Direct Line Group

# Results for the first half 2016
## 2 August 2016

# Today's agenda

1. First half highlights: Paul Geddes - CEO

2. Financial results: John Reizenstein - CFO

3. Closing remarks: Paul Geddes – CEO

4. Q&A

# 1H 2016 highlights

**+3.9%**
Premium growth

**+9.8%**
Motor premium growth

**+2.8%**
Policy growth in Home own brands

**1.0pt**
Improvement in Motor current year loss ratio

**2.5%**
Investment income yield

**184%**
Solvency ratio post dividends

**Direct Line**
Further proposition enhancements

**+9.6%**
Policy growth in Direct Line for Business

**RBS partnership**
Secured 3 year extension in Home

**89.6%**
Combined operating ratio

**23.1%**
Return on Tangible Equity

Growth in regular dividend
plus
**10.0p**
Special interim dividend

**Making insurance much easier and better value for our customers**

## Financial results

## John Reizenstein - CFO

# Strong underwriting result in the first half

## Observations

1. **GWP of £1,613.1m, up 3.9% versus prior year**
2. **COR of 89.6% is broadly stable against a strong prior year comparative; normalised for weather c.91%**
3. **Total costs include £24.0m Flood Re levy in Q2 2016**
4. **Investment return of £91.0m, £18.8m lower than prior year due to lower gains**
5. **Ongoing operating profit of £323.6m, down £12.2m due to lower investment gains**
6. **RoTE of 23.1%, ahead of the 15% target**
7. **Increase in profit in Commercial due to lower weather and large losses**

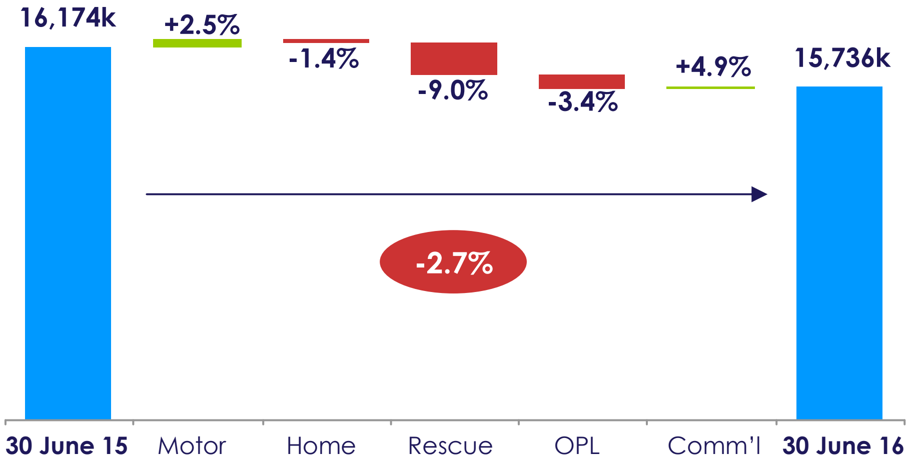
| (£m unless stated) | | 1H 16 | 1H 15 |
|---|---|---|---|
| **Ongoing operations[1]** | | | |
| Gross written premium | 1 | 1,613.1 | 1,552.0 |
| Underwriting profit | | 154.2 | 153.2 |
| Instalment and other income | | 78.4 | 72.8 |
| Investment return | 4 | 91.0 | 109.8 |
| **Operating profit – ongoing operations** | 5 | **323.6** | **335.8** |
| Profit before tax - continuing operations | | 298.5 | 315.0 |
| Profit after tax | | 235.9 | 427.8 |
| *Of which Ongoing operations* | | *244.2* | *252.9* |
| Combined operating ratio[1] | 2 | *89.6%* | *89.4%* |
| Total costs[1] | 3 | *461.6* | *438.3* |
| RoTE[1] | 6 | *23.1%* | *21.2%* |

| **Operating profit – ongoing operations** (£m) | | 1H 16 | 1H 15 |
|---|---|---|---|
| Motor | | 168.8 | 181.0 |
| Home | | 101.5 | 104.4 |
| Rescue and other personal lines | | 23.4 | 26.4 |
| Commercial | 7 | 29.9 | 24.0 |

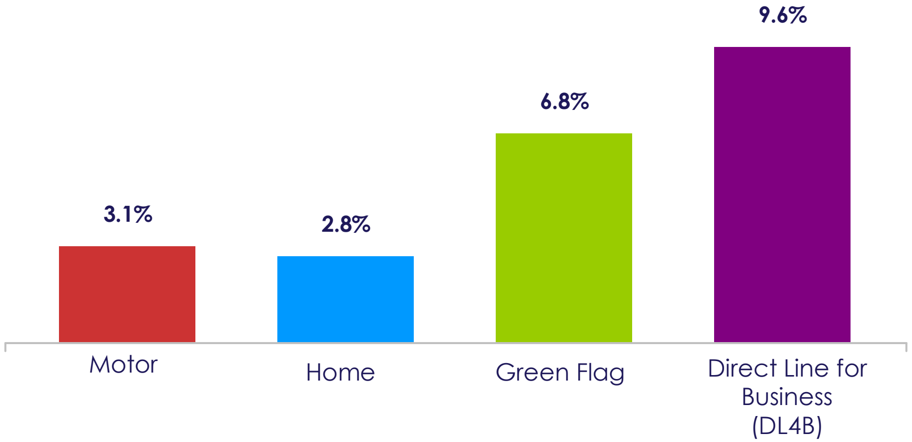
1. See Glossary on slide 50 for definition

# Continued growth in own brands and direct policies

## In force policies (IFPs)




## Key own brands IFPs




## Observations

**Fewer in force policies, but mix improved**

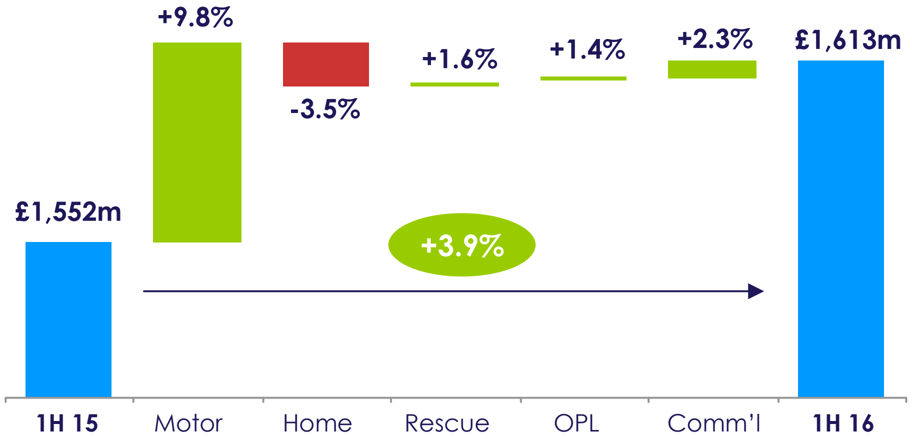
- Motor continued to see strong new business growth particularly through own brands, which grew 3.1%
- Reduction in Home IFPs due to partnerships
- Growth in Home own brands supported by a good performance across direct and PCWs
- Lower Rescue IFPs due to partners, Green Flag IFPs grew 6.8%
- Commercial IFPs up 4.9% supported by strong growth in DL4B of 9.6%



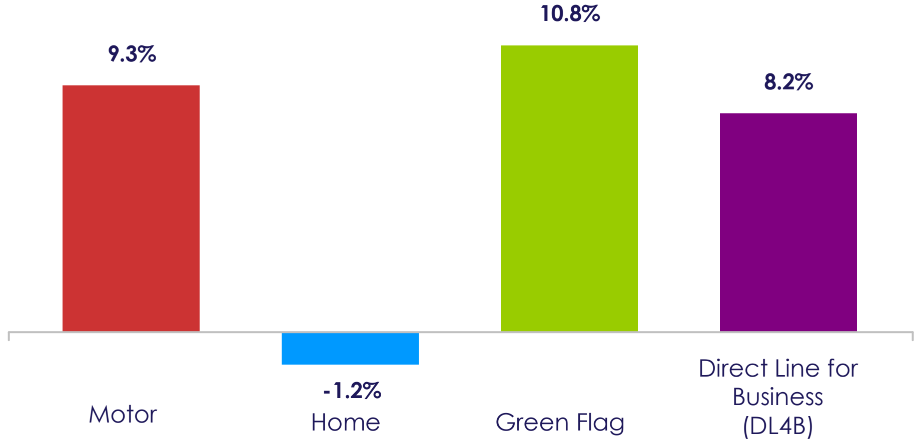
Direct Line Group

# 3.9% Premium growth driven by Motor

## Gross written premiums (GWP)




## Key own brands GWP



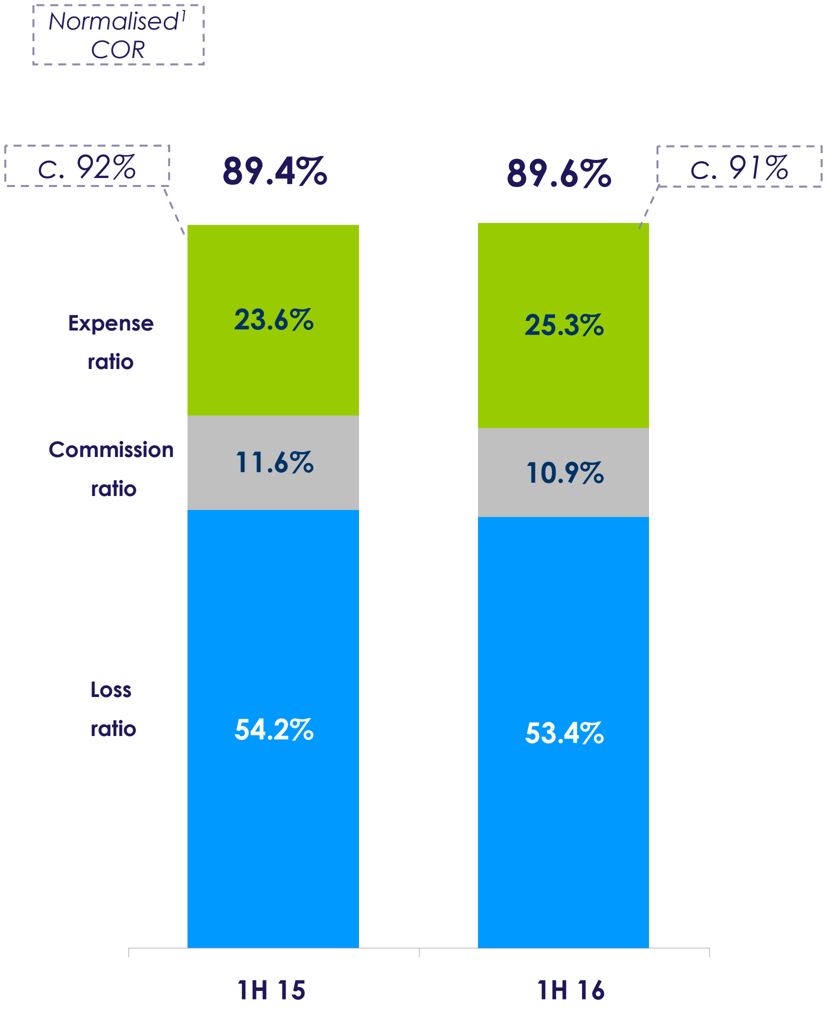

## Observations

**GWP up 3.9% largely due to Motor**

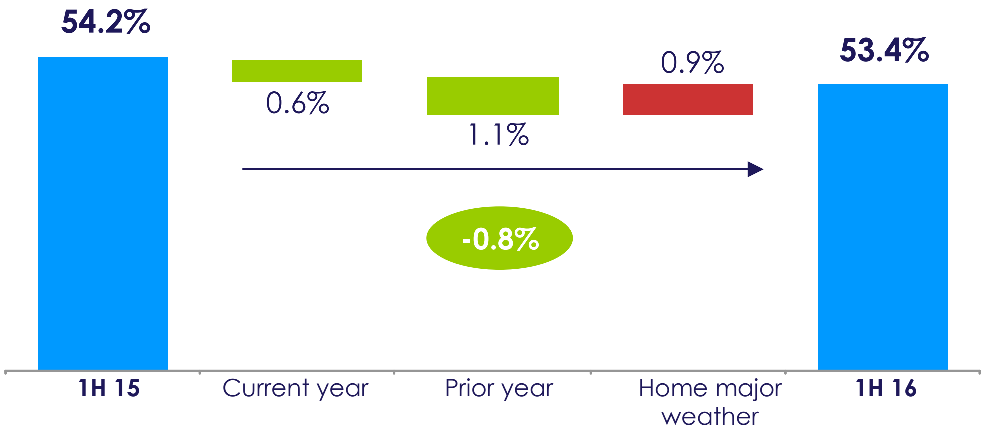
- Motor GWP up 9.8% due to price increases and IFP growth
- Home premiums down 3.5% reflect lower risk mix and reduction in partnership IFPs
- Rescue GWP up 1.6% due to strong growth in Green Flag direct offset by lower partnership volumes
- Commercial GWP grew 2.3% and DL4B premiums were up 8.2%

# Combined ratio broadly stable

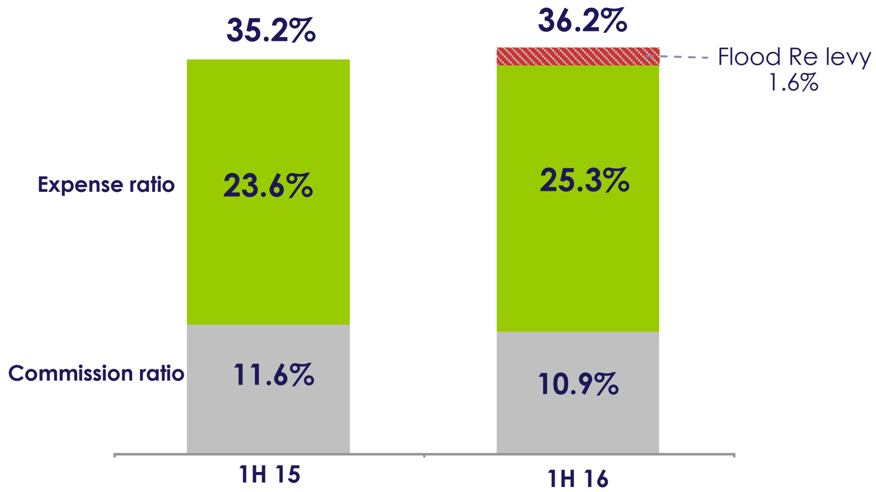
## Combined operating ratio




## Loss ratio analysis

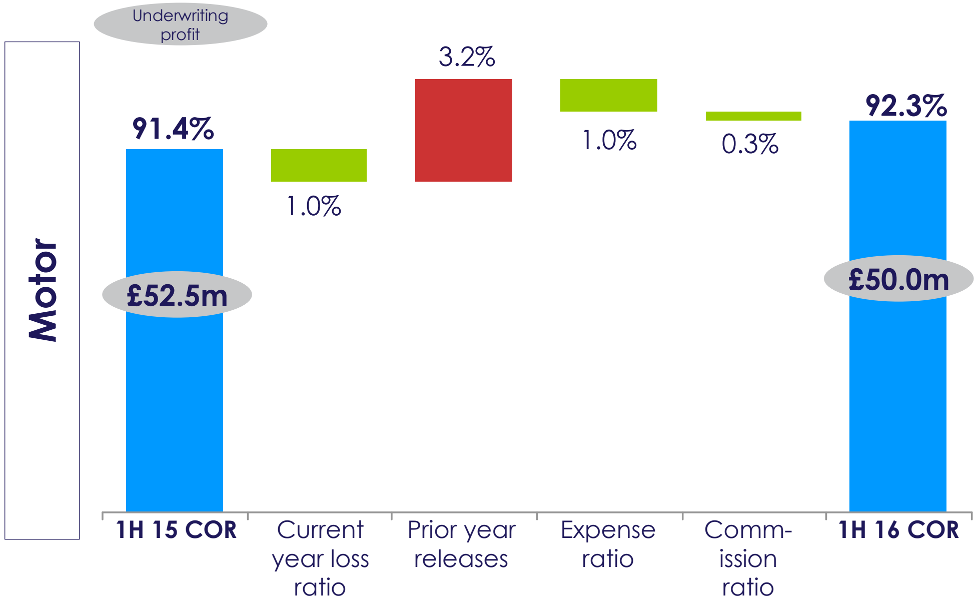


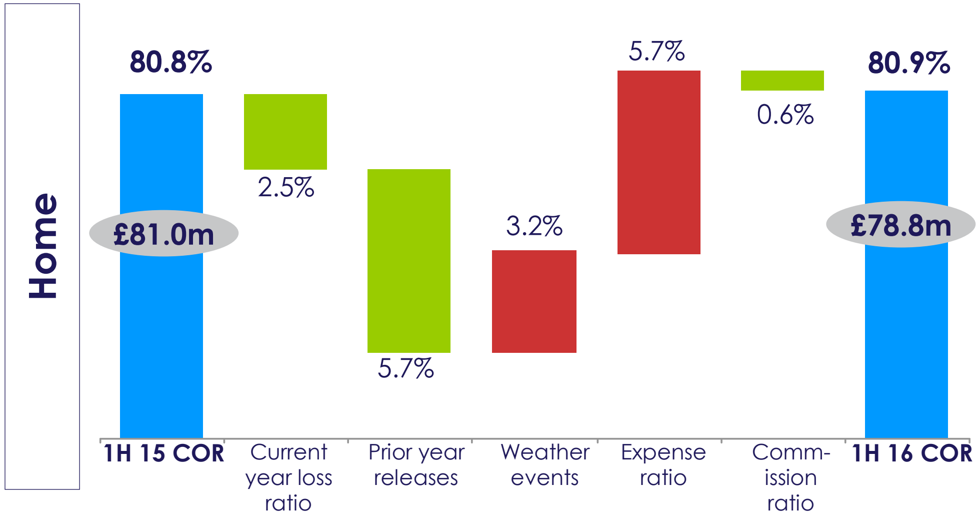

## Expense and commission ratio analysis




1. *Normalised for weather*

# Segmental performance: Motor and Home




## Observations

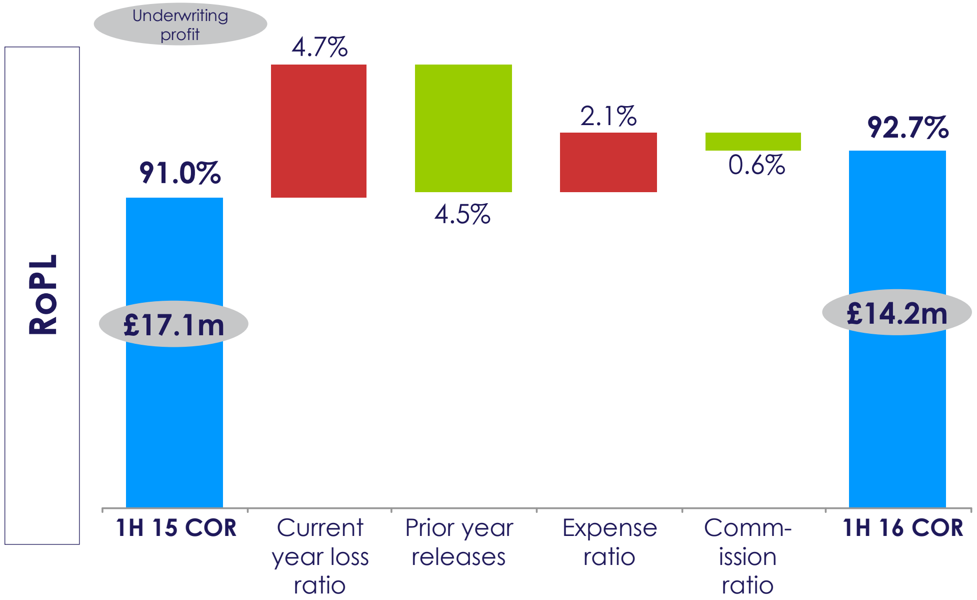
**Motor COR increased by 0.9pts to 92.3%**

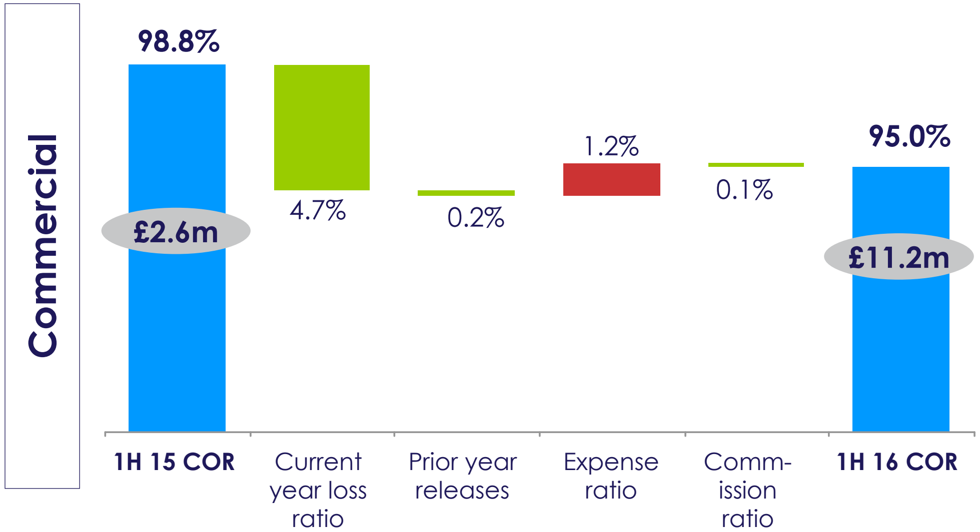
- Improvement in current year loss ratio due to improved trading
- Lower contribution from prior year releases (£134m in 1H 2016 versus £146m in 1H 2015)
- Improvement in expense and commission ratios due to higher earned premiums

**Home COR broadly flat despite Flood Re levy**

- 2.5pt improvement in current year loss ratio despite lower premiums
- Higher contribution from prior years; £61m versus £38m
- Weather related costs of £13m in 1H 2016 (1H 2015 nil)
- Expense ratio increase as a result of the £24m Flood Re levy in Q2 2016

# Segmental performance: RoPL and Commercial




## Observations

**RoPL COR increased by 1.7pts to 92.7%**

- Increase in current year loss ratio due to a premium adjustment in Pet
- Higher contribution from prior year releases (£7.5m in 1H 2016 versus £1.2m strengthening in 1H 2015)
- Higher expense ratio due to phasing of marketing spend in Rescue

**Commercial COR improved by 3.8pts to 95.0%**

- 4.7pt improvement in current year loss ratio mainly due to better large claims experience
- Expense ratio increase due to timing of marketing spend and one-off costs
- Normalising for weather and other large claims Commercial COR was c.98%

# Motor - higher premiums reflecting claims trends

## Claims by peril vs. expectations

| | Split of claims cost[1] | 30 June 2016 Frequency | 30 June 2016 Severity |
|---|---|---|---|
| Large BI | c.15% | ↔ | ↔ |
| Small BI | c.35% | ↔ | ↔ |
| Damage | c.50% | ↔ | ↑ |

Underlying claims inflation around the top of the long-term range

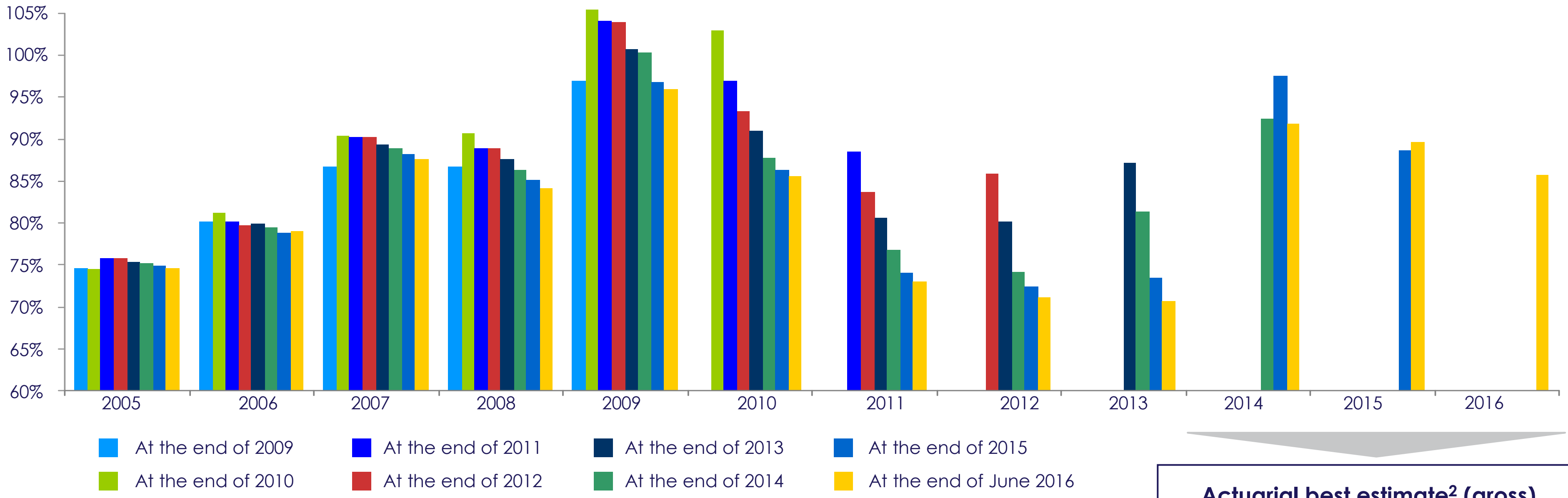
## Motor premium movement[2]

| | Change in price: | Change in risk/business mix[3]: | Change in IFPs: | Change in GWP: |
|---|---|---|---|---|
| 2Q 2016 | ↑ 9.5% | ↓ 3.3% | ↑ 2.5% | ↑ 9.2% |
| 1Q 2016 | ↑ 9.4% | ↓ 1.5% | ↑ 1.7% | ↑ 10.5% |

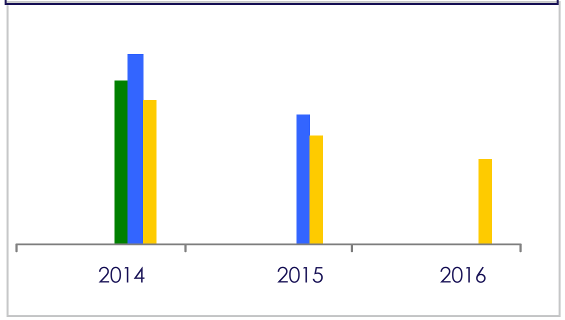
1. Gross
2. Excludes IPT
3. See glossary on slide 50 for definition

# Motor - Conservative reserving leading to prior year releases

## Motor booked loss ratio development (gross[1])




**Actuarial best estimate[2] (gross)**




| Prior year releases | 1H 16 | 1H 15 | FY 15 |
|---|---|---|---|
| £m | 134.0 | 145.5 | 266.8 |
| % NEP | 20.6% | 23.8% | 21.4% |

1. *Based on management best estimate, gross of reinsurance and excluding claims handling costs and add-ons*
2. *Based on actuarial best estimate, gross of reinsurance and excluding claims handling costs and add-ons*

# Home – Market premiums stabilised in H1

## Home own brand premium movement[1]

| | Change in price: | Change in risk/business mix[2]: | Change in IFPs: | Change in GWP: |
|---|---|---|---|---|
| 2Q 2016 | 0.3% | 5.1% | 2.8% | 0.7% |
| 1Q 2016 | 2.3% | 2.2% | 1.9% | 1.7% |

### Market observations

- New business premiums showed signs of stabilisation in 1H 2016
- Increased customer shopping following IPT increase
- PCW's continued to grow market share

### Experience

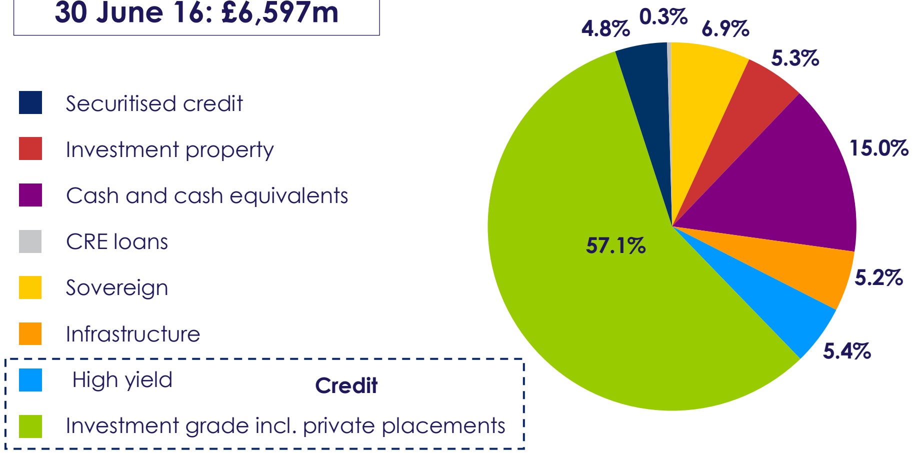
- Own brands policy count increased
- Improved PCW trading
- Retention remained strong
- Underlying inflation remained at the lower end of the long-term average

1. *Excludes IPT*
2. *See glossary on slide 50 for definition*

# Stable investment income yield, lower gains reflected in overall return

## Investment assets by type

30 June 16: £6,597m



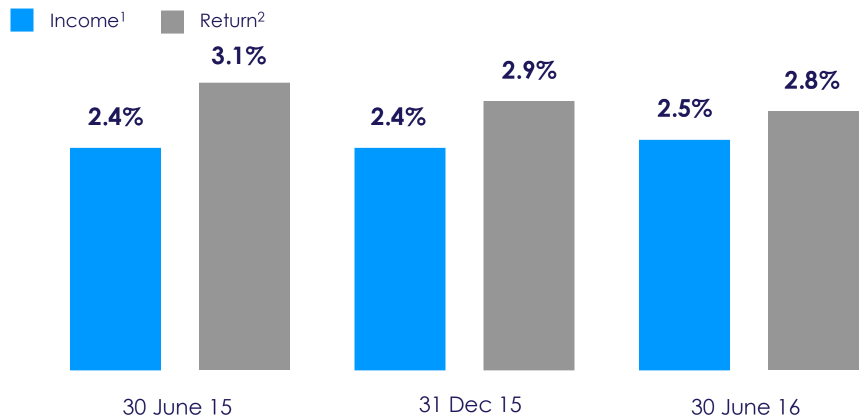

## Observations

- **3.3% reduction in AUM in H1 due to capital management and claims volumes**
- **Income yield of 2.5% in H1 in line with management guidance**
- **Net gains in Q2 more than offset the realised loss in Q1**

## Investment return – Ongoing operations

| £m | 1H 16 | 1H 15 |
|---|---|---|
| Investment income | 82.7 | 83.0 |
| Net realised and unrealised gains | 8.3 | 26.8 |
| *Of which property* | *0.5* | *14.6* |
| **Total** | **91.0** | **109.8** |

## Investment yields



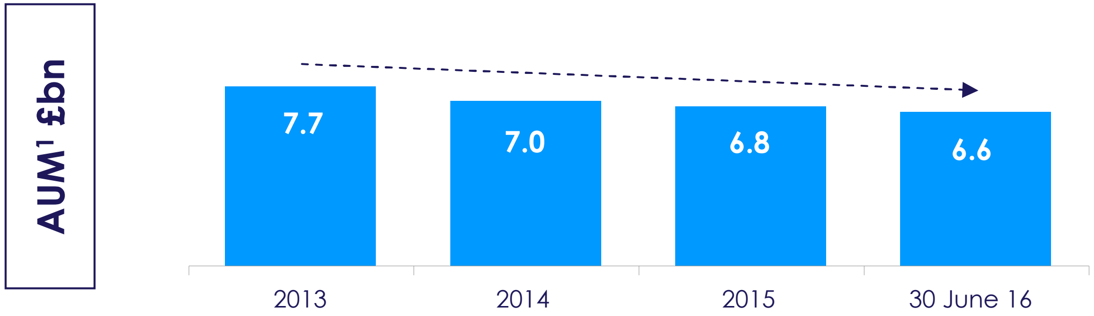

1. *Investment income excluding net gains divided by average AUM based on opening and closing balance for total Group and is shown on an annualised basis*
2. *Investment return including net gains divided by average AUM based on opening and closing balance for total Group and is shown on an annualised basis*

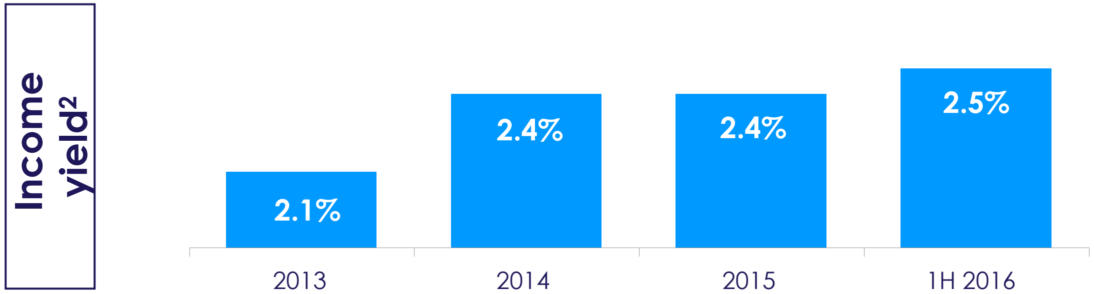


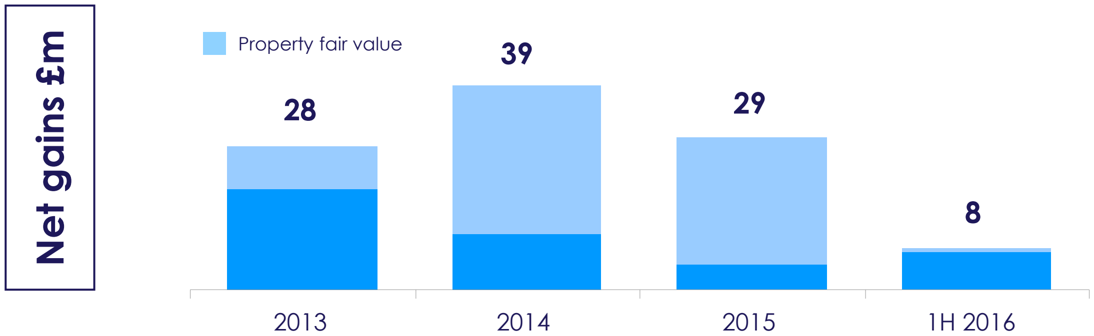
Direct Line Group

# Investments outlook

## Recent performance




## Outlook

- Expect modest reduction in AUM to continue
- 2016 income yield expected to be 2.5%[3]
- 2017 income yield expected to be 2.4%[3]
- No further net gains expected in 2016. Investment property marked-to-market through P&L
- Unrealised AFS net gains at 30 June 2016 of £61.6m (net of tax)

1. *Comparatives exclude International*
2. *See note 1 page 14*
3. *Investment income yield based on one BoE base rate cut to 0.25% in August 2016 and unchanged through 2017*

# Ongoing operating profit reconciliation

## Observations

1. **Run-off segment profit £23.6m driven by positive prior year development from large bodily injury**
2. **Restructuring and other one-off costs of £30.3m reflecting building impairment costs**
3. **Finance costs in relation to fixed rate debt continue to benefit from swap to floating rate**
4. **Profit after tax of £235.9m is 5% below prior year (excluding profit from discontinued)**

## Outlook

- **The Run-off segment is expected to continue to contribute positively to operating profit in future years albeit at a lower level than in 2015**
- **Over the three year period 2015-2017, Restructuring and other one-off costs expected to continue to offset profit from Run-off**

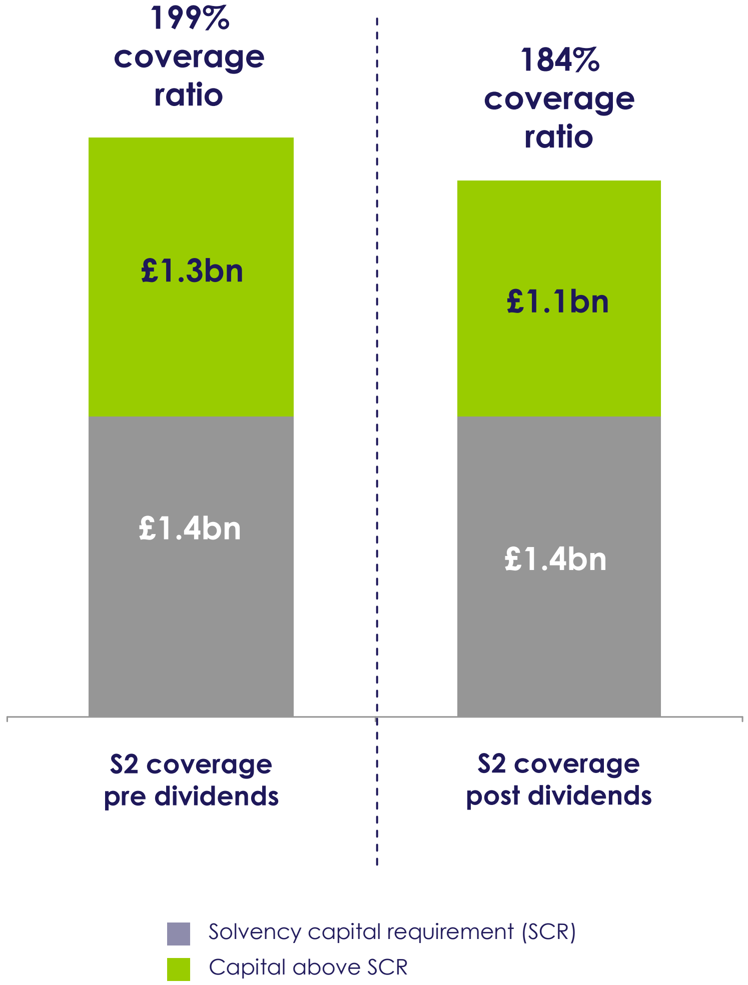
## Operating profit

| (£m unless stated) | | 1H 16 | 1H 15 |
|---|---|---|---|
| **Operating profit – ongoing operations** | | **323.6** | **335.8** |
| Run-off | 1 | 23.6 | 38.3 |
| Restructuring and other one-off costs | 2 | (30.3) | (40.4) |
| **Operating profit – continuing operations** | | **316.9** | **333.7** |
| Finance costs | 3 | (18.4) | (18.7) |
| Gain on disposal of subsidiary | | - | - |
| **Profit before tax – continuing operations** | | **298.5** | **315.0** |
| Tax | | (62.6) | (68.4) |
| Profit from discontinued, net of tax[1] | | - | 181.2 |
| **Profit after tax** | 4 | **235.9** | **427.8** |
| | | | |
| **EPS – adjusted diluted (pence)[1]** | | **17.6** | **16.7** |

1. *See glossary on slide 50 for definition*

# The Group's capital position remains strong under Solvency II internal model

## Capital position as at 30 June 2016[1]



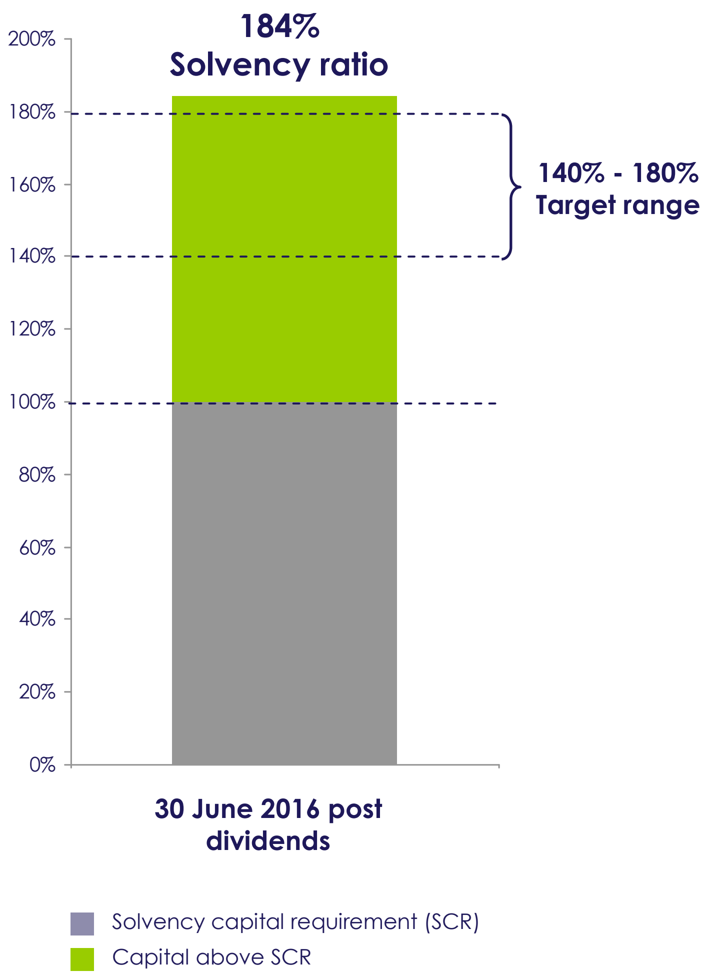

## Solvency II internal model

- PRA approved Group partial internal model (PIM)
- Internal model covers U K Insurance (UKI), the Group's principal underwriting entity
- UKI represents 90% of the Group's own funds and 98% of the Group's solvency capital requirements
- Conservative approach (e.g. no grandfathering or transitional options)
- Straightforward implementation, fairly reflecting the risks and associated costs of the Group's business model

1. *Figures are estimated and based on partial internal model (PIM) output for 30 June 2016*

# Solvency 2 risk appetite range of 140%-180%

## Solvency II risk appetite range[1]

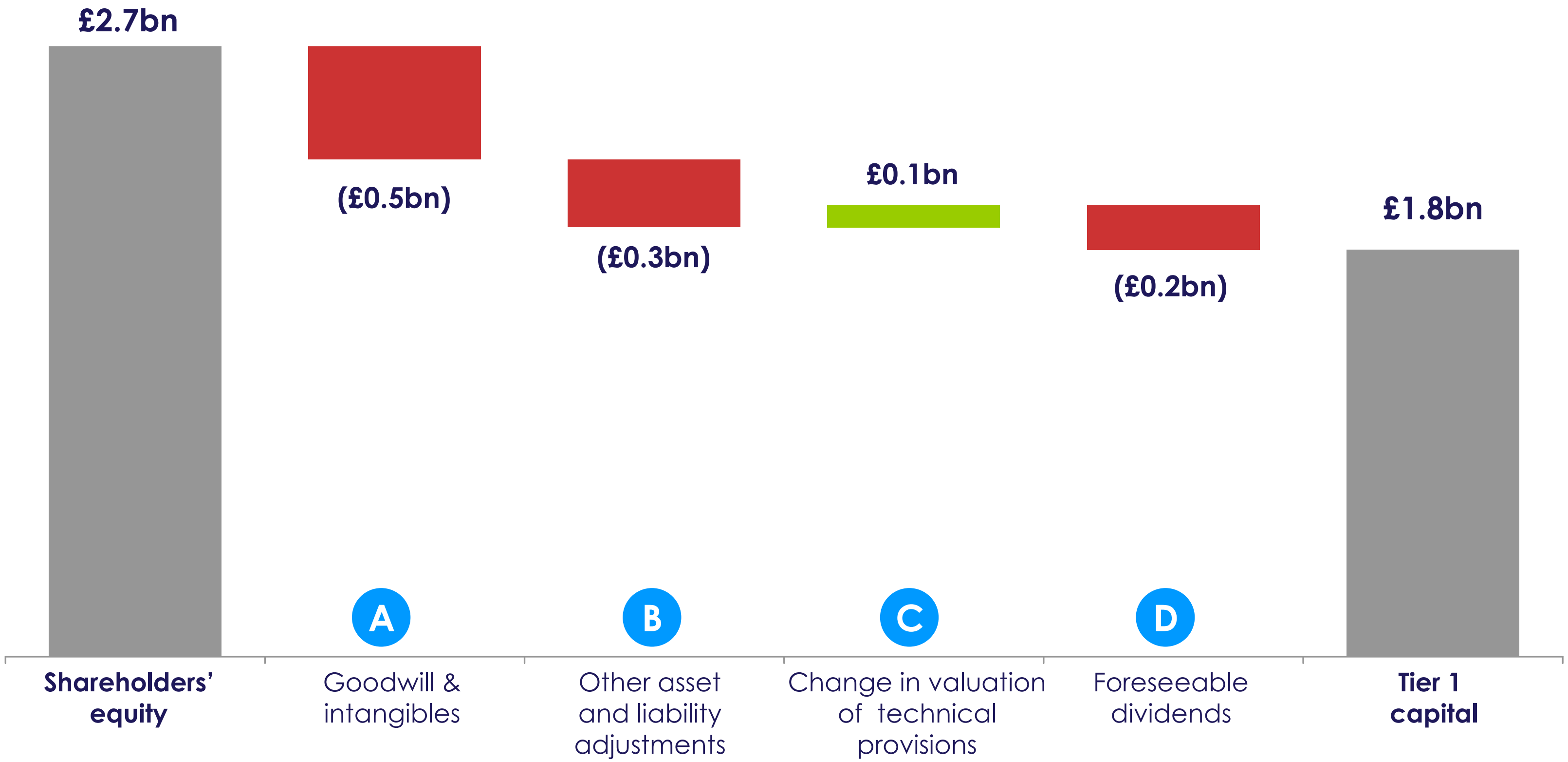



## Observations

| | |
|---|---|
| **Policy** | • Objective of ensuring appropriate level of capitalisation and solvency with respect to operating, regulatory and rating agency requirements<br>• Capital management set with reference to the Group's eligible own funds and solvency capital requirements (SCR)<br>• Capital risk appetite consistent with maintaining credit ratings within the 'A' range |
| **SCR** | • The Group's partial internal model (PIM) is used to determine solvency capital requirements (SCR)<br>• Direct Line Group seeks to hold capital coverage in the range of 140% -180% of the SCR |
| **Credit Ratings** | • Credit ratings on U K Insurance Ltd (principal UK underwriter)<br>• S&P 'A' (strong) with a stable outlook<br>• Moody's 'A2' (good) with a stable outlook |

1. *Figures are estimated and based on partial internal model (PIM) output for 30 June 2016*

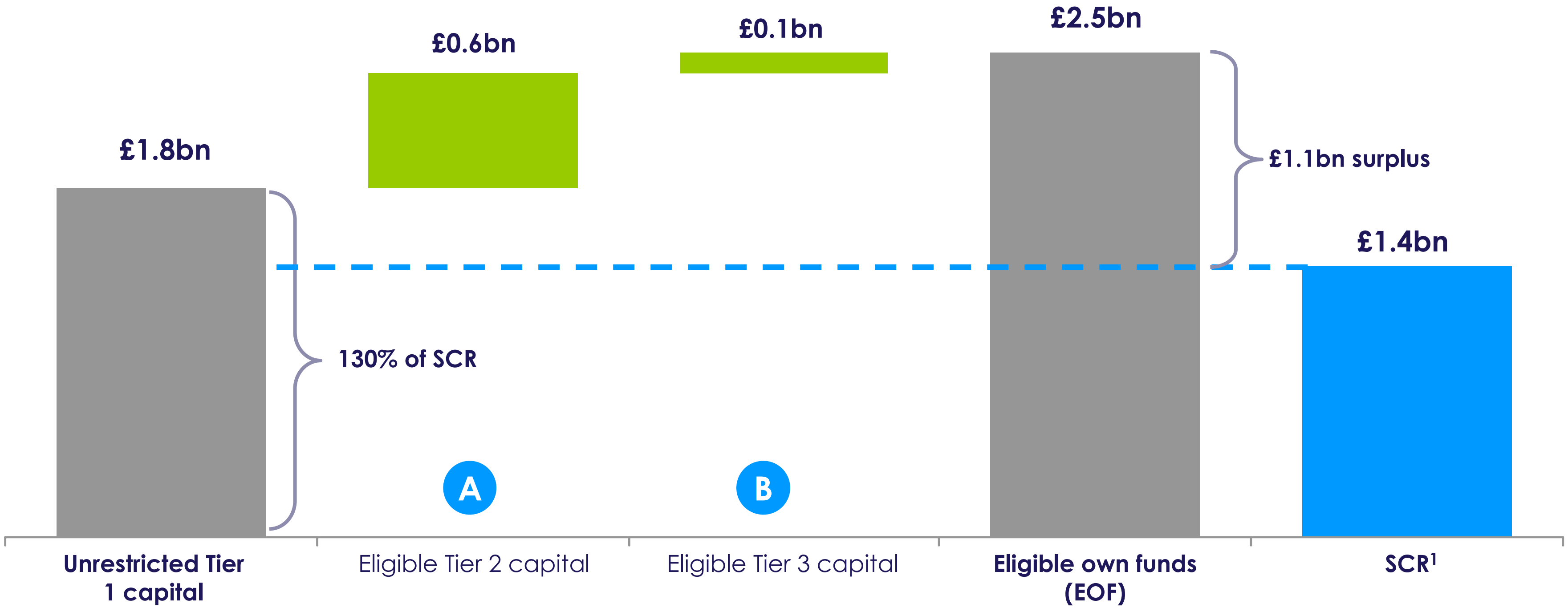
# Bridge of shareholders' equity under IFRS to Solvency II PIM[1] Tier 1




- **A** **Goodwill and intangibles have zero value under SII**
- **B** **Property, loans and subordinated liabilities are measured at fair value**
- **C** **Technical provisions includes discounted actuarial best estimate (ABE) plus a risk margin**
- **D** **Foreseeable dividends are included in the Tier 1 calculation**

1. *Figures are estimated and based on partial internal model (PIM) output for 30 June 2016*

# Unrestricted Tier 1 – 130% of solvency capital requirement (SCR)[1]



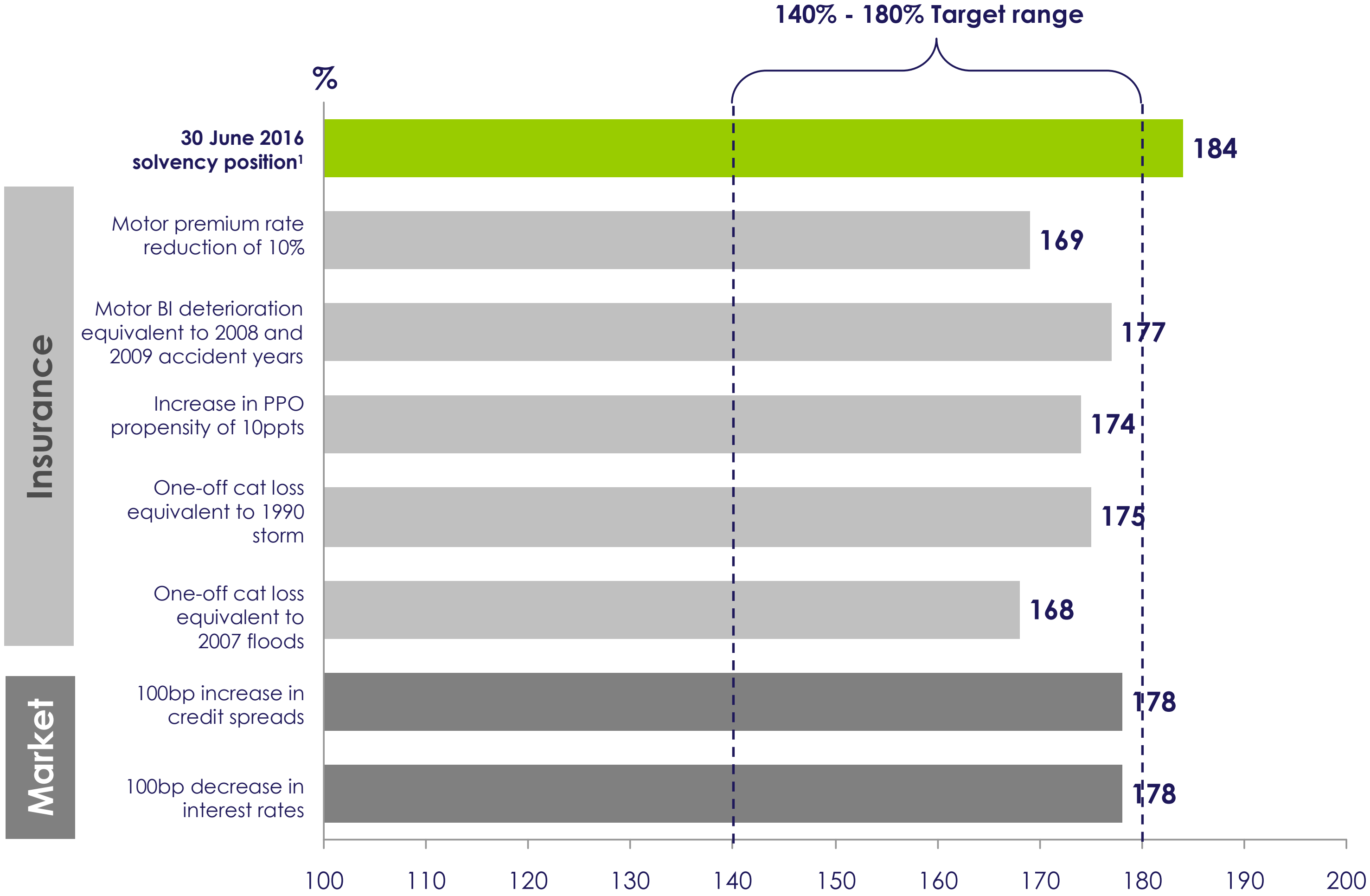

**A** Eligible Tier 2 is the Group's subordinated debt

**B** Eligible Tier 3 is the Group's deferred tax asset

**A** + **B** < 50% of SCR, and the Group currently has no ineligible capital

1. *Figures are estimated and based on partial internal model (PIM) output for 30 June 2016*

# Sensitivity analysis – modest sensitivity to financial market moves[1,2]

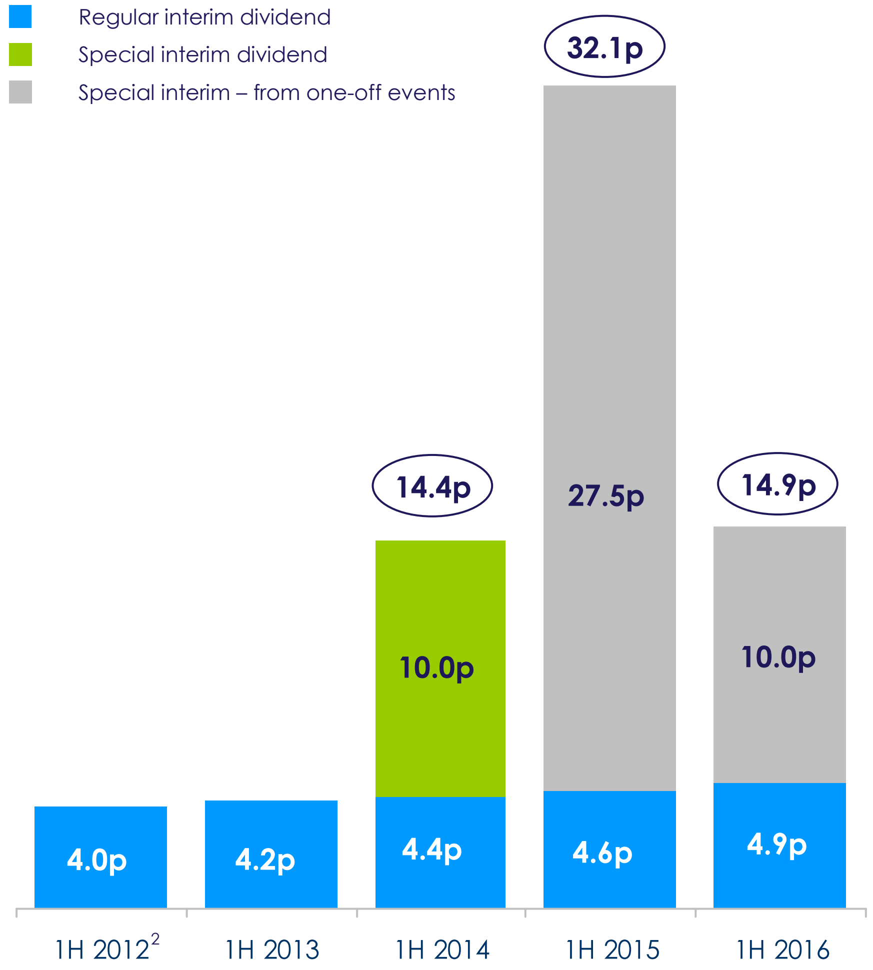



- **Sensitivities selected to show a range of impacts on base case solvency ratio**
- **Main risk types – insurance risk and market risk**
- **Modest exposure to market risks**

1. *Figures are estimated and based on partial internal model (PIM) output for 30 June 2016*
2. *Sensitivities estimated based on assessed impact of scenarios as at 31 December 2015, applied to the Group's solvency ratio at 30 June 2016*

# Dividend growth and special dividend following transition to Solvency II[1]

## Interim dividends




## Commentary

- **Growth in interim dividend to 4.9 pence per share in line with the Group's aim to grow the regular dividend annually**
- **Special dividend of 10.0 pence following the approval of and transition to the internal model**
- **In future the Board will only consider any return of excess capital alongside full year results**

| Date | Event |
|---|---|
| 11 August 2016 | Ex-dividend date |
| 12 August 2016 | Record date |
| 9 September 2016 | Payment date |

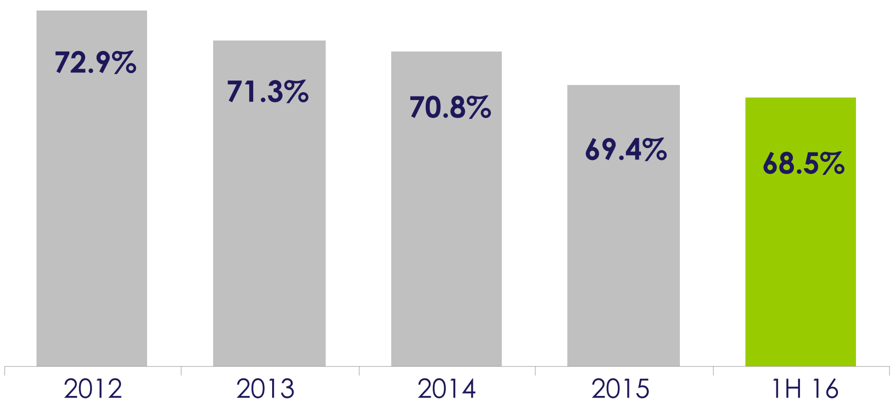
1. *Figures are estimated and based on partial internal model (PIM) output for 30 June 2016*
2. *2012 pro-forma dividend*

# Capital summary

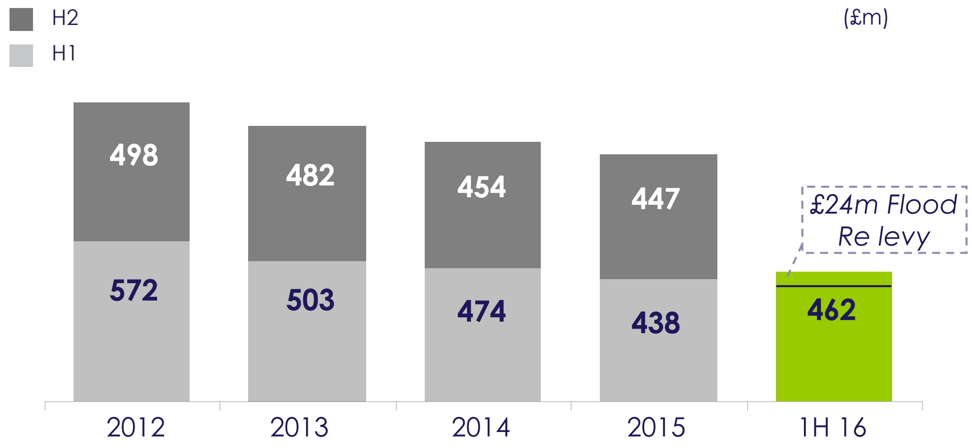
1. Strong solvency ratio; 184% post dividends
2. Risk appetite range of 140% to 180% of SCR
3. Delivered 6.5% growth in the regular interim dividend
4. 10.0 pence special interim dividend following transition to PIM and removal of model approval uncertainty
5. Harmonising major capital, planning and earnings exercises; Board will only consider returning excess capital alongside full year results
6. We believe our ability to pay dividends is essentially unchanged

# Further progress on key financials

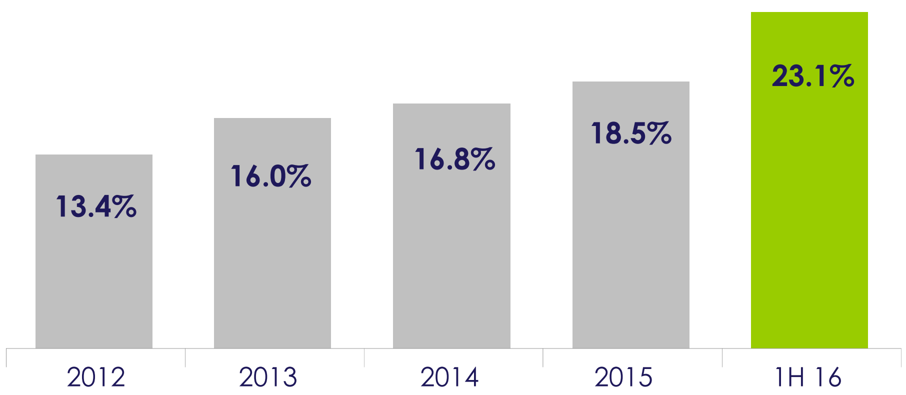
## Current year attritional loss ratio[1]



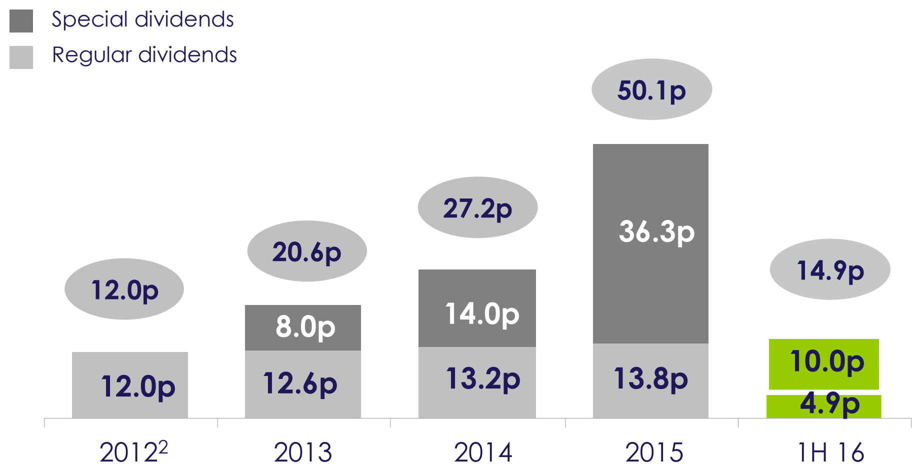

## Total costs[1]




## RoTE[1]




## Dividends



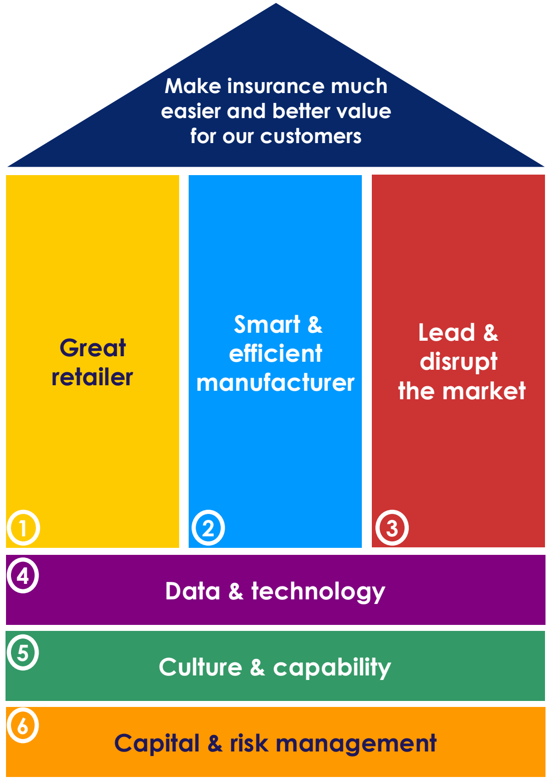

1. See glossary on slide 50 for definition
2. 2012 pro-forma dividend

# Closing remarks

# Paul Geddes – CEO

# Reminder of our strategy and 2016 deliverables

Long-term ambition: Sustainable growth and at least 15% RoTE




| 1 Great retailer | 2 Smart & efficient manufacturer | 3 Lead & disrupt the market | 4 Data & technology | 5 Culture & capability | 6 Capital & risk management |
|---|---|---|---|---|---|
| Compelling brands, propositions and customer experience to meet diverse, long term customer needs | Efficiency and flexibility to deliver better claims and customer service at lower cost | Maximise existing growth opportunities while creating and driving future areas of value | Harness the power of technology and scale of our data | Unlock and accelerate our people potential | Sound foundation of capital and risk management |
| • Improve customer experience with focus on cross channel distribution<br>• Reduce customer complaints and improve the customer renewal process | • Continue to build technical pricing excellence<br>• Beat market claims inflation via further claims programmes<br>• Develop a market leading partner proposition | • Grow eTrade and direct Commercial SME<br>• Develop enhanced Telematics propositions<br>• Become insurer of choice for new safety tech in cars | • Improve level, performance, and cost effectiveness from our IT systems<br>• Get ready to launch the next generation of customer systems for Motor and Rescue | • Improve efficiency and effectiveness across the organisation<br>• Sustain high performance and engagement while building capability for the future | • Implement Solvency II internal model<br>• Recalibrate risk appetite |



Direct Line Group

# 1H 2016 strategic actions

## Great Retailer

- ✓ Continued brand differentiation leading to growth particularly in Direct
  - ✓ Direct Line 3 hour emergency plumber
  - ✓ Churchill Lollipoppers campaign

## Smart and Efficient Manufacturer

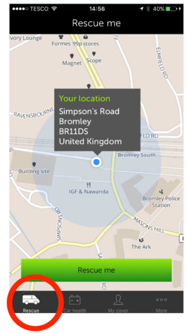
- ✓ Improved our partnership proposition
  - ✓ RBS - secured a three year extension with RBS for Home and Private Insurance
  - ✓ Nationwide - agreed a contract extension for Nationwide travel agreement until 2018

## Lead & Disrupt the market

- ✓ Launched Green Flag 'Alert Me'
- ✓ Commercial awarded best Etrade provider for the second year running
- ✓ Continued growth in Telematics


direct line
Emergency Plumber


GreenFlag
No Matter What
Rescue Me App



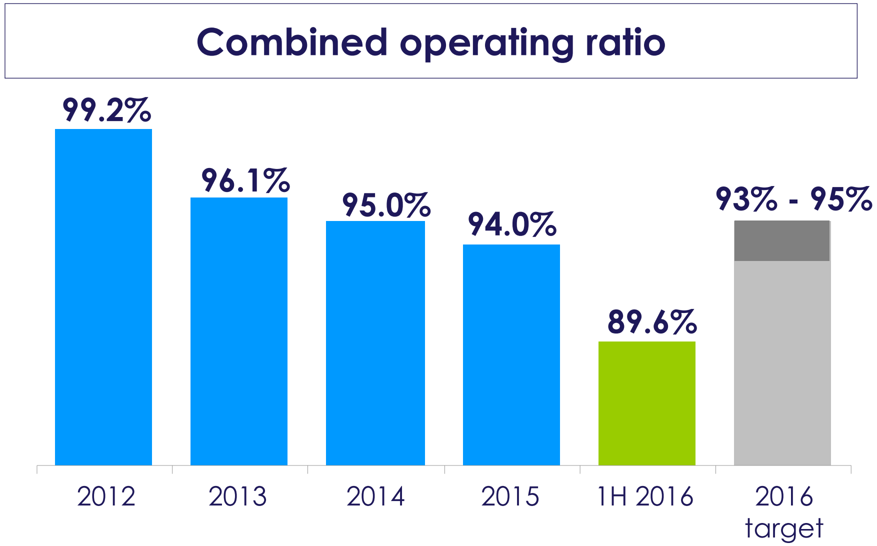

churchill
Lollipoppers campaign

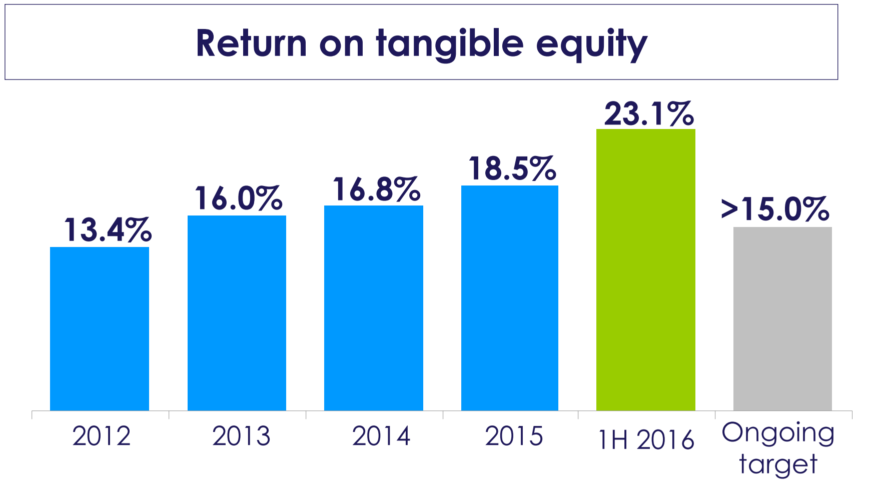


Direct Line Group

# Outlook for 2016

1. **Markets generally competitive, but we remain disciplined**
2. **2016 investment return expectations; income yield of 2.5%[1] and lower net gains**
3. **Ongoing focus on reducing costs through efficiency**
4. **Contribution from prior years expected to remain significant**
5. **2016 COR target of 93% - 95% assuming normal annual claims from major weather. If current trends continue, we expect to be towards the lower end of the range**




1. *Investment income yield based on one BoE base rate cut to 0.25% in August 2016*

# Key messages

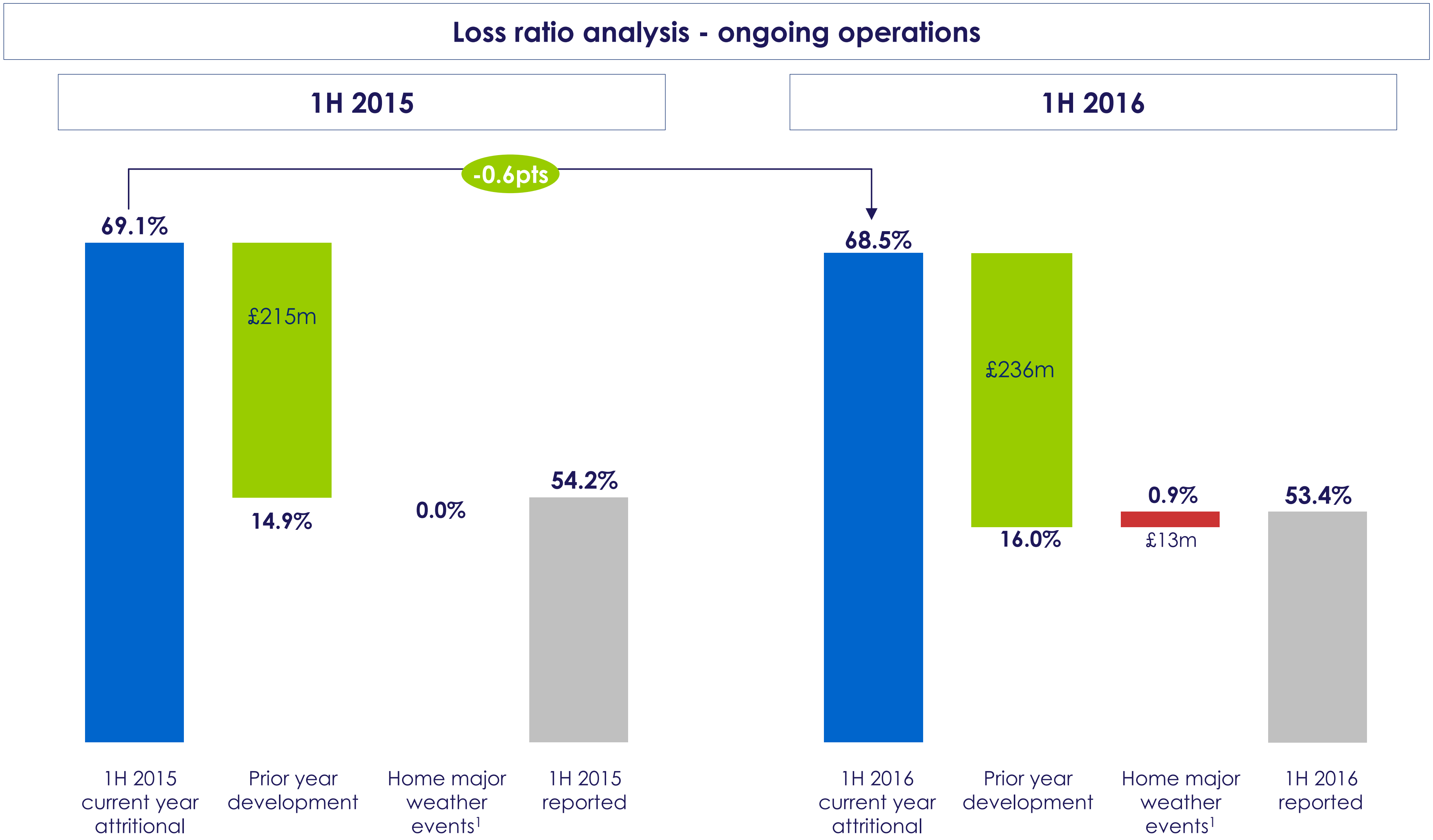
1. Strong balance sheet; 184% solvency ratio
2. 10.0p special interim dividend and 6.5% growth in the ordinary interim dividend
3. Secured 3 year extension to RBS Home
4. Strong performance by delivering for our customers
5. Multi year investment programme driving improved competitiveness

**Making insurance much easier and better value for our customers**

# Q&A

# Appendix

# Improvement in current year underwriting performance




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

# Motor highlights

## Results

| (£m unless stated) | | 1H 16 | 1H 15 |
|---|---|---|---|
| | | | |
| **In-force policies (000s)** | 1 | **3,779** | **3,686** |
| Own brand in-force policies (000s) | | 3,541 | 3,435 |
| Partnerships in-force policies (000s) | | 238 | 251 |
| | | | |
| Gross written premium | 2 | 750.3 | 683.3 |
| Net earned premium | 3 | 650.3 | 611.5 |
| | | | |
| Loss ratio – current year | 4 | 84.6% | 85.6% |
| Loss ratio – prior years | 5 | (20.6%) | (23.8%) |
| Loss ratio | | 64.0% | 61.8% |
| Commission ratio | | 2.6% | 2.9% |
| Expense ratio | | 25.7% | 26.7% |
| **Combined operating ratio** | 6 | **92.3%** | **91.4%** |
| | | | |
| Underwriting profit / (loss) | | 50.0 | 52.5 |
| *Of which prior year releases* | | *134.0* | *145.5* |
| | | | |
| Instalment and other income | | 55.8 | 49.9 |
| Investment return | | 63.0 | 78.6 |
| **Operating profit** | 7 | **168.8** | **181.0** |

## Observations

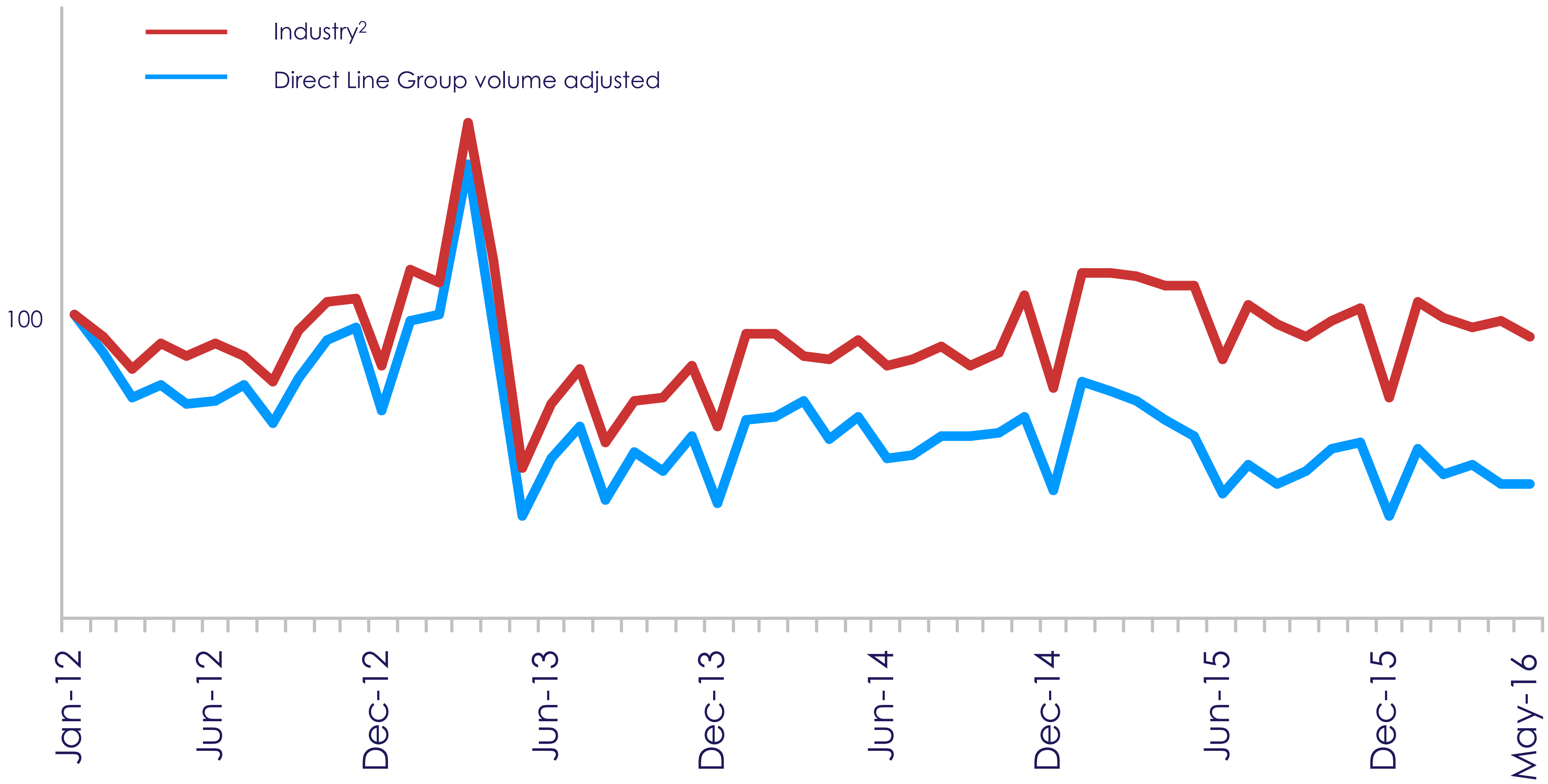
1. **IFPs grew by 2.5% with own brands up 3.1% offset by a reduction in partners**
2. **9.8% growth in GWP with own brands up 9.3%**
3. **NEP growth as premium growth starting to earn through**
4. **Current year loss ratio improved by 1.0ppt**
5. **Lower yet still significant prior year releases in the first half of 2016**
6. **Combined operating ratio of 92.3%, 0.9pts higher than prior year**
7. **Operating profit of £168.8m, £12.2m lower than prior year mainly due to lower investment returns**



Direct Line Group

# Small BI claims trends

## RTA Portal[1] claims notifications forms by working day (indexed to Jan 12)




1. Source MOJ Portal Statistics Executive Dashboard June 2015 – RTA Motor
2. Industry with estimated adjustment to remove exited and re-submitted claims March, September & October 2014 due to transfers between organisations

# Home highlights

## Results

| (£m unless stated) | | 1H 16 | 1H 15 |
|---|---|---|---|
| | | | |
| **In-force policies (000s)** | 1 | **3,403** | **3,451** |
| Own brand in-force policies (000s) | | 1,743 | 1,696 |
| Partnerships in-force policies (000s) | | 1,660 | 1,755 |
| | | | |
| Gross written premium | 2 | 403.2 | 417.8 |
| Net earned premium | | 411.7 | 421.9 |
| | | | |
| Loss ratio – current year attritional | 3 | 45.0% | 47.5% |
| Major weather | 4 | 3.2% | - |
| Loss ratio – current year incl. weather | | 48.2% | 47.5% |
| Loss ratio – prior years | | (14.7%) | (9.1%) |
| Loss ratio | | 33.4% | 38.4% |
| Commission ratio | | 22.2% | 22.8% |
| Expense ratio | | 25.3% | 19.6% |
| **Combined operating ratio** | 5 | **80.9%** | **80.8%** |
| | | | |
| Underwriting profit / (loss) | | 78.8 | 81.0 |
| *Of which prior year releases* | | *60.6* | *38.2* |
| | | | |
| Instalment and other income | | 11.7 | 12.0 |
| Investment return | | 11.0 | 11.4 |
| **Operating profit** | 6 | **101.5** | **104.4** |

## Observations

1. **IFPs reduced by 1.4% as growth in own brands more than offset by lower Partner IFPs**
2. **GWP down 3.5% due to lower IFPs and price deflation**
3. **Current year attritional loss ratio improved by 2.5ppts**
4. **£13m of weather related claims in 1H 16 (1H 15 nil)**
5. **Combined operating ratio stable despite higher expense ratio due to £24m Flood Re levy in Q2 16**
6. **Operating profit of £101.5m, down £2.9m**



Direct Line Group

# Rescue and other personal lines highlights

## Results

(£m unless stated)

| Rescue | 1H 16 | 1H 15 |
|---|---|---|
| | | |
| **In-force policies (000s)** | **3,670** | **4,034** |
| Gross written premium (1) | 81.9 | 80.6 |
| **Combined operating ratio** (2) | **85.2%** | **79.6%** |
| **Operating profit** (3) | **19.4** | **22.0** |

| Rescue and other personal lines[1] | 1H 16 | 1H 15 |
|---|---|---|
| | | |
| **In-force policies (000s)** (1) | **7,894** | **8,408** |
| Gross written premium (2) | 197.7 | 194.8 |
| Net earned premium | 194.8 | 189.5 |
| | | |
| **Combined operating ratio** | **92.7%** | **91.0%** |
| | | |
| Underwriting profit | 14.2 | 17.1 |
| *Of which prior year releases/(increases)* | *7.5* | *(1.2)* |
| | | |
| **Operating profit** (3) | **23.4** | **26.4** |

## Observations

1. **GWP up 1.6% due to growth in direct, IFPs down 9.0% due to partners**
2. **COR of 85.2%, 5.6ppts higher than prior year due to higher marketing and other costs**
3. **Profit of £19.4m, £2.6m lower than prior year**

1. **IFPs 6.1% lower than prior year mainly due to lower partnership travel policies**
2. **1.4% growth in GWP versus prior year due to re-pricing in Travel and Rescue growth**
3. **Operating profit of £23.4m, £3m lower than prior year mainly due to Rescue**

1. *ROPL is made up of a number of products, including Rescue, Pet, Travel and Creditor*

# Commercial highlights

## Results

| (£m unless stated) | 1H 16 | 1H 15 |
|---|---|---|
| | | |
| **In-force policies (000s)** 1 | **660** | **629** |
| Direct Line for Business | 424 | 387 |
| NIG and other | 236 | 242 |
| | | |
| Gross written premium 2 | 261.9 | 256.1 |
| Net earned premium | 223.1 | 217.6 |
| | | |
| Loss ratio – current year 3 | 66.8% | 71.5% |
| Loss ratio – prior years 4 | (15.2%) | (15.0%) |
| Loss ratio | 51.6% | 56.5% |
| Commission ratio | 19.4% | 19.5% |
| Expense ratio | 24.0% | 22.8% |
| **Combined operating ratio** 5 | **95.0%** | **98.8%** |
| | | |
| Underwriting profit/(loss) | *11.2* | 2.6 |
| *Of which prior year releases* | *34.0* | *32.6* |
| | | |
| Instalment and other income | 3.8 | 3.7 |
| Investment return | 14.9 | 17.7 |
| **Operating profit** 6 | **29.9** | **24.0** |

## Observations

1. **4.9% growth in total IFPs and 9.6% growth in DL4B IFPs**
2. **GWP growth of 2.3% reflecting higher volumes**
3. **Current year loss ratio improved by 4.7ppts reflecting better claims experience**
4. **Prior year releases broadly stable**
5. **Combined operating ratio improved to 95.0%**

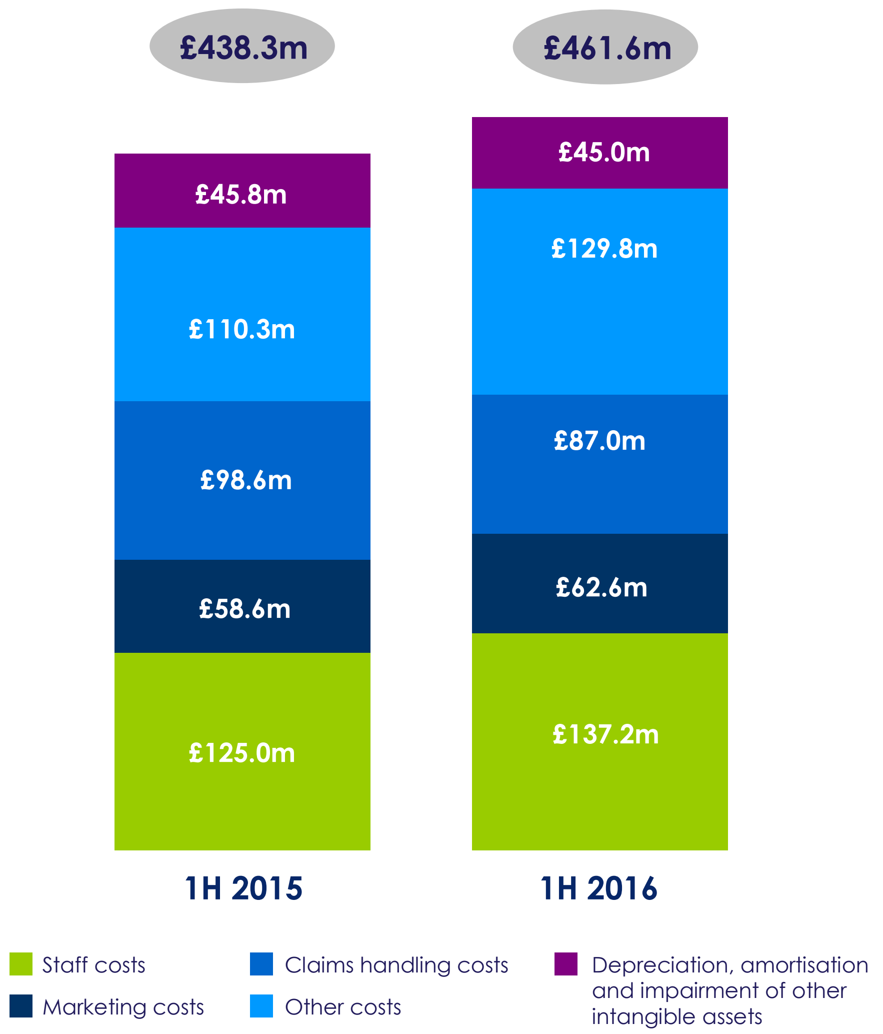
   **COR normalised for weather and other large losses was approximately 98%**
6. **Operating profit increased to £29.9m**



Direct Line Group

# Analysis of cost base

## Analysis of total cost base




## Observations

- Increase in costs mainly due to Flood Re levy of £24m in Q2 2016
- Underlying 'payroll' costs broadly stable having absorbed inflation
- Marketing spend up 7% due to phasing and expected to be broadly in line with 2015 at the full year
- Depreciation and amortisation costs reflect investment in the business
- Aim to deliver total costs for 2016 slightly lower than 2015, including absorbing the Flood Re levy



Direct Line Group

# Working towards target asset allocations

## Income yield

| 30 June 16 | Target allocation[1] | Current holding | Income yield | Interest rate duration (years) |
|---|---|---|---|---|
| Investment grade (incl private placements) | 58.0% | 57.1% | 2.7% | 2.8 |
| High yield | 6.0% | 5.4% | 4.8% | 1.0 |
| **Credit** | **64.0%** | **62.5%** | **2.9%** | **2.7** |
| Securitised credit[2] | 5.0% | 4.8% | 1.6% | 0.1 |
| Sovereign | 9.0% | 6.9% | 2.1% | 1.4 |
| **Total debt securities** | **78.0%** | **74.2%** | **2.7%** | **2.4** |
| Infrastructure debt | 6.0% | 5.2% | 2.4% | n.m[3] |
| Commercial real estate loans[4] | 3.0% | 0.3% | - | - |
| Investment property | 6.0% | 5.3% | 4.9% | n.m |
| Cash and cash equivalents | 7.0% | 15.0% | 0.5% | 0.0 |
| **Total** | **100.0%** | **100.0%** | **2.5%** | **1.8[5]** |

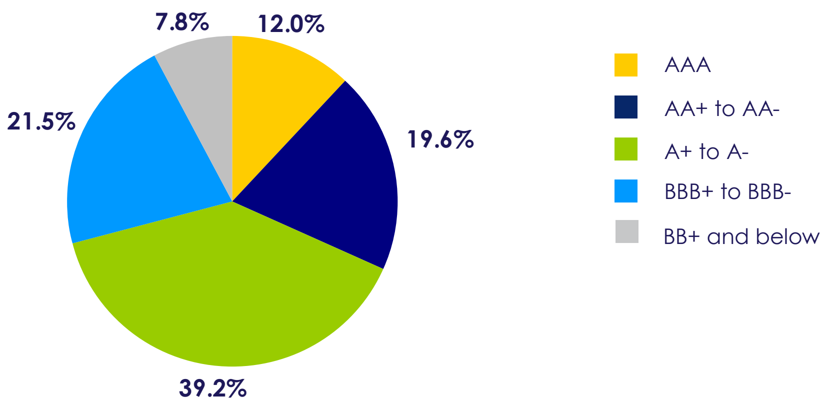
## Observations

- **Continuing to work towards target asset allocations**
- **Corporate, supranational and local government debt accounts for 55.8% of portfolio**
- **70.7% of debt securities rated ‘A’ or above**
- **Diversified investment property portfolio with no exposure to sub-prime**
- **Allocation to Commercial Real Estate loans only just begun**

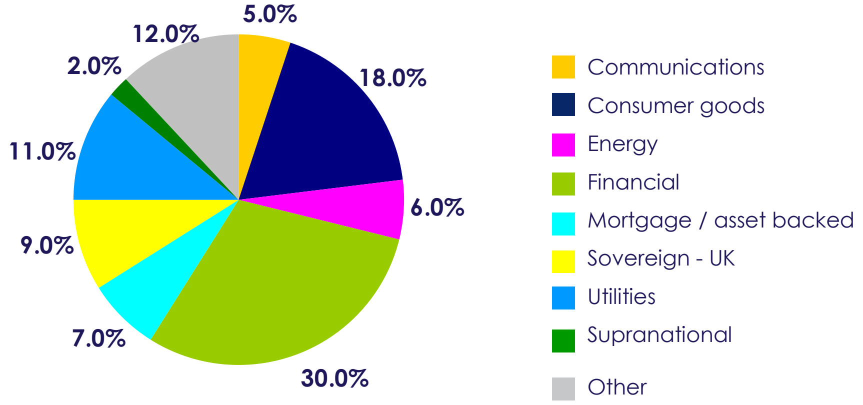
1. Strategic asset benchmarks for the Group
2. Securitised credit is all in the form of prime mortgage backed securities, collateralised loan obligations, securitised student loans and commercial mortgage backed securities
3. Weighted average life c. 14 years
4. Commercial real estate loans commenced 27 June 2016
5. Excludes investment property

# Investment portfolio

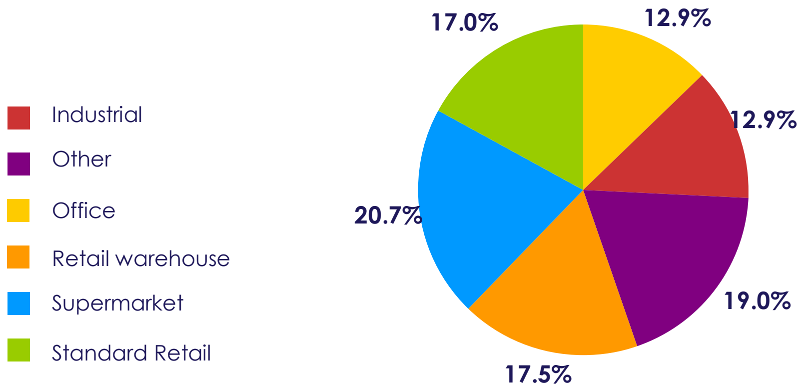
## Debt securities credit quality



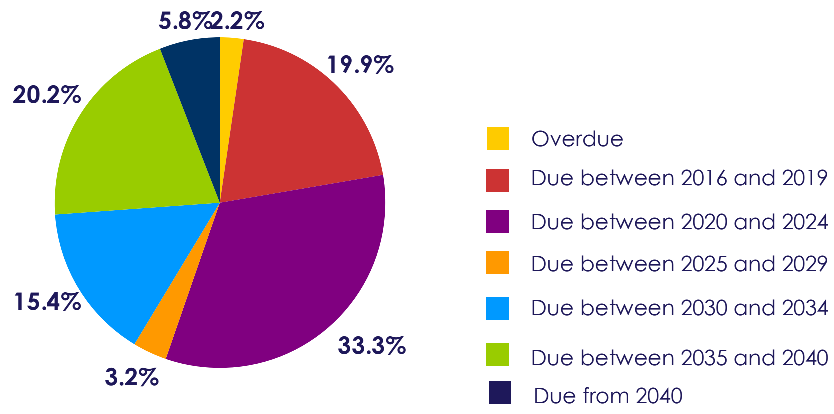

## Debt securities by industry sector




## Investment property by type[1]




## Investment property lease durations




1. Analysis excludes owner occupied property

# Instalment and other operating income

## Observations

- **Instalment and other operating income in 1H 2016 of £78.4m was £5.6m higher than 1H 2015**
- **Instalment income increased due to higher volumes**

## Instalment and other operating income

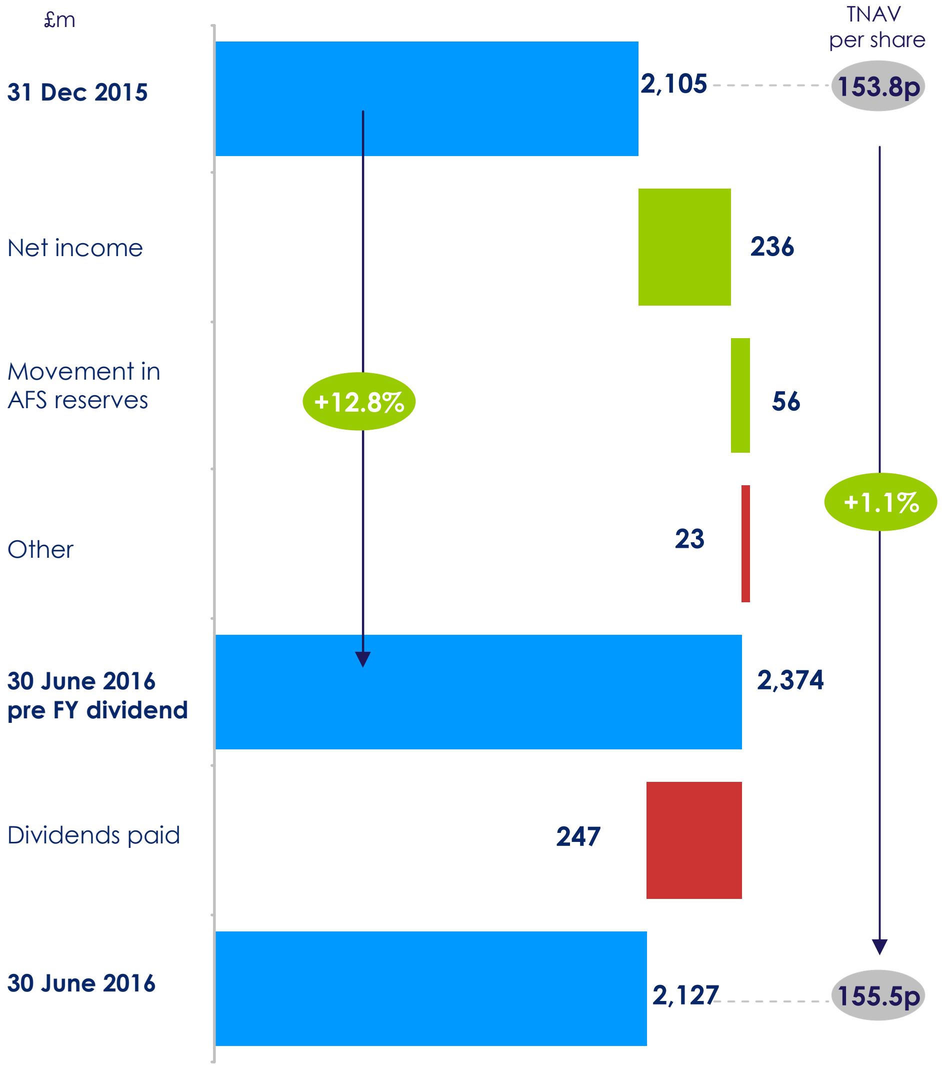
| (£m) | 1H 2016 | 1H 2015 |
|---|---|---|
| Instalment income | 51.4 | 48.4 |
| Other operating income | 27.0 | 24.4 |
| **Total – ongoing operations** | **78.4** | **72.8** |

## Breakdown of other operating income

| (£m) | 1H 2016 | 1H 2015 |
|---|---|---|
| Vehicle replacement referral fee income | 6.8 | 5.8 |
| Revenue from vehicle recovery and repair services | 9.4 | 7.6 |
| Other income | 10.8 | 11.0 |
| **Other operating income** | **27.0** | **24.4** |

# Book value and TNAV

## Movement in tangible net asset value




## NAV and TNAV per share

| Pence | 30 Jun 16 | 31 Dec 15 |
|---|---|---|
| Net asset value per share | 195.1 | 192.2 |
| Tangible net asset value per share | 155.5 | 153.8 |

## Observations

- **1.1% increase in TNAV per share post payment of 2015 final regular and second special dividend**
- **Total unrealised AFS reserves of £61.6m (net of tax)**



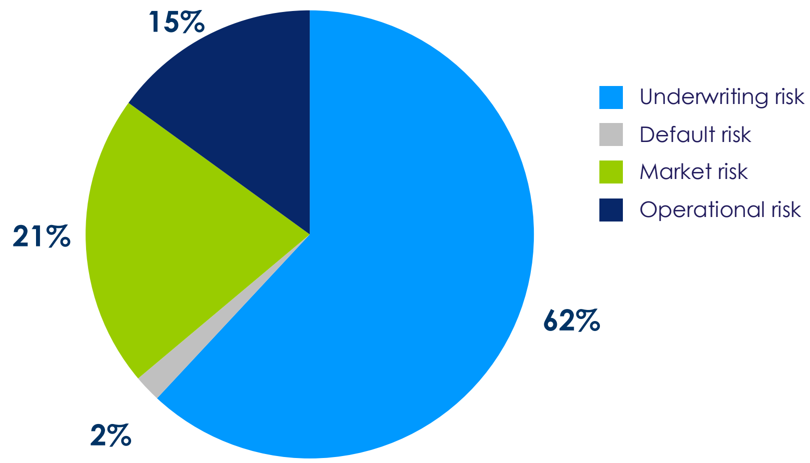
Direct Line Group

# SCR by risk type

## Split of SCR by risk type[1]

| (£m) | 30 June 16 | Comments |
|---|---|---|
| Non-life u/w risk | 878 | |
| - *Premium risk* | *151* | Dominated by Motor category |
| - *Reserve risk* | *372* | Includes run-off book |
| - *Catastrophe risk* | *355* | Home and Commercial mainly |
| Other underwriting | - | |
| Default risk | 26 | Mainly credit risk from RI |
| Market risk | 301 | Largest element is spread followed by property |
| Operational risk | 211 | |
| **Sub-total** | **1,415** | |
| Pension risk | 8 | |
| Deferred tax | (59) | Tax carry back only |
| **Solvency Capital Requirement (SCR)** | **1,365** | |

## Underwriting risk is the largest element




**All figs stated post diversification**

1. *Figures are estimated and based on partial internal model (PIM) output for 30 June 2016*



Direct Line Group

# Reinsurance

## Motor excess of loss reinsurance

| (£m) | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Limit | Unlimited | | | | |
| Deductible | 3 | 3[1] | 1[1] | 1 | 1 |

- Cover renews on 1 January
- Retained deductible is £1m (indexed)
- Cover is unlimited in size and has an unlimited amount of cover reinstatements
- Placed 100% on a traditional, uncapitalised basis
- Placed with a panel of 16 reinsurers who are at least 'A+' rated

## Property catastrophe reinsurance

| (£m) | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---|---|---|---|---|
| Limit | 1,300 | 1,400 | 1,350 | 1,250 |
| Deductible | 150 | 150 | 150 | 150 |

- Cover renews on 1 July
- Retained deductible is £150 million
- Cover is £1.25 billion, equivalent to a 1 in 200 year modelled loss
- Cover has one full reinstatement
- Placed with a panel of 77 reinsurers who are all at least 'A-' rated

1. Partial placement on lower layers up to £5m



Direct Line Group

# RoTE calculation

## RoTE calculation

| (£m) | 1H 16 | 1H 15 |
|---|---|---|
| Ongoing operating profit | 323.6 | 335.8 |
| Less: Finance costs | (18.4) | (18.7) |
| Profit before tax | 305.2 | 317.1 |
| Less: tax[1] | (61.0) | (64.2) |
| **Profit after tax** | **244.2** | **252.9** |
| | | |
| Tangible equity b/f | 2,105.2 | 2,287.4 |
| Tangible equity c/f | 2,127.4 | 2,487.1 |
| Average tangible equity | 2,116.3 | 2,387.3 |
| **Return on tangible equity** | **23.1%** | **21.2%** |

## Adjusted EPS calculation

| (£m) | 1H 16 | 1H 15 |
|---|---|---|
| Ongoing operating profit | 323.6 | 335.8 |
| Less: Finance costs | (18.4) | (18.7) |
| Profit before tax | 305.2 | 317.1 |
| Less: tax[1] | (61.0) | (64.2) |
| **Profit after tax** | **244.2** | **252.9** |
| | | |
| Weighted average number of ordinary shares | 1,370.2 | 1,493.2 |
| **EPS – Adjusted basic (pence)** | **17.8** | **16.9** |
| Weighted average number of ordinary shares (diluted) | 1,385.7 | 1,510.9 |
| **EPS – Adjusted diluted (pence)** | **17.6** | **16.7** |

1. UK standard tax rate of 20.00% (2015: 20.25%)



Direct Line Group

# Segmental performance - 2015

| (£m) | Motor | Home | Rescue and other personal lines | Commercial | Total ongoing |
|---|---|---|---|---|---|
| GWP | 1,406.7 | 866.3 | 394.1 | 485.3 | **3,152.4** |
| Net earned premium | 1,249.3 | 845.0 | 386.4 | 440.1 | **2,920.8** |
| Net insurance claims | (794.8) | (435.1) | (231.6) | (275.8) | **(1,737.3)** |
| Commission expenses | (31.9) | (176.7) | (24.5) | (86.1) | **(319.2)** |
| Operating expenses | (327.1) | (167.6) | (96.4) | (98.0) | **(689.1)** |
| **Underwriting result** | **95.5** | **65.6** | **33.9** | **(19.8)** | **175.2** |
| Investment return | 138.9 | 20.5 | 3.8 | 31.5 | **194.7** |
| Instalment and other operating income | 103.6 | 23.8 | 14.3 | 9.1 | **150.8** |
| **Operating profit/(loss)** | **338.0** | **109.9** | **52.0** | **20.8** | **520.7** |
| Loss ratio – current year | 85.0% | 56.5% | 63.5% | 75.5% | **72.5%** |
| Loss ratio – prior year | (21.4%) | (5.0%) | (3.6%) | (12.8%) | **(13.0%)** |
| Commission ratio | 2.6% | 20.9% | 6.4% | 19.6% | **10.9%** |
| Expense ratio | 26.2% | 19.8% | 24.9% | 22.2% | **23.6%** |
| **Combined operating ratio** | **92.4%** | **92.2%** | **91.2%** | **104.5%** | **94.0%** |

# Segmental performance - 2014

| (£m) | Motor | Home | Rescue and other personal lines | Commercial | Total ongoing |
|---|---|---|---|---|---|
| GWP | 1,342.0 | 898.6 | 371.8 | 487.0 | **3,099.4** |
| Net earned premium | 1,295.9 | 875.3 | 369.1 | 446.8 | **2,987.1** |
| Net insurance claims | (868.1) | (444.3) | (211.9) | (255.3) | **(1,779.6)** |
| Commission expenses | (41.4) | (190.3) | (34.5) | (87.8) | **(354.0)** |
| Operating expenses | (336.6) | (177.2) | (93.1) | (98.5) | **(705.4)** |
| **Underwriting result** | **49.8** | **63.5** | **29.6** | **5.2** | **148.1** |
| Investment return | 144.8 | 25.7 | 6.1 | 34.0 | **210.6** |
| Instalment and other operating income | 102.5 | 24.7 | 12.3 | 7.8 | **147.3** |
| **Operating profit/(loss)** | **297.1** | **113.9** | **48.0** | **47.0** | **506.0** |
| Loss ratio – current year | 88.5% | 56.5% | 61.7% | 69.2% | **70.7%** |
| Loss ratio – prior year | (21.5%) | (5.7%) | (4.3%) | (12.1%) | **(11.1%)** |
| Commission ratio | 3.2% | 21.7% | 9.4% | 19.7% | **11.8%** |
| Expense ratio | 26.0% | 20.2% | 25.2% | 22.0% | **23.6%** |
| **Combined operating ratio** | **96.2%** | **92.7%** | **92.0%** | **98.8%** | **95.0%** |



Direct Line Group

# Segmental performance - 2013

| (£m) | Motor | Home | Rescue and other personal lines | Commercial | Total ongoing |
|---|---|---|---|---|---|
| GWP | 1,421.1 | 943.1 | 383.4 | 474.5 | **3,222.1** |
| Net earned premium | 1,444.8 | 908.9 | 365.8 | 434.6 | **3,154.1** |
| Net insurance claims | (940.2) | (490.4) | (219.8) | (270.6) | **(1,921.0)** |
| Commission expenses | (36.3) | (177.9) | (27.3) | (92.2) | **(333.7)** |
| Operating expenses | (370.2) | (184.4) | (90.8) | (101.4) | **(746.8)** |
| **Underwriting result** | **98.1** | **56.2** | **27.9** | **(29.6)** | **152.6** |
| Investment return | 122.8 | 24.1 | 8.2 | 29.6 | **184.7** |
| Instalment and other operating income | 126.8 | 25.9 | 10.4 | 9.5 | **172.6** |
| **Operating profit/(loss)** | **347.7** | **106.2** | **46.5** | **9.5** | **509.9** |
| Loss ratio – current year | 85.3% | 58.7% | 62.5% | 74.1% | **71.3%** |
| Loss ratio – prior year | (20.2%) | (4.8%) | (2.4%) | (11.8%) | **(10.4%)** |
| Commission ratio | 2.5% | 19.6% | 7.5% | 21.2% | **10.6%** |
| Expense ratio | 25.6% | 20.3% | 24.8% | 23.3% | **23.7%** |
| **Combined operating ratio** | **93.2%** | **93.8%** | **92.4%** | **106.8%** | **95.2%** |



Direct Line Group

# Balance sheet overview

| (£m) | 30June 2016 | 31 Dec 2015 |
|---|---|---|
| **Assets** | | |
| Goodwill and other intangible assets | 541.4 | 524.8 |
| Financial investments | 5,515.7 | 5,614.6 |
| Cash and cash equivalents | 1,055.1 | 963.7 |
| Assets held for sale | 9.6 | 5.1 |
| Other assets | 2,990.3 | 2,848.4 |
| **Total assets** | **10,112.1** | **9,956.6** |
| **Liabilities** | | |
| Subordinated liabilities | 551.2 | 521.1 |
| Insurance liabilities and unearned premium reserve | 5,759.8 | 6,001.1 |
| Borrowings | 65.4 | 61.3 |
| Other liabilities | 1,066.9 | 743.1 |
| **Total liabilities** | **7,443.3** | **7,326.6** |
| **Equity** | **2,668.8** | **2,630.0** |
| Net asset value per share (pence)[1] | **195.1** | **192.2** |
| Net tangible asset value per share (pence)[2] | **155.5** | **153.8** |

1. *Net assets divided by closing number of ordinary shares 1,375million*
2. *Tangible net assets divided by closing number of ordinary shares 1,375million*

# Glossary of terms

| Term | Definition |
|---|---|
| Ongoing operations | Ongoing operations comprise Direct Line Group's (the "Group") 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 |
| Combined operating ratio ('COR') | The sum of the loss, commission and expense ratios. The ratio measures the amount of claims costs, commission and expenses compared to net earned premium generated. A ratio of less than 100% indicates profitable underwriting |
| Total costs | Operating expenses and claims handling expenses |
| Return on tangible equity ('RoTE') | Annualised adjusted profit after tax from ongoing operations divided by the Group's average shareholders' equity, less goodwill and other intangible assets. Profit after tax is adjusted to exclude discontinued operations, the Run-off segment and restructuring and other one-off costs. It is stated after charging tax (using the UK standard tax rate). |
| Risk and business mix | Risk and business mix measures the premium impact of channel, tenure and underlying risk mix. It reflects the risk models used in the period, the outputs of which are revised when models are updated |
| Profit from discontinued operations net of tax | In 2015, the Group completed the sale of its International division |
| Adjusted diluted earnings per share | 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 20.0%; 2015 20.25%) |
| Current year attritional loss ratio | The loss ratio for the current accident year, excluding movement of claims reserves relating to previous accident years and claims costs relating to weather events in the Home division. Includes International for 2012 |

# Investor relations contacts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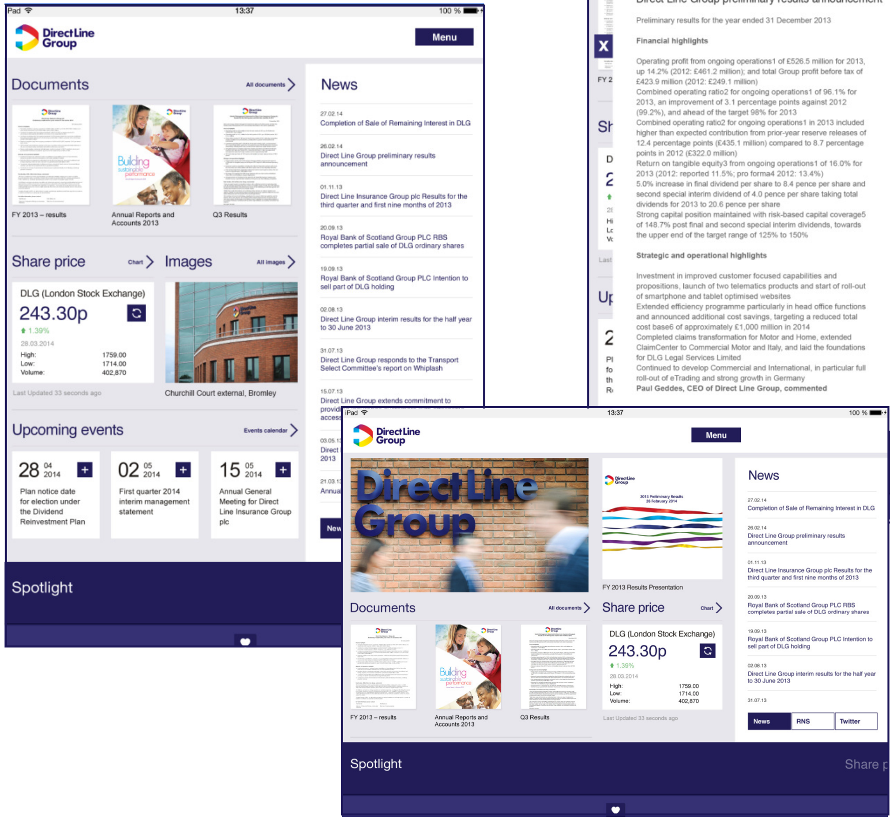
## Investor relations app







Direct Line Group

# General disclaimer

**Forward-looking statements**

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

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