half of 2015.

The current-year attritional loss ratio improved by 1.6 percentage points to 85.6%. This benefited from the refinement in the Group's approach to determining the level of risk margin above the actuarial best estimate for the current year, resulting in a 2.5% improvement in the loss ratio in the first half of 2015. This was partly offset by an underlying increase in loss ratio, as price inflation over the last twelve months did not fully keep pace with claims inflation.

While most trends were in line with expectations, the Group has continued to experience an elevated level of large bodily injury claims, in particular those between £100k and £1 million. There was also an increase in the cost of damage claims from increased repair costs, used car prices and credit hire costs.

#### Home

In Home, the COR improved significantly to 80.8% in comparison to the first half of 2014 following an absence of claims from major weather events. The current-year attritional loss ratio, excluding major weather event claims, improved by 2.1 percentage points on the first half of 2014, reflecting the benefits of a disciplined underwriting approach. The weather in the first half of 2015 was benign compared with the long-term average, with no major weather events (first half 2014: approximately £64 million). Prior-year reserve releases were higher than last year at £38.2 million (first half 2014: £33.1 million) although are currently expected to be significantly lower in the second half of 2015.

Note:

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



### Rescue and other personal lines

The COR for Rescue and other personal lines was stable at 91.0% (first half 2014: 90.9%). The Rescue COR was 79.6% (first half 2014: 78.5%) with a higher loss ratio reflecting pricing changes in the partner channel following favourable experience in the prior year. A higher loss ratio was offset by reduced commissions and expenses.

### Commercial

The Commercial COR improved to 98.8% from 104.6% in the first half of 2014. The 5.8 percentage points improvement in the COR was due to a better underwriting performance with lower claims from benign weather together with higher prior-year reserve releases, partially offset by large fire losses. The expense ratio improved but was offset by a higher commission ratio. The current-year attritional loss ratio improved, by 1.8 percentage points, demonstrating the positive effect of disciplined underwriting. Prior-year reserve releases of £32.6 million increased on the same period last year (£23.8 million), although in the second half of 2015 are expected to be lower than for the first half of 2015.

### Total cost base – ongoing operations

	H1 2015 £m	H1 2014 £m
Staff costs	125.0	122.1
Marketing	58.6	64.2
Depreciation	14.9	8.8
Amortisation and impairment of other intangible assets	30.9	30.5
Other operating expenses	110.3	136.0
<b>Total operating expenses</b>	<b>339.7</b>	<b>361.6</b>
Claims handling expenses	98.6	112.6
<b>Total cost base</b>	<b>438.3</b>	<b>474.2</b>

The total cost base for ongoing operations of £438.3 million was 7.6% lower than the comparative period (first half 2014: £474.2 million). The reduction was due principally to the Group's cost-savings initiatives, with a continuing focus on operating efficiency. The Group's expense ratio reduced 0.4 percentage points to 23.6%, with the effect of the reduction in operating expenses partially offset by the impact of lower net earned premium.

### Instalment and other operating income – ongoing operations

	H1 2015 £m	H1 2014 £m
<b>Instalment income</b>	<b>48.4</b>	<b>50.0</b>
Other operating income:		
Vehicle replacement referral income	5.8	7.6
Revenue from vehicle recovery and repair services <sup>1</sup>	7.6	9.0
Fee income from insurance intermediary services	1.2	1.0
Other income	9.8	5.3
<b>Total other operating income</b>	<b>24.4</b>	<b>22.9</b>
<b>Total</b>	<b>72.8</b>	<b>72.9</b>

Instalment and other operating income from ongoing operations was stable, with increased other income, which includes referral and legal services income, offsetting reductions in income from vehicle recovery and repairs, and instalment payments.

In February 2014, the Group sold its stolen-vehicle recovery business, Tracker. In 2014, Tracker's revenue prior to the sale was £1.4 million.

### Investment return – ongoing operations

	Q2 2015 £m	Q2 2014 £m	H1 2015 £m	H1 2014 £m
Investment income	41.7	42.6	83.0	85.0
Net realised and unrealised gains	16.3	5.8	26.8	19.1
<b>Total investment return</b>	<b>58.0</b>	<b>48.4</b>	<b>109.8</b>	<b>104.1</b>

Note:

1. Vehicle recovery includes post-accident and pay-on-use recovery. Repair services constitute the provision of non-insurance related services.

The total investment return for ongoing operations increased to £109.8 million compared to £104.1 million in the first half of 2014. This was driven by an increase in net realised and unrealised gains partially offset by a reduction in investment income. Investment income was £83.0 million, a 2.4% decrease from the first half of 2014, primarily as a result of lower average assets under management ("AUM").

Net realised and unrealised gains for ongoing operations of £26.8 million were higher than the comparative period (first half 2014: £19.1 million gain) due primarily to fair value increases on investment property of £14.6 million and higher realised gains on disposals of fixed income debt securities. Net realised gains for ongoing operations for the second half of 2015 are expected to be lower.

#### Investment yields – continuing operations<sup>1</sup>

	H1 2015	H1 2014
Investment income yield <sup>2</sup>	2.4%	2.3%
Investment return <sup>3</sup>	3.1%	2.8%

The annualised investment income yield for continuing operations in the first half of 2015 was 2.4%, compared to 2.3% in the first half of 2014. This reflects portfolio actions which increased investments in UK commercial property, securitised credit, non-investment grade credit within the corporate debt securities and infrastructure debt as the Group moved towards its target asset allocation. Based on current yield curves and the current target asset allocation, the Group currently expects a 2016 investment income yield of 2.6%.

#### Investment holdings – total Group

At	30 Jun 2015 Adjusted <sup>4</sup> %	30 Jun 2015 Adjusted <sup>4</sup> £m	30 Jun 2015 £m	31 Dec 2014 £m
Corporate <sup>5</sup>	59.3%	4,070.0	4,070.0	4,092.7
Supranational <sup>5</sup>	2.0%	136.9	136.9	176.2
Local government <sup>5</sup>	1.8%	124.6	124.6	120.3
<b>Credit</b>	63.1%	4,331.5	4,331.5	4,389.2
Securitised credit <sup>5</sup>	5.8%	398.6	398.6	419.6
Sovereign <sup>5</sup>	9.8%	672.4	672.4	993.7
<b>Total debt securities</b>	78.7%	5,402.5	5,402.5	5,802.5
Infrastructure	3.2%	221.4	221.4	76.2
Cash and cash equivalents <sup>6</sup>	13.4%	916.4	1,327.9	865.4
Investment property	4.7%	322.0	322.0	307.2
<b>Total Group</b>	100.0%	6,862.3	7,273.8	7,051.3

Total investment holdings increased by 3.2% in the first half of 2015, primarily reflecting funds received on disposal of the International division offset by the payment of £191.5 million by way of final and special interim dividends. Excluding funds paid as a special interim dividend on 24 July 2015 relating to the sale of the International division, AUM fell by 2.7% to £6,862.3 million. At 30 June 2015, total unrealised gains, net of tax, on available-for-sale investments were £43.7 million (31 December 2014: £94.4 million).

#### Notes:

- See note 1 on page 2
- Investment income yield excludes net gains and is calculated on income divided by calculating the average AUM based on opening and closing balance for total Group – continuing operations.
- Investment return includes net gains and is calculated on income divided by calculating the average AUM based on opening and closing balance for total Group – continuing operations.
- See note 8 on page 3
- Asset allocation at 30 June 2015 includes investment portfolio derivatives, which have been netted and have a mark-to-market asset value of £47.4 million, split £38.2 million in corporate, £0.6 million in local government, £8.3 million in securitised credit and £0.3 million in sovereign (31 December 2014: mark-to-market liability value of £27.8 million, split £24.4 million in corporate and £0.1 million in supranationals, £0.4 million in local government, £2.8 million in securitised credit and £0.1 million in sovereign). This excludes non-investment derivatives that have been used to hedge subordinated debt, operational cash flows and the disposal of the International division.
- Net of bank overdrafts and including term deposits with financial institutions with maturities exceeding three months.

Total debt securities were £5,402.5 million (31 December 2014: £5,802.5 million), of which 12.5% were rated as 'AAA' and a further 64.8% were rated as 'AA' or 'A'. Corporate, supranational and local government debt securities account for 63.1% of the adjusted portfolio. The average duration at 30 June 2015 of total debt securities was 2.1 years (31 December 2014: 2.1 years).

During the first half of 2015, the Group reduced its allocation in sovereign debt securities and allocated funds to other asset classes. Further investments in infrastructure debt, investment property and private placements of investment grade credit are planned during the remainder of the year.

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

#### Operating profit – ongoing operations

	H1 2015 £m	H1 2014 £m
Motor	181.0	164.3
Home	104.4	34.8
Rescue and other personal lines	26.4	25.8
Commercial	24.0	10.8
<b>Total ongoing</b>	<b>335.8</b>	<b>235.7</b>

All divisions were profitable in the first half of 2015, with all segments improving operating profit compared to the comparative period.

#### Reconciliation of operating profit

	H1 2015 £m	H1 2014 £m
<b>Operating profit – ongoing operations</b>	<b>335.8</b>	<b>235.7</b>
Run-off	38.3	20.4
Restructuring and other one-off costs	(40.4)	(28.0)
<b>Operating profit – continuing operations</b>	<b>333.7</b>	<b>228.1</b>
Finance costs	(18.7)	(18.7)
Gain on disposal of subsidiary	–	2.3
<b>Profit before tax – continuing operations</b>	<b>315.0</b>	<b>211.7</b>
Tax	(68.4)	(47.8)
Profit from discontinued operations, net of tax	181.2	11.7
<b>Profit after tax</b>	<b>427.8</b>	<b>175.6</b>

#### Run-off

The Run-off segment generated a profit of £38.3 million in the first half of 2015 compared with £20.4 million in the first half of 2014. Improved claims experience from large bodily injury claims led to higher prior-year reserve releases in comparison to the first half of 2014. It is currently expected that the Run-off segment will continue to contribute positively to operating profit in future years, albeit at a lower level than in the first half of 2015.

#### Restructuring and other one-off costs

Restructuring and other one-off costs for the first half of 2015 of £40.4 million (first half 2014: £28.0 million) primarily reflected the costs associated with the exit of one location announced earlier in the year and IT migration. The Group currently expects to incur total restructuring and other one-off costs in the region of £50 million in 2015.

Over the next three years, the Group expects cumulative restructuring costs to continue to be substantially offset by the profit from the Run-off segment.

#### Finance costs

Finance costs remained stable at £18.7 million (first half 2014: £18.7 million).

### Gain on disposal of subsidiary

The gain on disposal of £2.3 million in the first half of 2014 relates to the sale of the Group's stolen vehicle recovery business, Tracker.

### Taxation

The effective tax rate for continuing operations in the first half of 2015 was 21.7% (first half 2014: 22.6%), which was higher than the standard UK corporation tax rate of 20.25% (first half 2014: 21.5%) driven primarily by disallowed expenses.

### Discontinued operations

On 29 May 2015, the Group completed the sale of its International division, which comprised its Italian and German operations, to Mapfre, S.A. Accordingly, this division is treated as discontinued operations. The gain on disposal of £167.1 million is included in profit after tax from discontinued operations of £181.2 million. Operating profit includes £29.9 million of realised net gains on available-for-sale investments reclassified through the income statement on disposal. Further details on discontinued operations are presented in note 5 to the condensed consolidated financial statements, see page 25.

### Profit for the period and return on tangible equity

Profit for the period amounted to £427.8 million (first half 2014: £175.6 million), a significant increase on the first half of 2014 following the gain on disposal of the Group's International division.

RoTE increased to 21.2% (first half 2014: 14.9%) supported by an absence of claims from major weather events, higher than expected prior-year reserve releases and a reduced total cost base.

### Earnings per share

Basic earnings per share for continuing operations of 16.5 pence increased 51.4% (first half 2014: 10.9 pence). This reflected the improved operating profits from ongoing operations together with the Run-off segment, partially offset by an increase in restructuring and other one-off costs.

Adjusted diluted earnings per share, from ongoing operations, increased by 47.8% to 16.7 pence (first half 2014: 11.3 pence) reflecting the increase in operating profit from improved underwriting.

### Dividends

Following the completion of the sale of the Group's International division and shareholder approval of a share consolidation, a special interim dividend of 27.5 pence per share was paid on 24 July 2015. This amounted to substantially all of the net proceeds from the sale.

The Board has resolved to pay an interim dividend of 4.6 pence per share, an increase of 4.5% on the regular interim dividend for 2014 (4.4 pence per share). The regular interim dividend will be paid on 11 September 2015 to shareholders on the register on 14 August 2015. The ex dividend date will be 13 August 2015.

### Net asset value

At	30 Jun 2015 £m	31 Dec 2014 £m
Net assets	2,993.7	2,810.5
Goodwill and other intangible assets <sup>1</sup>	(506.6)	(523.1)
<b>Tangible net assets</b>	<b>2,487.1</b>	<b>2,287.4</b>
Less: special interim dividend <sup>2</sup>	(411.5)	–
<b>Adjusted tangible net assets</b>	<b>2,075.6</b>	<b>2,287.4</b>
Net assets per share (pence)	218.4	188.2
Tangible net assets per share (pence)	181.5	153.1
Adjusted tangible net assets per share (pence)	151.4	153.1

The net asset value at 30 June 2015 was £2,993.7 million (31 December 2014: £2,810.5 million) with a tangible net asset value of £2,487.1 million (31 December 2014: £2,287.4 million). The increase reflected profit in the first half of 2015 including the sale of the International division, offset by the payment of the final and special interim dividends on 17 April 2015 and a reduction of the available-for-sale investments reserve.

Tangible net assets per share have been adjusted to aid comparability with tangible net assets per share at 31 December 2014. This adjustment has been made to take into account the timing difference between the share consolidation on 30 June 2015 and the payment of the special interim dividend on 24 July 2015, in relation to the sale of the Group's International division. On this basis, adjusted tangible net assets reduced by 1.1% to 151.4 pence (31 December 2014: 153.1 pence).

Notes:

1. Includes the International division's intangible assets at 31 December 2014 of £5.6 million included in assets held for sale
2. The trustees of the employee share trusts waived their entitlement to dividends on shares which are not held for the benefit of employees (except for free share awards).

## Financial management

### Capital management

#### Capital position and leverage

At	30 Jun 2015 £m	31 Dec 2014 £m
<b>Consolidated statutory solvency capital</b>		
Shareholders' equity	2,993.7	2,810.5
Goodwill and other intangible assets <sup>1</sup>	(506.6)	(523.1)
Regulatory adjustments <sup>2</sup>	(360.7)	(28.1)
<b>Total tier 1 capital</b>	<b>2,126.4</b>	<b>2,259.3</b>
Lower tier 2 capital <sup>3</sup>	495.9	496.1
Regulatory adjustments	(156.6)	(54.6)
<b>Total regulatory capital</b>	<b>2,465.7</b>	<b>2,700.8</b>
Less: interim dividends	(63.3)	(192.0)
<b>Adjusted regulatory capital</b>	<b>2,402.4</b>	<b>2,508.8</b>

The Group is well capitalised with key capital metrics above the Group's risk appetite and significantly above regulatory minima.

At	30 Jun 2015 £m	31 Dec 2014 £m
Insurance Group Directive ("IGD") coverage ratio	347.7%	347.4%
Risk-based capital coverage ratio	159.7%	158.9%
Risk-based capital coverage ratio (adjusted for interim dividends)	155.9%	148.2%

At 30 June 2015, the Group had an estimated risk-based capital-coverage ratio of 159.7% after deducting the special interim dividend associated with the return of capital from the sale of International (31 December 2014: 158.9%). This reduces to 155.9%, after deducting dividends that the Board has paid or resolved to pay (31 December 2014: 148.2%), which is above the Group's risk appetite range of 125% to 150%.

As set out in the Group's Annual Report & Accounts 2014, in view of the transition to Solvency II, the Board is next likely to consider any return of capital alongside the full-year results for 2015. The consideration of any future return of capital that the Board may decide to make will take into account the Group's requirements on a Solvency II basis and, in line with its existing policy, will consider capital requirements over a prolonged period. Alongside this, the Board will consider any changes it should make to its risk-based capital metrics and risk appetite.

The table sets out the Group's financial leverage ratio:

At	30 Jun 2015 £m	31 Dec 2014 £m
Shareholders' equity	2,993.7	2,810.5
Financial debt – subordinated guaranteed dated notes	516.8	526.3
<b>Total capital employed</b>	<b>3,510.5</b>	<b>3,336.8</b>
Financial leverage ratio <sup>4</sup>	14.7%	15.8%

The Group's leverage ratio remains conservative with a financial leverage of 14.7% at 30 June 2015 (31 December 2014: 15.8%). This increases to 16.7% at 30 June 2015 when adjusting for the payment of the special interim dividend on 24 July 2015, in relation to the sale of the Group's International division.

#### Credit ratings

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

Notes:

1. See note 1 on page 12
2. Includes the special interim dividend paid on 24 July 2015, in relation to the sale of the Group's International division
3. Includes that element of the subordinated dated notes applicable for regulatory capital purposes
4. Total financial debt as a percentage of total capital employed

## Principal risks and uncertainties

It is important that the Group identifies, assesses, manages, monitors and reports risks throughout the business on an ongoing basis and material risks are recorded within the Group's Material Risk Register. The principal risks and uncertainties as explained in the Annual Report & Accounts 2014, page 31, have been categorised into the Group's material risks across five categories.

A summary of the Group's material risks is provided below:

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### Material risks

#### Insurance risk

This risk category includes reserving, underwriting, distribution, pricing and reinsurance risks. The risk of understatement of reserves arises from the random nature of claims, data issues and operational failures. The Group faces the risk that future claims on business written could be materially different from expectations resulting in losses, for example the outcome of the government's consultation on the Ogden discount rate used by the courts to calculate claims for long-term damages. Incorrect pricing with market supply and demand could result in the potential loss of market share or profitability. Furthermore, the inappropriate selection or placement of reinsurance arrangements could render the transfer of risk inappropriate or ineffective.

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#### Market risk

The Group is exposed to fluctuations in the value of assets or the income from its investment portfolio. This risk category comprises spread, asset and liability mismatch, interest rate and property risks. The value of assets and investments are sensitive to changes in credit spreads above the risk-free interest rate. Asset and liability mismatch risk is the potential loss arising from the imperfect matching of the timing and size of the cash flows from the investment assets and those linked to liabilities. Asset values are sensitive to changes in interest rates. Property risk arises as a result of sensitivity of assets to market prices of property.

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#### Credit risk

The Group partners with many suppliers, in particular reinsurance, and has many investment counterparties. The failure of any of these parties could result in a financial loss. Counterparty risk arises from unexpected default by, or deterioration in the credit standing of, counterparties. Concentration risk arises from inadequately diversified portfolios of assets or obligations.

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#### Operational risk

The Group faces the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. This risk category covers information security, partnership contractual obligations, business continuity (including reputational risk), change, financial reporting misstatement, modelling, outsourcing, conduct, compliance and regulatory risks.

Information security risk covers the potential loss of, or corruption to, data or intellectual property. Partnership contractual obligations risk arises from the potential loss from contractual obligations not being delivered for business partners. Business continuity risk, including reputational risk, relates to the failure to recover from major external or internal events, resulting in a delay or inability to deliver services to customers. The Group has a substantial portfolio of change underway which could result in conflicting priorities and failure to deliver strategic outcomes. The financial reporting misstatement risk derives from the potential material misstatement, misrepresentation or untimely delivery of financial information or regulatory returns. There are potential adverse consequences from inadequate, incorrect, ineffective or misused model outputs and reports for decision making, product design or for customer offerings. There is also the risk that an outsourcing arrangement may fail to deliver services to expected levels.

Conduct risk is the failure to treat customers appropriately or failure by employees to behave with integrity. Compliance risk is the potential loss from regulatory or legal censure, fines or prosecutions. Regulatory risk arises from changes in law and regulations (including changes of interpretation) not identified, interpreted or adopted correctly, including Solvency II.

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#### Strategic risk

This is the risk of direct or indirect adverse impact on the earnings, capital, or value of the business as a result of the strategies not being optimally chosen, implemented or adapted to changing conditions. This risk sub-divides into strategy formulation, implementation and review risks. These are the risks of failing to formulate an appropriate strategy, to deliver strategic objectives and the risk of missed opportunities or a decline in current business through failure to review and adapt the strategy.

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Risks change over time, often as a result of changes in the environment in which the Group operates. Set out below are examples of material risks that are changing which may influence the Group's future performance in this and future financial years and cause results to differ materially from expected and historical results.

#### *Market risk: spread and property risks*

The build-up of infrastructure debt and private placements of investment grade debt in the investment portfolio will increase the overall exposure to spread risk. The continued gradual build-up of the investment property portfolio will increase property risk. The anticipated increase in risk aligns with the Group's planned increase in investment return. The Group's risk appetite, policies and minimum standards seek to manage these risks.

#### *Operational risk: partnership contractual obligations and outsourcing risks*

Due to the business transformation change agenda across the Group, there is an increased risk of contract or service level agreement breaches. The Group is placing reliance on third parties to provide services, for example IT infrastructure. This increasing use of third parties will increase the inherent outsourcing risk and results in dependencies on external parties to manage processes and controls. The Group is deploying what it considers to be appropriate governance to oversee these activities, which also helps meet Solvency II requirements in relation to material or critical outsource arrangements.

#### **Emerging risks**

The Group's definition of emerging risk is newly developing or changing risks that are often difficult to quantify, but may have a major or material impact on the business. The Group has further defined emerging risks as fulfilling some of the following criteria:

- They are risks which are external to the Group
- They are subject to a high degree of uncertainty
- There is scope for mitigation either now or in the future

The Group records emerging risks within an Emerging Risk Register which aligns to the risk taxonomy underpinning the Material Risk Register. These emerging risks link into the Own Risk and Solvency Assessment. They are also part of the risk reporting framework to the Executive Risk Management Committee and the Board Risk Committee for review, challenge and approval, and feed into the Board's strategic planning process.

The Group's emerging risks processes aim to:

- Achieve 'first mover advantage' through early recognition of risks and associated opportunities
- Reduce the uncertainty and volatility of business results
- Take a proactive approach to managing emerging risks
- Identify, manage and monitor a broader range of potential emerging risks
- Mitigate the potential impact on the Group's profit and loss account and balance sheet

The Group considers its main emerging risks to be:

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#### Emerging risks

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##### *Major new market entrant takes significant market share*

A major new general insurer could revolutionise the market requiring the Group to quickly adapt its business model to the new environment.

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##### *Technological change in driving habits reduce consumer need for motor insurance*

New car technologies, such as driverless cars or crash prevention technologies, could have a major impact on the size and nature of the insurance market and the role of insurers.

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##### *New methods of gathering and using customer data*

The use of 'big data' as part of the Group's strategy could create new data management risks and issues; for example, the regulation of third-party access to telematics data, cybercrime and information security.

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##### *Change in insurance distribution channels*

Increased use of new distribution models through new social connectivity networks, such as community and crowd-funded insurance or new forms of social media, could result in reducing customer numbers through traditional methods of distribution.

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##### *Changing culture of conduct regulation*

The role undertaken by the Financial Conduct Authority could extend to taking a formal role in the setting of motor or home insurance prices which could limit insurers' ability to be price competitive and optimise profit. In April 2014, the Financial Conduct Authority took over the regulation of Consumer Credit from the Office of Fair Trading. Firms within the Group currently have interim permission for consumer credit activities and will be applying for full permissions during 2015.

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##### *UK legislative environment*

Insurance is a regulated industry and changes in the regulatory environment could affect the Group's business.

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In addition to the above risks, the Group also monitors pandemics, for example ebola.

**Condensed consolidated income statement**  
For the six months ended 30 June 2015

	Notes	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
<b>Continuing operations</b>				
Gross earned premium	6	1,535.8	1,575.5	3,144.2
Reinsurance premium ceded	6	(95.3)	(71.5)	(157.5)
<b>Net earned premium</b>	6	<b>1,440.5</b>	<b>1,504.0</b>	<b>2,986.7</b>
Investment return	7	111.5	106.4	215.1
Instalment income		48.4	50.0	100.4
Other operating income	8	24.4	22.9	46.9
<b>Total income</b>		<b>1,624.8</b>	<b>1,683.3</b>	<b>3,349.1</b>
Insurance claims	9	(816.7)	(960.9)	(1,778.6)
Insurance claims recoverable from reinsurers	9	73.0	60.4	51.2
<b>Net insurance claims</b>	9	<b>(743.7)</b>	<b>(900.5)</b>	<b>(1,727.4)</b>
Commission expenses	10	(166.9)	(164.5)	(354.0)
Operating expenses	11	(380.5)	(390.2)	(776.0)
<b>Total expenses</b>		<b>(547.4)</b>	<b>(554.7)</b>	<b>(1,130.0)</b>
<b>Operating profit</b>		<b>333.7</b>	<b>228.1</b>	<b>491.7</b>
Finance costs	12	(18.7)	(18.7)	(37.2)
Gain on disposal of subsidiaries		–	2.3	2.3
<b>Profit before tax</b>		<b>315.0</b>	<b>211.7</b>	<b>456.8</b>
Tax charge	13	(68.4)	(47.8)	(97.5)
Profit from continuing operations, net of tax		246.6	163.9	359.3
Profit from discontinued operations, net of tax	5	181.2	11.7	13.3
<b>Profit for the period attributable to owners of the Company</b>		<b>427.8</b>	<b>175.6</b>	<b>372.6</b>
<b>Earnings per share:</b>				
Continuing operations:				
Basic (pence)	15	16.5	10.9	24.0
Diluted (pence)	15	16.3	10.9	23.8
Continuing and discontinued operations:				
Basic (pence)	15	28.6	11.7	24.9
Diluted (pence)	15	28.3	11.7	24.7



## Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2015

	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
<b>Profit for the period</b>	<b>427.8</b>	175.6	372.6
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified subsequently to the income statement:</b>			
Actuarial gain on defined benefit pension scheme	–	–	2.8
Tax relating to items that will not be reclassified	–	–	(0.6)
	–	–	2.2
<b>Items that may be reclassified subsequently to the income statement:</b>			
Exchange differences on translation of foreign operations	14.4	(8.2)	(14.5)
Cash flow hedges	(1.7)	–	1.3
Fair value (loss) / gains on available-for-sale investments	(48.9)	39.5	97.2
Less: realised net gains on available-for-sale investments included in the income statement	(47.9)	(14.0)	(22.8)
Tax relating to items that may be reclassified	24.9	(5.1)	(17.6)
	(59.2)	12.2	43.6
<b>Other comprehensive (loss) / income for the period net of tax</b>	<b>(59.2)</b>	12.2	45.8
<b>Total comprehensive income for the period attributable to owners of the Company</b>	<b>368.6</b>	187.8	418.4

Condensed consolidated balance sheet  
As at 30 June 2015

	Notes	30 Jun 2015 £m	31 Dec 2014 £m (audited)
<b>Assets</b>			
Goodwill and other intangible assets		506.6	517.5
Property, plant and equipment		190.7	181.3
Investment property		322.0	307.2
Reinsurance assets		911.9	862.5
Current tax assets		0.1	0.1
Deferred acquisition costs		202.4	208.4
Insurance and other receivables		953.0	959.9
Prepayments, accrued income and other assets		93.0	107.9
Derivative financial instruments		64.6	27.3
Retirement benefit asset		3.5	3.5
Financial investments	16	5,641.4	5,961.2
Cash and cash equivalents	17	1,345.1	880.4
Assets held for sale		7.1	1,208.4
<b>Total assets</b>		<b>10,241.4</b>	<b>11,225.6</b>
<b>Equity</b>			
		2,993.7	2,810.5
<b>Liabilities</b>			
Subordinated liabilities		516.8	526.3
Insurance liabilities	19	4,497.6	4,674.1
Unearned premium reserve		1,450.4	1,434.2
Borrowings	17	82.1	69.8
Derivative financial instruments		3.0	29.4
Trade and other payables including insurance payables		628.2	660.6
Deferred tax liabilities		24.2	20.6
Current tax liabilities		45.4	35.7
Liabilities held for sale		–	964.4
<b>Total liabilities</b>		<b>7,247.7</b>	<b>8,415.1</b>
<b>Total equity and liabilities</b>		<b>10,241.4</b>	<b>11,225.6</b>

## Condensed consolidated statement of changes in equity

For the six months ended 30 June 2015

	Notes	Total shareholders equity £.m
<b>Balance at 1 January 2015</b>		<b>2,810.5</b>
Profit for the period		427.8
Other comprehensive loss		(59.2)
Dividends	14	(191.5)
Credit to equity for equity-settled share-based payments		5.0
Deferred tax on share-based payments		1.1
<b>Balance at 30 June 2015</b>		<b>2,993.7</b>
<hr/>		
<b>Balance at 1 January 2014</b>		<b>2,790.0</b>
Profit for the period		175.6
Other comprehensive income		12.2
Dividends	14	(185.6)
Credit to equity for equity-settled share-based payments		3.0
Deferred tax on share-based payments		0.2
<b>Balance at 30 June 2014</b>		<b>2,795.4</b>
<hr/>		
<b>Balance at 1 January 2014</b>		<b>2,790.0</b>
Profit for the period		372.6
Other comprehensive income		45.8
Dividends	14	(401.1)
Shares acquired by employee trusts		(4.4)
Credit to equity for equity-settled share-based payments		6.6
Deferred tax on share-based payments		1.0
<b>Balance at 31 December 2014 (audited)</b>		<b>2,810.5</b>

## Condensed consolidated cash flow statement

For the six months ended 30 June 2015

	Notes	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
<b>Net cash generated from / (used by) operating activities before investment of insurance assets</b>		19.7	(191.2)	(410.6)
Cash generated from investment of insurance assets		310.8	412.1	1,121.1
<b>Net cash generated from operating activities</b>		<b>330.5</b>	<b>220.9</b>	<b>710.5</b>
<b>Cash flows from investing activities</b>				
Purchases of property, plant and equipment		(51.7)	(53.3)	(86.7)
Purchases of intangible assets		(20.8)	(32.2)	(92.8)
Purchases of assets held for sale		–	(12.7)	(12.6)
Proceeds on disposals of assets held for sale		–	1.7	0.8
Net cash flows from disposal / (acquisition) of subsidiaries		327.1	–	(24.7)
<b>Net cash generated from / (used by) investing activities</b>		<b>254.6</b>	<b>(96.5)</b>	<b>(216.0)</b>
<b>Cash flows from financing activities</b>				
Dividends paid	14	(191.5)	(185.6)	(401.1)
Finance costs		(19.0)	(18.9)	(37.9)
Purchase of employee trust shares		–	–	(4.4)
<b>Net cash used by financing activities</b>		<b>(210.5)</b>	<b>(204.5)</b>	<b>(443.4)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>374.6</b>	<b>(80.1)</b>	<b>51.1</b>
Cash and cash equivalents at the beginning of the period		898.2	853.2	853.2
Effect of foreign exchange rate changes		(9.8)	(2.2)	(6.1)
<b>Cash and cash equivalents at the end of the period</b>	17	<b>1,263.0</b>	<b>770.9</b>	<b>898.2</b>

## Notes to the condensed consolidated financial statements

### Corporate information

Direct Line Insurance Group plc is a public limited company registered in England 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 2014 and included in the condensed consolidated financial statements does not constitute statutory accounts as defined in S434 of the Companies Act 2006, but has been abridged from the statutory accounts for that year which have been delivered to the Registrar of Companies. The independent auditor's report on the Group accounts for the year ended 31 December 2014 is unqualified, does not draw attention to any matters by way of emphasis and does not include a statement under S498(2) or (3) of the Companies Act 2006.

### 2. Accounting policies

#### Basis of preparation

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

Within the condensed consolidated financial statements the "International" segment has been classified as a discontinued operation. Income statement information has been re-presented in respect of the six month period ended 30 June 2014.

#### Going concern

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

#### Accounting policies and accounting developments

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

### 3. Critical accounting estimates and judgements

Pages 115 to 118 of the Annual Report & Accounts 2014 provide full details of critical accounting estimates and judgements used in applying the Group's accounting policies. There have been no significant changes to the principles or assumptions of these critical accounting estimates and judgements during the period.

## Notes to the condensed consolidated financial statements

### 4. Segmental analysis

There have been no significant changes to the Group's reportable segments as set out on page 130 of the Annual Report & Accounts 2014. The comparative segmental reporting for the six months ended 30 June 2014 has been re-presented to exclude the International segment which is now treated as discontinued.

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

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total ongoing £m	Run-off £m	Continuing operations £m
Gross written premium	683.3	417.8	194.8	256.1	1,552.0	–	1,552.0
Gross earned premium	664.4	440.6	190.3	240.5	1,535.8	–	1,535.8
Reinsurance premium ceded	(52.9)	(18.7)	(0.8)	(22.9)	(95.3)	–	(95.3)
<b>Net earned premium</b>	611.5	421.9	189.5	217.6	1,440.5	–	1,440.5
Investment return	78.6	11.4	2.1	17.7	109.8	1.7	111.5
Instalment income	33.4	11.5	0.8	2.7	48.4	–	48.4
Other operating income	16.5	0.5	6.4	1.0	24.4	–	24.4
<b>Total income</b>	740.0	445.3	198.8	239.0	1,623.1	1.7	1,624.8
Insurance claims	(454.1)	(161.7)	(117.7)	(144.4)	(877.9)	61.2	(816.7)
Insurance claims recoverable from reinsurers	76.0	(0.3)	0.1	21.4	97.2	(24.2)	73.0
<b>Net insurance claims</b>	(378.1)	(162.0)	(117.6)	(123.0)	(780.7)	37.0	(743.7)
Commission expenses	(17.9)	(96.2)	(10.4)	(42.4)	(166.9)	–	(166.9)
Operating expenses	(163.0)	(82.7)	(44.4)	(49.6)	(339.7)	(0.4)	(340.1)
<b>Total expenses</b>	(180.9)	(178.9)	(54.8)	(92.0)	(506.6)	(0.4)	(507.0)
<b>Operating profit before restructuring and other one-off costs</b>	<b>181.0</b>	<b>104.4</b>	<b>26.4</b>	<b>24.0</b>	<b>335.8</b>	<b>38.3</b>	<b>374.1</b>
Restructuring and other one-off costs <sup>1</sup>							(40.4)
<b>Operating profit</b>							<b>333.7</b>
Finance costs							(18.7)
<b>Profit before tax</b>							<b>315.0</b>
<b>Underwriting profit</b>	<b>52.5</b>	<b>81.0</b>	<b>17.1</b>	<b>2.6</b>	<b>153.2</b>		
Loss ratio	61.8%	38.4%	62.1%	56.5%	54.2%		
Commission ratio	2.9%	22.8%	5.5%	19.5%	11.6%		
Expense ratio	26.7%	19.6%	23.4%	22.8%	23.6%		
<b>Combined operating ratio</b>	<b>91.4%</b>	<b>80.8%</b>	<b>91.0%</b>	<b>98.8%</b>	<b>89.4%</b>		

Note:

1. Restructuring costs are costs that have been incurred in respect of business activities that have a material effect on the nature and focus of the Group's operations. One-off costs are costs that are non-recurring in nature.

## Notes to the condensed consolidated financial statements

### 4. Segmental analysis continued

The table below is an analysis of the Group's revenue and results for continuing operations by reportable segment for the six months ended 30 June 2014:

	Motor <sup>1</sup> £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total ongoing £m	Run-off £m	Continuing operations £m
Gross written premium	665.4	437.3	181.2	262.1	1,546.0	(0.3)	1,545.7
Gross earned premium	689.8	463.0	184.2	238.8	1,575.8	(0.3)	1,575.5
Reinsurance premium ceded	(31.8)	(23.0)	(0.7)	(16.0)	(71.5)	–	(71.5)
<b>Net earned premium</b>	<b>658.0</b>	<b>440.0</b>	<b>183.5</b>	<b>222.8</b>	<b>1,504.3</b>	<b>(0.3)</b>	<b>1,504.0</b>
Investment return	71.3	12.7	3.1	17.0	104.1	2.3	106.4
Instalment income	34.7	11.9	0.7	2.7	50.0	–	50.0
Other operating income	15.9	0.3	5.3	1.4	22.9	–	22.9
<b>Total income</b>	<b>779.9</b>	<b>464.9</b>	<b>192.6</b>	<b>243.9</b>	<b>1,681.3</b>	<b>2.0</b>	<b>1,683.3</b>
Insurance claims	(475.8)	(249.8)	(106.2)	(143.1)	(974.9)	14.0	(960.9)
Insurance claims recoverable from reinsurers	50.8	0.8	0.2	3.6	55.4	5.0	60.4
<b>Net insurance claims</b>	<b>(425.0)</b>	<b>(249.0)</b>	<b>(106.0)</b>	<b>(139.5)</b>	<b>(919.5)</b>	<b>19.0</b>	<b>(900.5)</b>
Commission expenses	(16.7)	(92.0)	(14.5)	(41.3)	(164.5)	–	(164.5)
Operating expenses	(173.9)	(89.1)	(46.3)	(52.3)	(361.6)	(0.6)	(362.2)
<b>Total expenses</b>	<b>(190.6)</b>	<b>(181.1)</b>	<b>(60.8)</b>	<b>(93.6)</b>	<b>(526.1)</b>	<b>(0.6)</b>	<b>(526.7)</b>
<b>Operating profit before restructuring and other one-off costs</b>	<b>164.3</b>	<b>34.8</b>	<b>25.8</b>	<b>10.8</b>	<b>235.7</b>	<b>20.4</b>	<b>256.1</b>
Restructuring and other one-off costs <sup>2</sup>							(28.0)
<b>Operating profit</b>							<b>228.1</b>
Finance costs							(18.7)
Gain on disposal of subsidiary							2.3
<b>Profit before tax</b>							<b>211.7</b>
<b>Underwriting profit / (loss)</b>	<b>42.4</b>	<b>9.9</b>	<b>16.7</b>	<b>(10.3)</b>	<b>58.7</b>		
Loss ratio	64.6%	56.6%	57.8%	62.6%	61.1%		
Commission ratio	2.6%	20.9%	7.9%	18.5%	11.0%		
Expense ratio	26.4%	20.3%	25.2%	23.5%	24.0%		
<b>Combined operating ratio</b>	<b>93.6%</b>	<b>97.8%</b>	<b>90.9%</b>	<b>104.6%</b>	<b>96.1%</b>		

Notes:

- The Group's revenue and results for the period ended 30 June 2014 relating to the Tracker business, which was disposed of on 5 February 2014, were recorded in the Motor segment (other operating income: £1.4 million and operating loss: £0.4 million).
- Restructuring costs are costs that have been incurred in respect of business activities that have a material effect on the nature and focus of the Group's operations. One-off costs are costs that are non-recurring in nature.

## Notes to the condensed consolidated financial statements

### 4. Segmental analysis continued

The table below shows the Group's revenue and results for continuing operations by reportable segment for the year ended 31 December 2014 (audited):

	Motor <sup>1</sup> £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total ongoing £m	Run-off £m	Continuing operations £m
Gross written premium	1,342.0	898.6	371.8	487.0	3,099.4	(0.4)	3,099.0
Gross earned premium	1,372.6	920.4	370.5	481.1	3,144.6	(0.4)	3,144.2
Reinsurance premium ceded	(76.7)	(45.1)	(1.4)	(34.3)	(157.5)	–	(157.5)
<b>Net earned premium</b>	<b>1,295.9</b>	<b>875.3</b>	<b>369.1</b>	<b>446.8</b>	<b>2,987.1</b>	<b>(0.4)</b>	<b>2,986.7</b>
Investment return	144.8	25.7	6.1	34.0	210.6	4.5	215.1
Instalment income	69.6	24.0	1.5	5.3	100.4	–	100.4
Other operating income	32.9	0.7	10.8	2.5	46.9	–	46.9
<b>Total income</b>	<b>1,543.2</b>	<b>925.7</b>	<b>387.5</b>	<b>488.6</b>	<b>3,345.0</b>	<b>4.1</b>	<b>3,349.1</b>
Insurance claims	(931.5)	(445.1)	(211.9)	(261.7)	(1,850.2)	71.6	(1,778.6)
Insurance claims recoverable from reinsurers	63.4	0.8	–	6.4	70.6	(19.4)	51.2
<b>Net insurance claims</b>	<b>(868.1)</b>	<b>(444.3)</b>	<b>(211.9)</b>	<b>(255.3)</b>	<b>(1,779.6)</b>	<b>52.2</b>	<b>(1,727.4)</b>
Commission expenses	(41.4)	(190.3)	(34.5)	(87.8)	(354.0)	–	(354.0)
Operating expenses	(336.6)	(177.2)	(93.1)	(98.5)	(705.4)	(1.0)	(706.4)
<b>Total expenses</b>	<b>(378.0)</b>	<b>(367.5)</b>	<b>(127.6)</b>	<b>(186.3)</b>	<b>(1,059.4)</b>	<b>(1.0)</b>	<b>(1,060.4)</b>
<b>Operating profit before restructuring and other one-off costs</b>	<b>297.1</b>	<b>113.9</b>	<b>48.0</b>	<b>47.0</b>	<b>506.0</b>	<b>55.3</b>	<b>561.3</b>
Restructuring and other one-off costs <sup>2</sup>							(69.6)
<b>Operating profit</b>							<b>491.7</b>
Finance costs							(37.2)
Gain on disposal of subsidiary							2.3
<b>Profit before tax</b>							<b>456.8</b>
<b>Underwriting profit</b>	<b>49.8</b>	<b>63.5</b>	<b>29.6</b>	<b>5.2</b>	<b>148.1</b>		
Loss ratio	67.0%	50.8%	57.4%	57.1%	59.6%		
Commission ratio	3.2%	21.7%	9.4%	19.7%	11.8%		
Expense ratio	26.0%	20.2%	25.2%	22.0%	23.6%		
<b>Combined operating ratio</b>	<b>96.2%</b>	<b>92.7%</b>	<b>92.0%</b>	<b>98.8%</b>	<b>95.0%</b>		

Notes:

- The Group's revenue and results for the year ended 31 December 2014 relating to the Tracker business, which was disposed of on 5 February 2014, were recorded in the Motor segment (other operating income: £1.4 million and operating loss: £0.4 million).
- Restructuring costs are costs that have been incurred in respect of business activities that have a material effect on the nature and focus of the Group's operations. One-off costs are costs that are non-recurring in nature.



## Notes to the condensed consolidated financial statements

### 5. Discontinued operations and disposal

Following the 2014 strategic review of the International segment, the Board concluded that, although the operations in Italy (represented by Direct Line Insurance S.p.A) and Germany (represented by Direct Line Versicherung AG) occupied strong positions, a disposal would be likely to generate the most value to shareholders. On 25 September 2014, the Group entered into a binding agreement with Mapfre International SA, a wholly owned subsidiary of Mapfre, S.A., for the sale of International. Accordingly the Group has treated this segment as discontinued operations and a disposal group from that date.

The Group completed the disposal of its Italian and German subsidiaries on 29 May 2015, generating a gain on disposal of £167.1 million.

#### A) Discontinued operations

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

	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
Gross written premium	261.1	328.8	567.6
Gross earned premium	207.2	285.0	555.8
Reinsurance premium ceded	(78.8)	(114.9)	(226.0)
<b>Net earned premium</b>	<b>128.4</b>	<b>170.1</b>	<b>329.8</b>
Investment return <sup>1</sup>	37.1	12.4	22.1
Instalment income	1.4	2.6	4.8
Other operating income	0.1	0.7	1.0
<b>Total income</b>	<b>167.0</b>	<b>185.8</b>	<b>357.7</b>
Insurance claims	(156.2)	(216.4)	(404.2)
Insurance claims recoverable from reinsurers	60.9	86.9	159.5
<b>Net insurance claims</b>	<b>(95.3)</b>	<b>(129.5)</b>	<b>(244.7)</b>
Commission expenses	(28.0)	(28.1)	(63.0)
Operating expenses	(10.2)	(14.8)	(29.0)
<b>Total expenses</b>	<b>(38.2)</b>	<b>(42.9)</b>	<b>(92.0)</b>
<b>Operating profit from discontinued operations</b>	<b>33.5</b>	<b>13.4</b>	<b>21.0</b>
Gain on disposal of discontinued operations (note 5B)	167.1	–	–
<b>Profit before tax from discontinued operations</b>	<b>200.6</b>	<b>13.4</b>	<b>21.0</b>
Tax charge	(19.4)	(1.7)	(7.7)
<b>Profit after tax from discontinued operations</b>	<b>181.2</b>	<b>11.7</b>	<b>13.3</b>
<b>Underwriting loss</b>	<b>(5.1)</b>	<b>(2.3)</b>	<b>(6.9)</b>
Loss ratio	74.2%	76.1%	74.2%
Commission ratio	21.8%	16.5%	19.1%
Expense ratio	8.0%	8.7%	8.8%
<b>Combined operating ratio</b>	<b>104.0%</b>	<b>101.3%</b>	<b>102.1%</b>

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

	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
<b>Items that may be reclassified subsequently to the income statement:</b>			
Exchange differences on the translation of foreign operations	14.4	(8.9)	(15.5)
Cash flow hedge	(1.2)	–	–
Fair value gain on available-for-sale investments	0.6	16.8	26.1
Less: realised net gains on available-for-sale investments included in the income statement <sup>1</sup>	(31.8)	(4.2)	(6.6)
Tax relating to items that may be reclassified	10.1	(3.5)	(6.9)
<b>Other comprehensive (loss) / income for the period net of tax</b>	<b>(7.9)</b>	<b>0.2</b>	<b>(2.9)</b>

Note:

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

## Notes to the condensed consolidated financial statements

### 5. Discontinued operations and disposal continued

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

	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
Net cash generated from / (used by) operating activities	19.1	(14.0)	12.6
Net cash used by investing activities	(1.5)	(3.4)	(8.4)
Net cash generated from the disposal of discontinued operations <sup>1</sup>	327.1	–	–
Effect of foreign exchange rate changes	(9.8)	(2.2)	(6.1)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>334.9</b>	<b>(19.6)</b>	<b>(1.9)</b>

Note:

- The net cash generated from the disposal of discontinued operations comprises the net cash consideration of £422.5 million less the cash held by the German and Italian subsidiaries at the point of sale of £95.4 million.

### B) Discontinued operations disposed of during the period

The following table is an analysis of the gain on disposal of discontinued operations.

At	29 May 2015 £m
<b>Assets</b>	
Intangible assets	5.4
Property, plant and equipment	5.2
Reinsurance assets	171.0
Deferred tax assets	41.9
Deferred acquisition costs	105.5
Insurance and other receivables	152.3
Prepayments and accrued income	3.1
Financial investments	665.5
Cash and cash equivalents	95.4
<b>Total assets</b>	<b>1,245.3</b>
<b>Liabilities</b>	
Insurance liabilities	504.5
Unearned premium reserve	355.0
Trade and other payables including insurance payables	125.3
Deferred tax liabilities	32.0
Current tax liabilities	4.0
<b>Total liabilities</b>	<b>1,020.8</b>
<b>Net assets disposed</b>	<b>224.5</b>
<b>Cash consideration received<sup>1</sup></b>	<b>438.1</b>
Transaction costs <sup>2</sup>	(15.6)
<b>Net cash consideration</b>	<b>422.5</b>
<b>Net assets disposed</b>	<b>(224.5)</b>
Currency translation reserve reclassified to the income statement	(30.9)
<b>Gain on disposal of discontinued operations</b>	<b>167.1</b>

Notes:

- The Group entered into a foreign currency hedge converting Euro to Sterling in September 2014 for the disposal proceeds. The foreign currency hedge gain of £34.0 million and other sale-related consideration are included in cash consideration received.
- Transaction costs include estimated values at the date of reporting.

## Notes to the condensed consolidated financial statements

### 6. Net earned premium

	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
<b>Continuing operations</b>			
Gross earned premium:			
Gross written premium	1,552.0	1,545.7	3,099.0
Movement in unearned premium reserve	(16.2)	29.8	45.2
	1,535.8	1,575.5	3,144.2
Reinsurance premium ceded:			
Premium payable	(72.5)	(61.2)	(182.5)
Movement in reinsurance unearned premium reserve	(22.8)	(10.3)	25.0
	(95.3)	(71.5)	(157.5)
<b>Total</b>	<b>1,440.5</b>	<b>1,504.0</b>	<b>2,986.7</b>

### 7. Investment return

	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
<b>Continuing operations</b>			
Investment income:			
Interest income from debt securities	71.0	76.9	154.0
Interest income from cash and cash equivalents	3.9	2.5	5.2
Rental income from investment property	8.8	7.5	16.2
Interest income from infrastructure debt	1.0	–	0.1
	84.7	86.9	175.5
Net realised (losses) / gains:			
Available-for-sale debt securities	16.1	9.8	16.2
Derivatives	(34.5)	16.4	(86.2)
Investment property	–	–	2.3
	(18.4)	26.2	(67.7)
Net unrealised gains / (losses):			
Impairments of available-for-sale debt securities <sup>1</sup>	–	1.3	1.3
Derivatives	30.6	(20.2)	79.6
Investment property	14.6	12.2	26.4
	45.2	(6.7)	107.3
<b>Total</b>	<b>111.5</b>	<b>106.4</b>	<b>215.1</b>

Note:

1. The impairment reversal relates to an available-for-sale debt security originally impaired in 2011.

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

	Realised 6 months 2015 £m	Unrealised 6 months 2015 £m	Realised 6 months 2014 £m	Unrealised 6 months 2014 £m
<b>Continuing operations</b>				
Derivative (losses) / gains:				
Foreign exchange forward contracts	(48.8)	63.7	44.1	6.5
Associated foreign exchange risk	26.5	(38.9)	(16.2)	(31.5)
Net (losses) / gains on foreign exchange forward contracts	(22.3)	24.8	27.9	(25.0)
Interest rate derivatives	(19.3)	7.9	(9.7)	(16.7)
Associated interest rate risk	7.1	(2.1)	(1.8)	21.5
Net (losses) / gains on interest rate derivatives	(12.2)	5.8	(11.5)	4.8
<b>Total</b>	<b>(34.5)</b>	<b>30.6</b>	<b>16.4</b>	<b>(20.2)</b>

## Notes to the condensed consolidated financial statements

### 7. Investment return continued

	Realised	Unrealised
	Full year 2014 (audited)	Full year 2014 (audited)
	£m	£m
<b>Continuing operations</b>		
Derivative (losses) / gains:		
Foreign exchange forward contracts	(59.3)	(46.4)
Associated foreign exchange risk	(7.4)	115.9
Net (losses) / gains on foreign exchange forward contracts	(66.7)	69.5
Interest rate derivatives	(20.4)	(22.1)
Associated interest rate risk	0.9	32.2
Net (losses) / gains on interest rate derivatives	(19.5)	10.1
<b>Total</b>	<b>(86.2)</b>	<b>79.6</b>

### 8. Other operating income

	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
<b>Continuing operations</b>			
Vehicle replacement referral income	5.8	7.6	15.8
Revenue from vehicle recovery and repair services <sup>1</sup>	7.6	9.0	18.0
Fee income from insurance intermediary services	1.2	1.0	2.1
Other income	9.8	5.3	11.0
<b>Total</b>	<b>24.4</b>	<b>22.9</b>	<b>46.9</b>

Note:

1. 2014 includes £1.4 million in relation to the Tracker business disposed of on 5 February 2014.

### 9. Net insurance claims

	6 months 2015			6 months 2014		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
<b>Continuing operations</b>						
Current accident year claims paid	397.4	–	397.4	418.4	–	418.4
Prior accident year claims paid	595.8	(0.7)	595.1	733.7	(5.6)	728.1
Movement in insurance liabilities	(176.5)	(72.3)	(248.8)	(191.2)	(54.8)	(246.0)
<b>Total</b>	<b>816.7</b>	<b>(73.0)</b>	<b>743.7</b>	<b>960.9</b>	<b>(60.4)</b>	<b>900.5</b>

	Full year 2014 (audited)		
	Gross £m	Reinsurance £m	Net £m
<b>Continuing operations</b>			
Current accident year claims paid	1,086.4	–	1,086.4
Prior accident year claims paid	1,165.8	(21.8)	1,144.0
Movement in insurance liabilities	(473.6)	(29.4)	(503.0)
<b>Total</b>	<b>1,778.6</b>	<b>(51.2)</b>	<b>1,727.4</b>

Claims handling expenses for the six months ended 30 June 2015 of £103.1 million (six months ended 30 June 2014: £114.2 million and year ended 31 December 2014 of £226.3 million) have been included in the claims figures above.

## Notes to the condensed consolidated financial statements

### 10. Commission expenses

	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
<b>Continuing operations</b>			
Commission expenses	130.2	130.2	263.3
Expenses incurred under profit participations	36.7	34.3	90.7
<b>Total</b>	<b>166.9</b>	<b>164.5</b>	<b>354.0</b>

### 11. Operating expenses

	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
<b>Continuing operations</b>			
Staff costs	134.4	136.0	263.6
Marketing	58.6	64.2	123.9
Depreciation	14.9	8.9	22.6
Amortisation and impairment of other intangible assets	30.9	30.4	66.4
Other operating expenses	141.7	150.7	299.5
<b>Total</b>	<b>380.5</b>	<b>390.2</b>	<b>776.0</b>

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

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

	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
Staff costs	9.2	13.6	15.5
Other operating expenses <sup>1</sup>	31.2	14.4	54.1
<b>Total</b>	<b>40.4</b>	<b>28.0</b>	<b>69.6</b>

Note:

- Included in other operating expenses, for the six months ended 30 June 2015, is an impairment charge of £22.4 million in relation to the Pudsey sites which have also been transferred to assets held for sale.

### 12. Finance costs

	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
<b>Continuing operations</b>			
<b>Interest expense on subordinated liabilities<sup>1</sup></b>	<b>18.7</b>	<b>18.7</b>	<b>37.2</b>

Note:

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

## Notes to the condensed consolidated financial statements

### 13. Tax charge

	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
<b>Continuing operations</b>			
Current taxation:			
Charge for the period	63.7	45.0	87.2
(Over) / under provision in respect of the prior period	–	(0.6)	3.9
	63.7	44.4	91.1
Deferred taxation:			
Charge for the period	4.9	4.7	14.0
Over provision in respect of the prior period	(0.2)	(1.3)	(7.6)
	4.7	3.4	6.4
Current taxation	63.7	44.4	91.1
Deferred taxation	4.7	3.4	6.4
<b>Tax charge for the period</b>	<b>68.4</b>	<b>47.8</b>	<b>97.5</b>

### 14. Dividends

	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
Amounts recognised as distributions to equity holders in the period:			
2014 final dividend of 8.8p per share paid on 17 April 2015 <sup>1</sup>	131.6	–	–
2013 final dividend of 8.4p per share paid on 20 May 2014	–	125.7	125.7
2014 first interim dividend of 4.4p per share paid on 12 September 2014	–	–	65.8
2014 first special interim dividend of 10.0p per share paid on 12 September 2014	–	–	149.7
2013 second special interim dividend of 4.0p per share paid on 20 May 2014	–	59.9	59.9
2014 second special interim dividend of 4.0p per share paid on 17 April 2015	59.9	–	–
<b>Total</b>	<b>191.5</b>	<b>185.6</b>	<b>401.1</b>

Note:

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

The trustees of the employee share trusts waived their entitlement to dividends on shares which are not held for the benefit of employees (except for free share awards), which reduced the total dividend paid by £0.5 million (six months ended 30 June 2014: £0.4 million and year ended 31 December 2014 of £0.9 million).

## Notes to the condensed consolidated financial statements

### 15. Earnings and net assets per share, return on equity

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

On 30 June 2015, the Group completed an 11 for 12 share consolidation which had the effect of reducing the number of shares in issue from 1,500,000,000 Ordinary Shares immediately prior to the consolidation to 1,375,000,000 new Ordinary Shares immediately after the consolidation. The weighted average number of shares used in calculating basic and diluted earnings per share reflects this exercise.

#### Basic

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

	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
Earnings attributable to owners of the Company arising from:			
Continuing operations	246.6	163.9	359.3
Discontinued operations	181.2	11.7	13.3
Continuing and discontinued operations	427.8	175.6	372.6
Weighted average number of Ordinary Shares for the purpose of basic earnings per share (millions)	1,493.2	1,495.0	1,495.0
<b>Basic earnings per share (pence):</b>			
Continuing operations	16.5	10.9	24.0
Discontinued operations	12.1	0.8	0.9
Continuing and discontinued operations	28.6	11.7	24.9

#### Diluted

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

	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
Earnings attributable to owners of the Company arising from:			
Continuing operations	246.6	163.9	359.3
Discontinued operations	181.2	11.7	13.3
Continuing and discontinued operations	427.8	175.6	372.6
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	1,493.2	1,495.0	1,495.0
Effect of dilutive potential of share options and contingently issuable shares (millions)	17.7	9.9	12.9
Weighted average number of Ordinary Shares for diluted earnings per share (millions)	1,510.9	1,504.9	1,507.9
<b>Diluted earnings per share (pence):</b>			
Continuing operations	16.3	10.9	23.8
Discontinued operations	12.0	0.8	0.9
Continuing and discontinued operations	28.3	11.7	24.7

## Notes to the condensed consolidated financial statements

### 15. Earnings and net assets per share, return on equity continued

#### Net asset value and tangible net asset value per share

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

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

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

At	30 Jun 2015 £m	31 Dec 2014 £m (audited)
Net assets	2,993.7	2,810.5
Goodwill and other intangible assets	(506.6)	(517.5)
Disposal group – intangible assets	–	(5.6)
Tangible net assets	2,487.1	2,287.4
Number of Ordinary Shares (millions) <sup>1</sup>	1,375.0	1,500.0
Shares held by employee share trusts (millions) <sup>1</sup>	(4.5)	(6.4)
Closing number of Ordinary Shares (millions) <sup>1</sup>	1,370.5	1,493.6
<b>Net asset value per share (pence)<sup>1</sup></b>	<b>218.4</b>	<b>188.2</b>
<b>Tangible net asset value per share (pence)<sup>1</sup></b>	<b>181.5</b>	<b>153.1</b>

Note:

- The number of Ordinary Shares was reduced in the period as a consequence of the share consolidation referred to in note 18. This also reduced the number of shares held by employee share trusts on the date of the share consolidation.

#### Return on equity

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

	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
Earnings attributable to owners of the Company arising from:			
Continuing operations	246.6	163.9	359.3
Discontinued operations	181.2	11.7	13.3
Continuing and discontinued operations	427.8	175.6	372.6
Annualised continuing and discontinued operations <sup>1</sup>	674.4	351.2	372.6
Opening shareholders' equity	2,810.5	2,790.0	2,790.0
Closing shareholders' equity	2,993.7	2,795.4	2,810.5
Average shareholders' equity	2,902.1	2,792.7	2,800.2
<b>Return on equity for period</b>	<b>14.7%</b>	<b>6.3%</b>	<b>13.3%</b>
<b>Return on equity annualised<sup>1</sup></b>	<b>23.2%</b>	<b>12.6%</b>	<b>13.3%</b>

Note:

- The earnings arising from discontinued operations ceased from the date of disposal of these operations on 29 May 2015. The earnings from continuing operations have been annualised using profits for the 6 months ended 30 June 2015.



## Notes to the condensed consolidated financial statements

### 16. Financial investments

At	30 Jun 2015 £m	31 Dec 2014 £m (audited)
<b>Available-for-sale debt securities</b>		
Corporate	4,018.3	4,117.1
Supranational	136.9	176.3
Local government	124.0	120.7
Sovereign	672.1	993.8
Securitised credit	390.3	422.4
<b>Total</b>	<b>5,341.6</b>	<b>5,830.3</b>
<b>Held-to-maturity debt securities</b>		
Corporate	13.5	–
<b>Total debt securities</b>	<b>5,355.1</b>	<b>5,830.3</b>
<b>Total debt securities</b>		
Fixed interest rate	4,903.2	5,147.3
Floating interest rate	451.9	683.0
<b>Total</b>	<b>5,355.1</b>	<b>5,830.3</b>
<b>Loans and receivables</b>		
Deposits with credit institutions with maturities in excess of three months	64.9	54.7
Infrastructure debt	221.4	76.2
<b>Total<sup>1</sup></b>	<b>5,641.4</b>	<b>5,961.2</b>

Note:

1. Included in assets held for sale at 31 December 2014 was £706.9 million which has been transferred from financial investments.

The Group swaps a fixed interest rate for a floating rate of interest on its US Dollar corporate debt securities by entering into interest rate derivatives. The hedged amount at 30 June was £1,230.4 million (31 December 2014: £1,170.4 million).

### 17. Cash and cash equivalents and borrowings

At	30 Jun 2015 £m	31 Dec 2014 £m (audited)
Cash at bank and in hand	135.5	151.3
Short-term deposits with credit institutions	1,209.6	729.1
<b>Cash and cash equivalents</b>	<b>1,345.1</b>	<b>880.4</b>
Bank overdrafts <sup>1</sup>	(82.1)	(69.8)
Cash and cash equivalents in assets held for sale	–	87.6
<b>Cash and bank overdrafts<sup>2</sup></b>	<b>1,263.0</b>	<b>898.2</b>

Notes:

- Bank overdrafts represent short term timing differences between transactions posted in the records of the Group transactions flowing through the accounts at the bank.
- Cash and bank overdrafts is included for the purposes of the condensed consolidated cash flow statement.

The effective interest rate on short-term deposits with credit institutions for the six months ended 30 June 2015 was 0.53% (year ended 31 December 2014: 0.61%) and average maturity at 30 June 2015 was 10 days (31 December 2014: 10 days).

### 18. Share capital

At	Number	£m
<b>Issued and fully paid Ordinary Shares</b>		
At 1 January 2014 and 31 December 2014	1,500,000,000	150.0
Effect of share consolidation	(125,000,000)	–
<b>At 30 June 2015</b>	<b>1,375,000,000</b>	<b>150.0</b>

At a General meeting on 29 June 2015, shareholders approved a share consolidation which completed on 30 June 2015. As a result of the share consolidation, shareholders held 11 new Ordinary Shares of 10 <sup>10</sup>/<sub>11</sub> pence each for every 12 Ordinary Shares of 10 pence each held immediately prior to the share consolidation.

## Notes to the condensed consolidated financial statements

### 19. Insurance liabilities

The following table is an analysis of the movements in insurance liabilities and related reinsurance assets.

	Gross £m	Reinsurance £m	Net £m
Claims reported	3,636.4	(467.5)	3,168.9
Incurred but not reported	1,992.7	(449.8)	1,542.9
Claims handling provision	128.3	–	128.3
<b>At 1 January 2014 (audited)</b>	<b>5,757.4</b>	<b>(917.3)</b>	<b>4,840.1</b>
Cash paid for claims settled in the year	(2,671.6)	181.2	(2,490.4)
Increase / (decrease) in liabilities:			
Arising from current-year claims	2,721.3	(288.3)	2,433.0
Arising from prior-year claims	(538.5)	77.6	(460.9)
Effect of foreign currency exchange adjustment	(41.1)	11.5	(29.6)
Transfer to (liabilities) / assets held for sale	(553.4)	159.8	(393.6)
<b>At 31 December 2014 (audited)</b>	<b>4,674.1</b>	<b>(775.5)</b>	<b>3,898.6</b>
Claims reported	2,791.1	(315.3)	2,475.8
Incurred but not reported	1,778.2	(460.2)	1,318.0
Claims handling provision	104.8	–	104.8
<b>At 31 December 2014 (audited)</b>	<b>4,674.1</b>	<b>(775.5)</b>	<b>3,898.6</b>
Cash paid for claims settled in the period	(993.2)	0.7	(992.5)
Increase / (decrease) in liabilities:			
Arising from current-year claims	1,090.8	(94.5)	996.3
Arising from prior-year claims	(274.1)	21.5	(252.6)
<b>At 30 June 2015</b>	<b>4,497.6</b>	<b>(847.8)</b>	<b>3,649.8</b>
Claims reported	2,750.8	(360.3)	2,390.5
Incurred but not reported	1,642.0	(487.5)	1,154.5
Claims handling provision	104.8	–	104.8
<b>At 30 June 2015</b>	<b>4,497.6</b>	<b>(847.8)</b>	<b>3,649.8</b>

The following table is an analysis of the movement in prior-year net claims liabilities by operating segment.

	6 months 2015 £m	6 months 2014 £m	Full year 2014 £m (audited)
Motor	(145.5)	(149.0)	(278.4)
Home	(38.2)	(33.1)	(49.8)
Rescue and other personal lines	1.2	(6.6)	(15.7)
Commercial	(32.6)	(23.8)	(53.7)
<b>Total ongoing</b>	<b>(215.1)</b>	<b>(212.5)</b>	<b>(397.6)</b>
Run-off	(37.5)	(19.4)	(53.2)
Discontinued – International <sup>1</sup>	–	(5.5)	(10.1)
<b>Total</b>	<b>(252.6)</b>	<b>(237.4)</b>	<b>(460.9)</b>

Note:

1. The movement in prior-year net claims liabilities relating to International is excluded from the table above as this represents a movement in liabilities held for sale.

## Notes to the condensed consolidated financial statements

### 20. Fair value

The Group's assets and liabilities measured at fair value are analysed in the following table by reference to the Group's fair value hierarchy.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>At 30 June 2015</b>				
Investment property	–	–	322.0	322.0
Derivative financial instruments	–	64.6	–	64.6
Available-for-sale debt securities	668.6	4,673.0	–	5,341.6
<b>Total</b>	<b>668.6</b>	<b>4,737.6</b>	<b>322.0</b>	<b>5,728.2</b>
Derivative financial instruments	–	3.0	–	3.0
<b>Total</b>	<b>–</b>	<b>3.0</b>	<b>–</b>	<b>3.0</b>

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>At 31 December 2014 (audited)</b>				
Investment property	–	–	307.2	307.2
Derivative financial instruments	–	27.3	–	27.3
Available-for-sale debt securities <sup>1</sup>	985.6	4,844.7	–	5,830.3
<b>Total</b>	<b>985.6</b>	<b>4,872.0</b>	<b>307.2</b>	<b>6,164.8</b>
Derivative financial instruments	–	29.4	–	29.4
<b>Total</b>	<b>–</b>	<b>29.4</b>	<b>–</b>	<b>29.4</b>

Note:

- Included in assets held for sale at 31 December 2014 were available-for-sale debt securities of £706.9 million, that are excluded from the categorisation of available-for-sale debt securities above, of which £31.9 million is categorised as level 1 and £675.0 million is categorised as level 2 within the fair value hierarchy.

For disclosure purposes, fair value measurements are classified as Level 1, 2 or 3 based on the degree to which fair value is observable. The measurement bases remain unchanged for each level as set out on page 117 of the Annual Report & Accounts 2014.

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

	Investment property £m
<b>At 1 January 2014</b>	223.4
Additions	76.2
Increase in fair value in the year (Note 7)	28.7
Disposals	(21.1)
<b>At 31 December 2014</b>	307.2
Additions	0.2
Increase in fair value in the period (Note 7)	14.6
<b>At 30 June 2015</b>	<b>322.0</b>

There were no changes in the categorisation of assets and liabilities between levels 1, 2 and 3 during the period for assets and liabilities held at 31 December 2014.

### 21. Related parties

There were no new sales to or purchases from related parties in the six months period ended 30 June 2015. Full details of the Group's related party transactions for the year ended 31 December 2014 are included on page 160 of the Annual Report & Accounts 2014.

### 22. Post balance sheet event

On 24 July 2015, the Group paid a special interim dividend of 27.5 pence per share totalling £411.5 million.

## Directors' responsibility statement

We confirm that to the best of our knowledge:

1. the condensed consolidated financial statements, which have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole as required by Disclosure and Transparency Rule 4.2.4R;
2. the interim management report includes a fair review of the information required by:
  - a. Disclosure and Transparency Rule 4.2.7R being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
  - b. Disclosure and Transparency Rule 4.2.8R being related parties transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the entity during that period; and any changes in the related parties transactions described in the last Annual Report & Accounts that could do so.

Signed on behalf of the Board

Paul Geddes  
Chief Executive Officer  
3 August 2015

John Reizenstein  
Chief Financial Officer  
3 August 2015

## Independent review report to Direct Line Insurance Group plc

We have been engaged by Direct Line Insurance Group plc (the “Company”) to review the condensed set of financial statements in the Half-Yearly Financial Report for the six months ended 30 June 2015 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 22. We have read the other information contained in the Half-Yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

### Directors’ responsibilities

The Half-Yearly Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-Yearly Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

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

### Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Half-Yearly Financial Report based on our review.

### Scope of review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Half-Yearly Financial Report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
3 August 2015