2017 Preliminary Results

27 February 2018

Investing for the future

Direct Line Group

General disclaimer

Forward-looking statements

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Today’s agenda

1. 2017 Highlights
2. Financial results
3. Strategic update
4. Appendix

1. 2017 Highlights

Paul Geddes

Delivered profitable growth in 2017

- Premium growth of 3.6%; direct own brands[1] grew 9.3% due to strong Direct Line momentum
- Reduction in underlying expense ratio and commission ratio
- Operating profit from Ongoing operations[1] of £611m (2016: £404m), combined operating ratio of 91.8% (2016: 97.7%) and RoTE[1] of 21.7% (2016: 14.2%)
- Proposed final dividend of 13.6 pence, and special dividend of 15.0 pence, taking total dividends for 2017 to 35.4 pence
- Strong balance sheet and capital; 162% Solvency capital ratio post dividends

Making insurance much easier and better value for our customers

1. See glossary for definitions

2. Financial results

John Reizenstein

Strong results in competitive markets

1. Gross written premium growth of 3.6%
2. Ongoing operating profit[1] increased to £610.9m
3. Profit before tax includes higher run-off profit and one-off charge relating to debt refinancing action
4. COR of 91.8% is 5.9ppts better than 2016 reported.
   - COR normalised for major weather was towards the lower end of the 93%-95% target
5. RoTE of 21.7%, ahead of the long-term baseline of 15%
6. Significant increase in operating profit in Motor and Commercial largely due to Ogden, partially offset by a reduction in Home

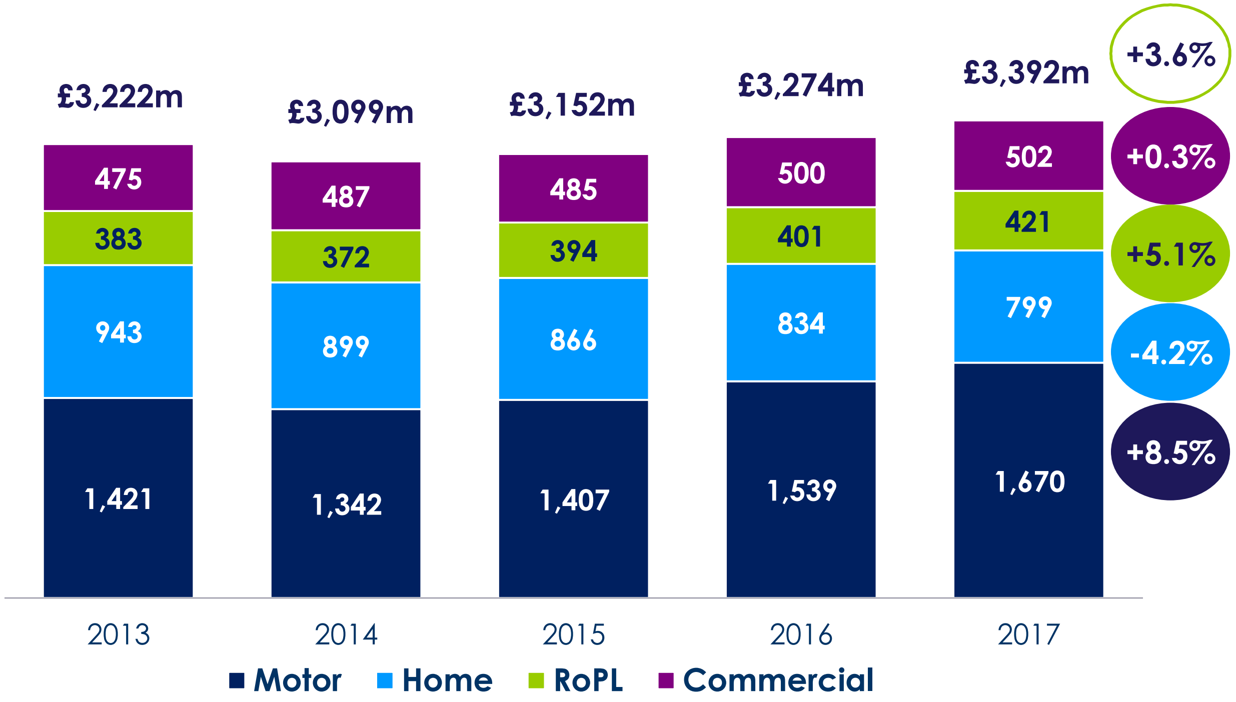
(£m)		2017	2016
Gross written premium	1	3,392.1	3,274.1
Underwriting profit		256.9	70.1
Instalment and other income		179.3	165.3
Investment return		174.7	168.1
Operating profit – Ongoing operations	2	**610.9**	**403.5**
Profit before tax	3	539.0	353.0
Profit after tax		434.0	278.8
Of which Ongoing operations[1]		*462.9*	*293.0*
Combined operating ratio	4	**91.8%**	**97.7%**
RoTE	5	**21.7%**	**14.2%**

Segmental operating profit (£m)	6	**2017**	**2016**
Motor		364.5	149.1
Home		128.8	166.7
Rescue and other personal lines		43.6	45.9
Commercial		74.0	41.8

1. See glossary for definitions

Group: Direct own brands[1] driving premium growth

Gross written premium[2], £m



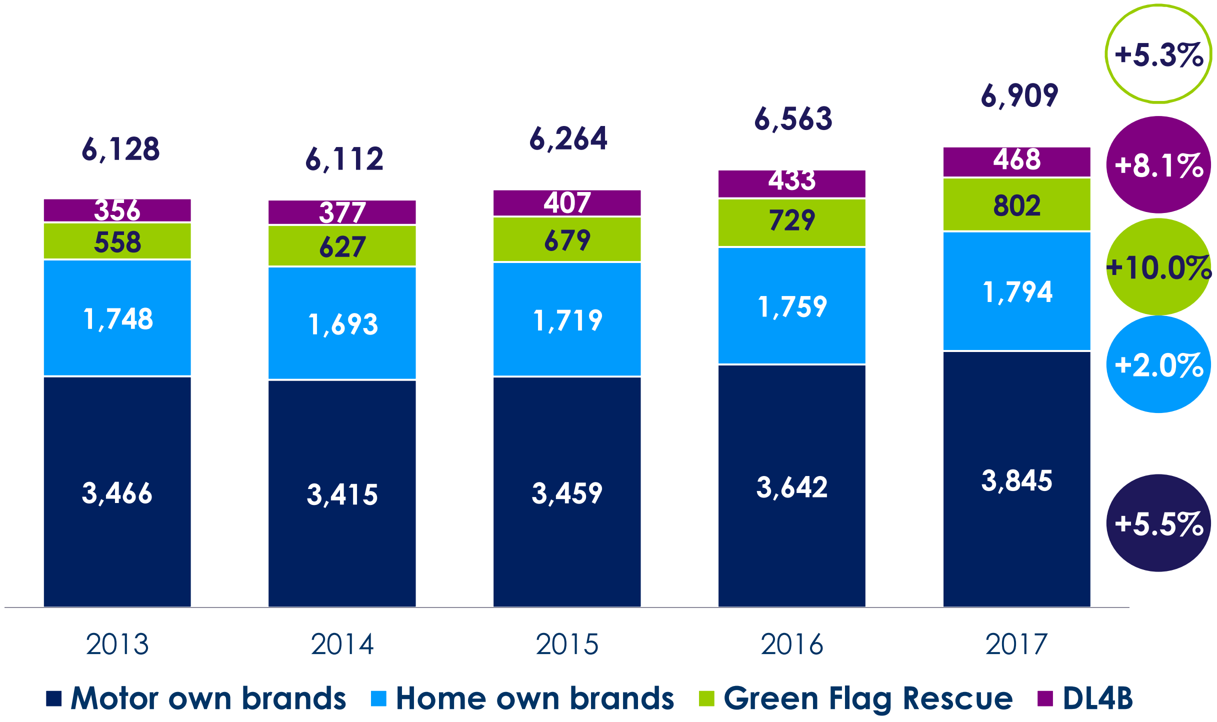
Direct own brands premium growth	2017 vs 2016
Motor	+11.4%
Home	+1.2%
Green Flag	+11.5%
Direct Line for Business (DL4B)	+11.9%
Total	**+9.3%**

- **Gross written premium growth of 3.6%**
- **Direct Line brand driving growth across Personal and Commercial Lines products**
- **Another strong year for Green Flag in Rescue**
- **Home partnership volumes reducing although positive signs with new digital distribution**

1. See glossary for definitions
2. International has been excluded

Direct own brands policy growth continued

Direct own brand IFPs[1,2], 000's

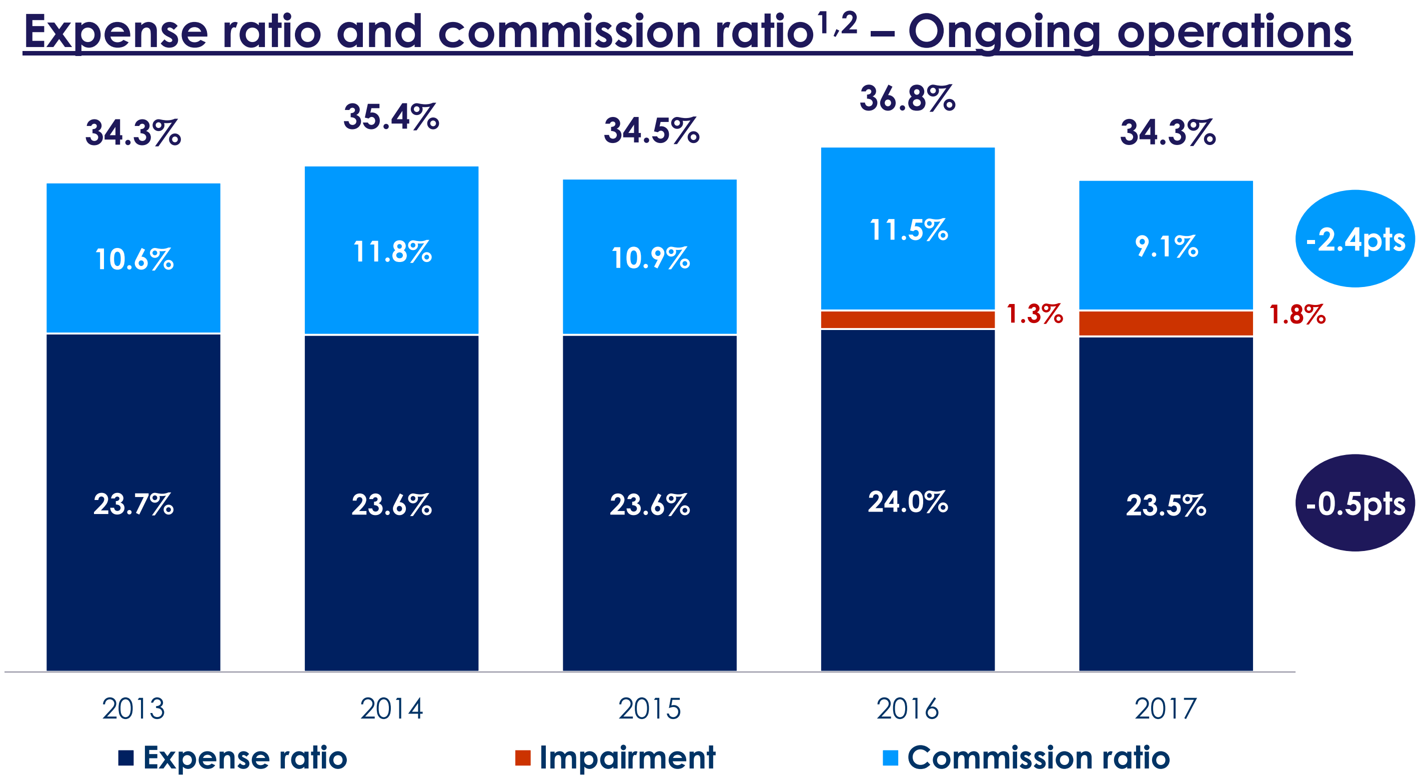


Group IFPs	2017 vs 2016
Direct own brands	**+5.3%**
Motor and Home Partners	-12.0%
Other personal lines	-2.0%
NIG	-0.8%
Total Group	**-0.6%**

- **Direct own brand IFPs grew 5.3% supported by growth across all product lines**
- **NIG policy count broadly flat reflecting focus on value**
- **Reduction in Motor and Home partner volumes**
- **Other personal lines down 2%; growth in Rescue linked was offset by Rescue partners and Travel**

1. See glossary for definitions
2. International has been excluded

Cost discipline opened operating jaws

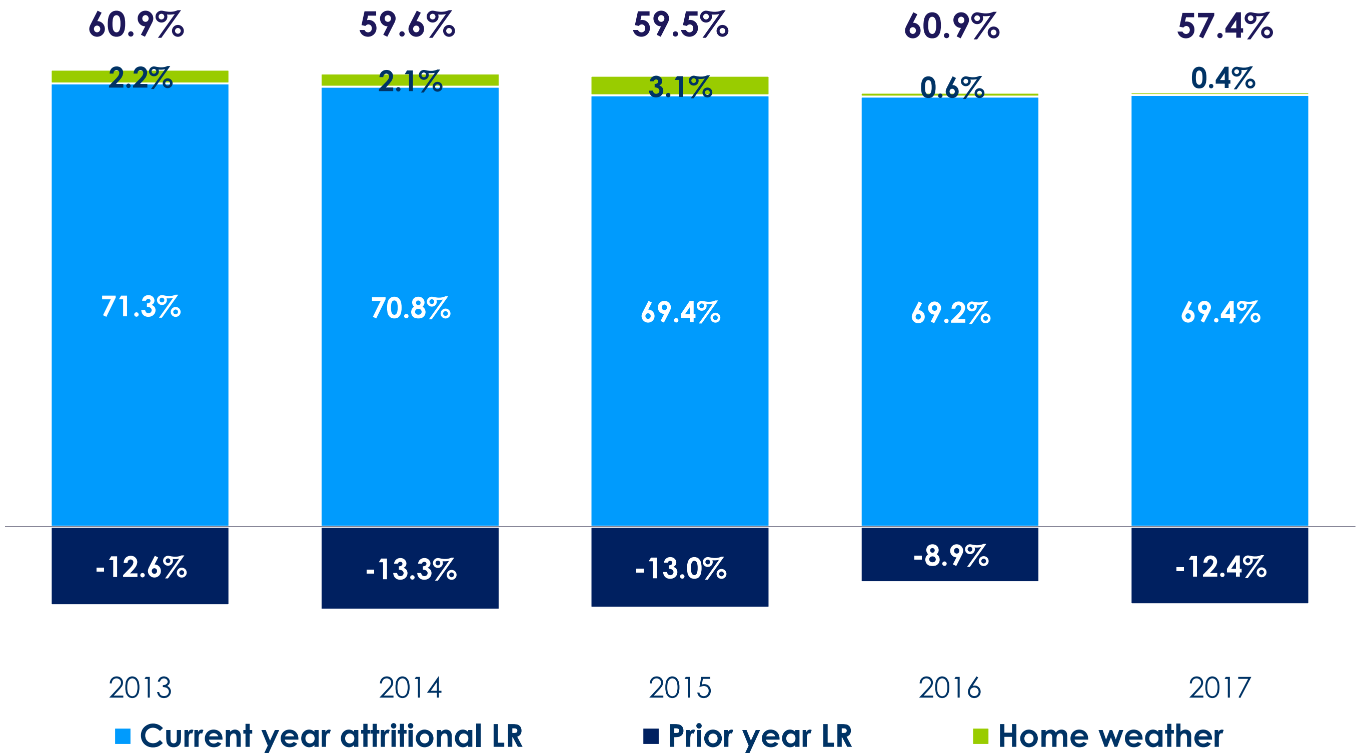


- Headline operating expense ratio in line with prior year; excluding impairment, expense ratio was 0.5 points better
- Intangible assets impairment of £56.9m in 2017 (2016: £39.3m)
- Commission ratio 2.4 points lower than 2016 reflecting mix towards direct and lower profit commissions to partners

1. See glossary for definitions
2. International has been excluded

Steady attritional[1] loss ratio

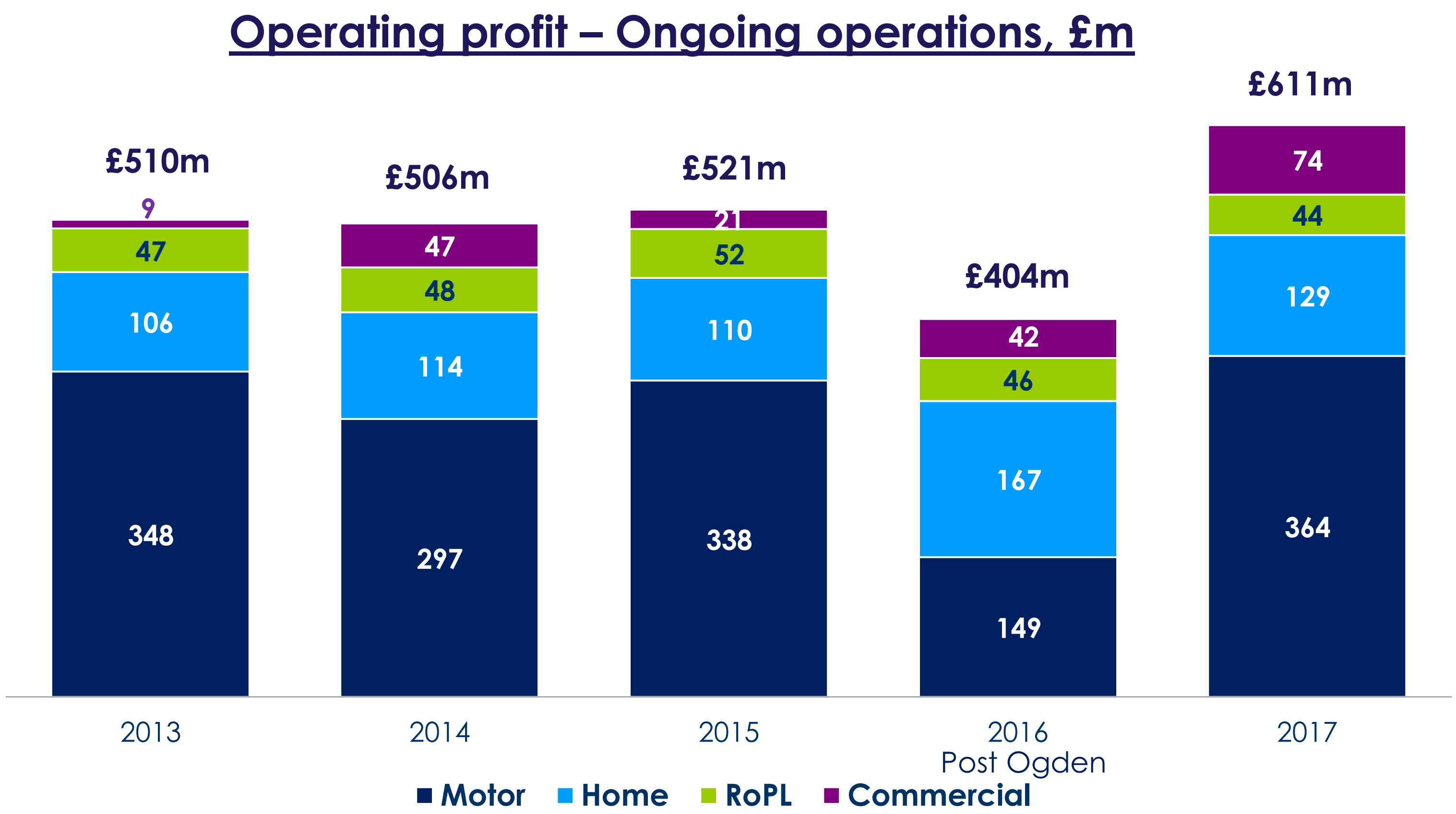
Loss ratio[2] - Ongoing operations



- **Current year attritional loss ratio[1] stable principally due to significant improvement in Motor**
- **Prior year reserve releases remained significant at 12.4% of earned premium**
- **Benign weather again; £13m in 2017 (2016: £18m)**

1. See glossary for definitions
2. International has been excluded

Highest Ongoing operating profit[1,2] as a listed company



- Diversification benefit: Non-Motor business operating profit £247m
- Commercial: a significant contributor
- Rescue: solid performer, with strong potential

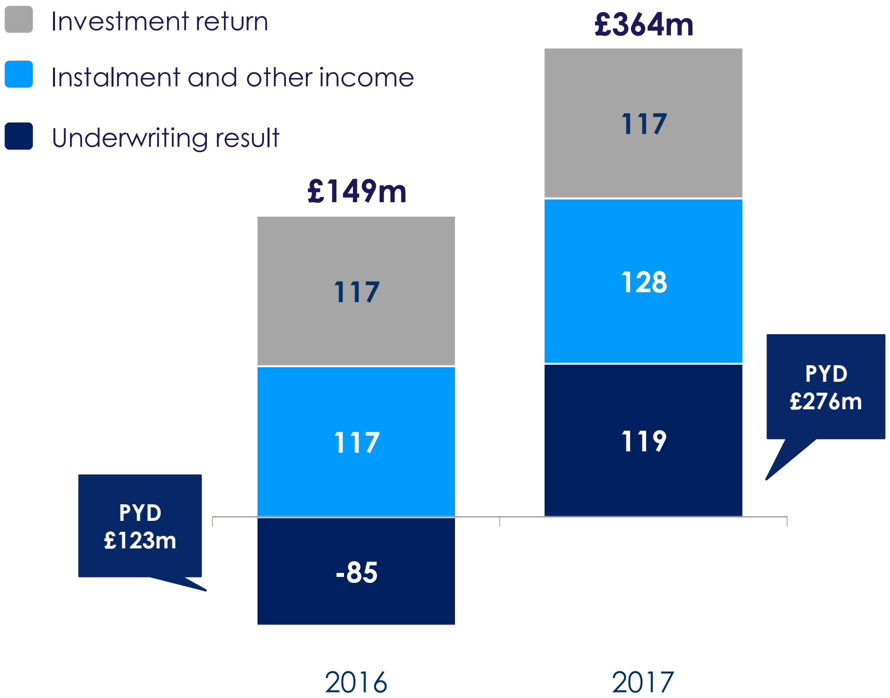
1. See glossary for definitions
2. International has been excluded

Motor trading: Growth and discipline

Premiums

Total book	2017
Change in price[1]	**+9.5%**
Change in risk mix[2]	-3.2%
Change in GWP	+8.5%
Change in IFPs	**+3.8%**

Operating profit



Observations

- Strong pricing
- Reduction in risk mix reflects Ogden deployment
- Growth in policy count and premiums

- Higher prior year reserve releases due to impact of Ogden change on 2016 results
- Material improvement in current year loss ratio
  - Fixed reinsurance costs prior to Ogden
  - Claims experience below long-term trends
- Continue to expect claims inflation of 3%-5% over long-term
- Intangible asset impairment £18m higher in 2017
- Successful Excess of Loss Reinsurance renewal; cover maintained to £1m[3]

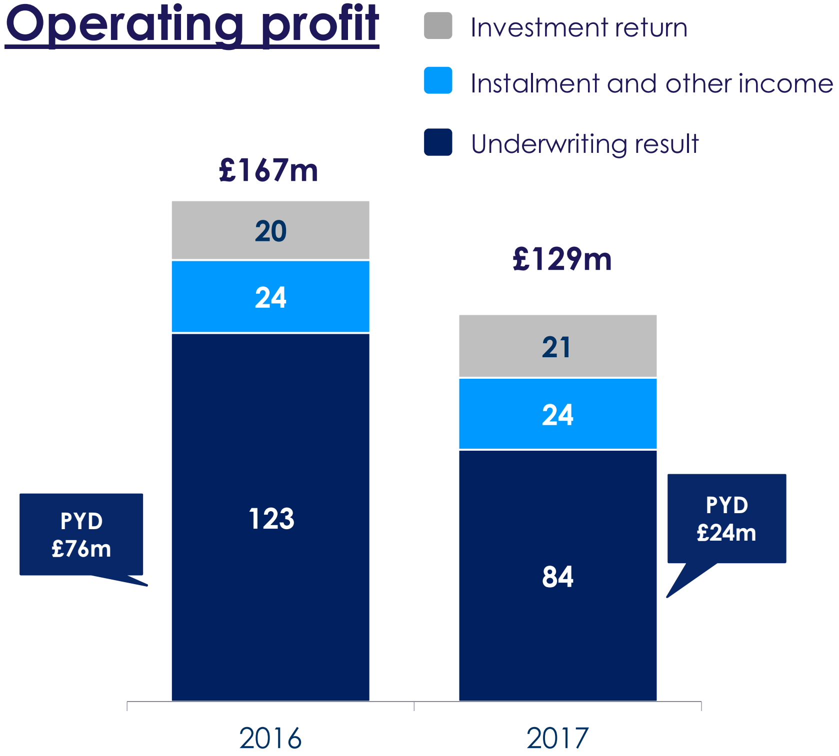
1. Change in price excludes IPT
2. Risk mix measures the estimated movement based on risk models used in that period
3. Details of the Group's Reinsurance programmes can be found in the appendix

Home trading: Good progress, benign weather

Premiums

Own brands only	2017
Change in price[1]	**+2.6%**
Change in risk mix[2]	-3.9%
Change in GWP	+1.2%
Change in IFPs	**+2.0%**

Operating profit



Observations

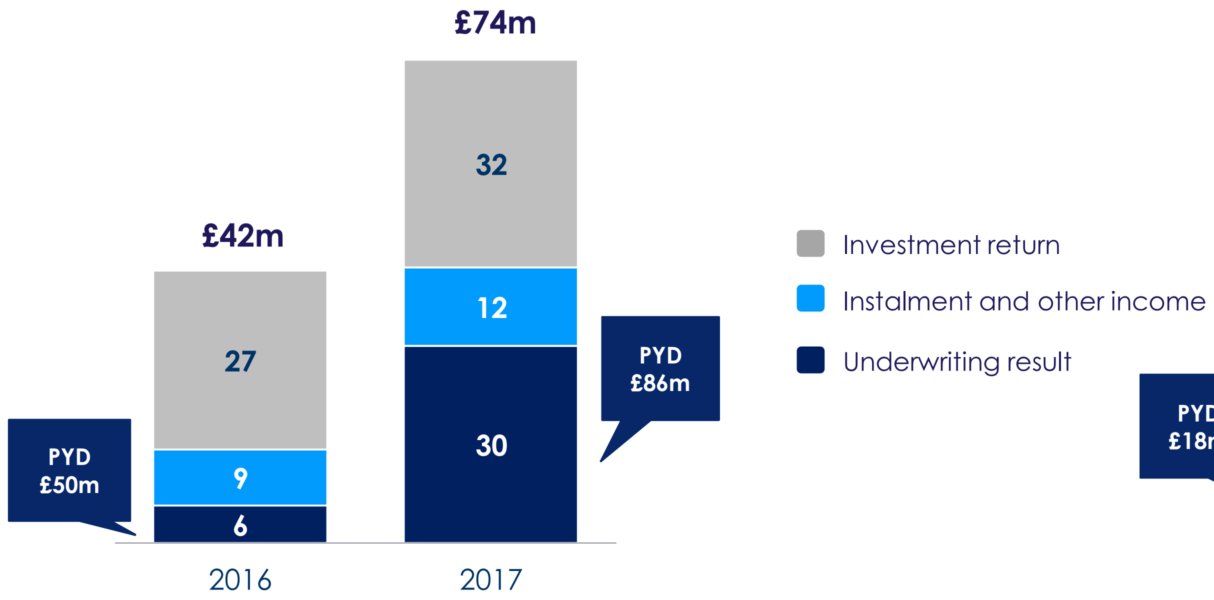
- **Early action on Escape of Water partially through price action**
- **1.4% reduction in average premiums reflects channel mix; higher proportion of PCW sales**
- **Strong new business sales, particularly through PCWs reflected in policy count and premium growth**

- **Reduction in operating profit reflects lower prior year releases and higher claims inflation**
- **2016 benefitted from prior year releases from 2015 storms**
- **Benign weather in both years**

1. Change in price excludes IPT
2. Risk mix measure the estimated movement based on risk models used in that period

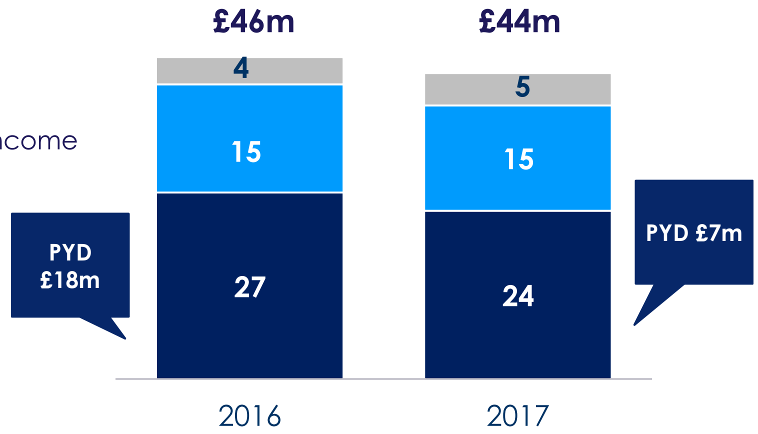
Commercial and RoPL: Strong Commercial result

Commercial



- Strong prior year releases reflecting prudent reserving
- Focus on value; positive rating action taken
- Excluding impact from Ogden in 2016, and normalised for weather and large losses, COR[1] was broadly flat

Rescue and other Personal Lines

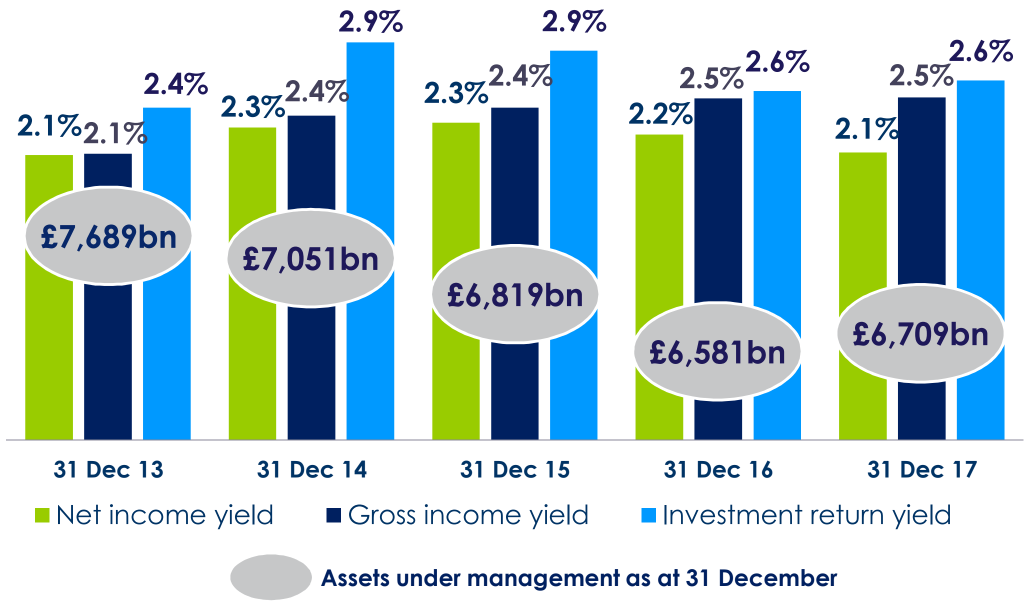


- Result broadly flat
- Rescue slightly up offset by Other Personal lines profit slightly down

1. See glossary for definitions

Group: Strong gains, low interest rate environment

Group investment yields[1,2]



Group investment returns, £m	2015	2016	2017
Investment income	**169.1**	**167.9**	**167.1**
Hedging to sterling floating rate	(7.6)	(17.1)	**(27.0)**
Net investment income	**161.5**	**150.8**	**140.1**
Net realised and unrealised gains excluding hedging	36.6	20.7	**35.3**
Of which property gains	*24.2*	*5.4*	***21.6***
Total investment return	**198.1**	**171.5**	**175.4**

- **Total investment return increased to £175.4m**
- **Investment income yield in line with prior year, net investment income yield lower at 2.1% after hedging to sterling floating rate**
- **Strong gains, particularly on property**

2018 Outlook

- **Expect net investment income yield to be around 2.1%**
- **Expect Group investment return in the region of £150m**

1. See glossary for definitions
2. International has been excluded

Group: Profit after tax up 55%

1. Run-off profit driven by positive prior year development
2. Lower Restructuring and other one–off costs following site exit in 2016
3. Increase in finance costs due to partial repurchase of Tier 2 notes
4. Profit after tax increased to £434m

<u>Outlook</u>

- Run-off and restructuring will be included in operating profit from 2018
- Tier 2 coupon payments expected to reduce by around half; RT1 debt coupon will be reflected in changes in equity, not P&L

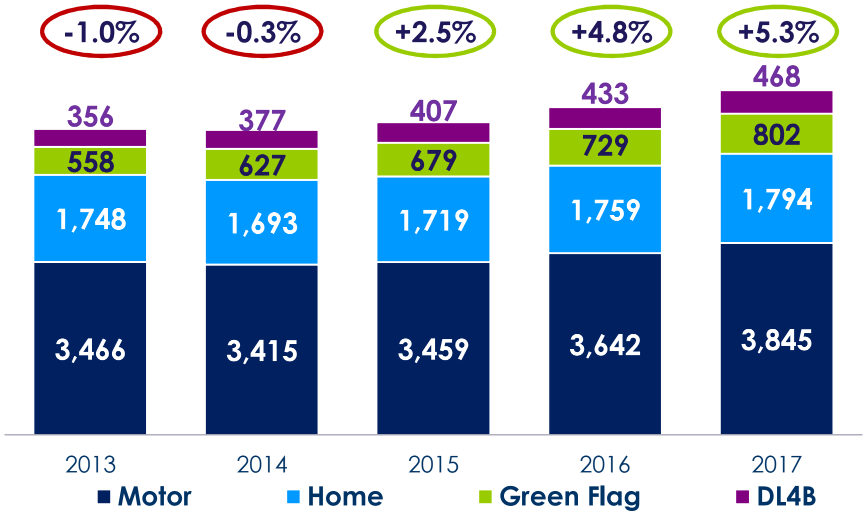
(£m)	2017	2016
Operating profit – Ongoing operations	**610.9**	**403.5**
Run-off (1)	43.8	26.6
Restructuring and other one-off costs (2)	(11.9)	(39.9)
Operating profit	**642.8**	**390.2**
Finance costs (3)	(103.8)	(37.2)
Profit before tax	**539.0**	**353.0**
Tax	(105.0)	(74.2)
Profit after tax (4)	**434.0**	**278.8**
Of which Ongoing operations	***462.9***	***293.0***

EPS – basic (pence)	31.5	20.2
EPS – adjusted diluted (pence)	**33.6**	**21.2**

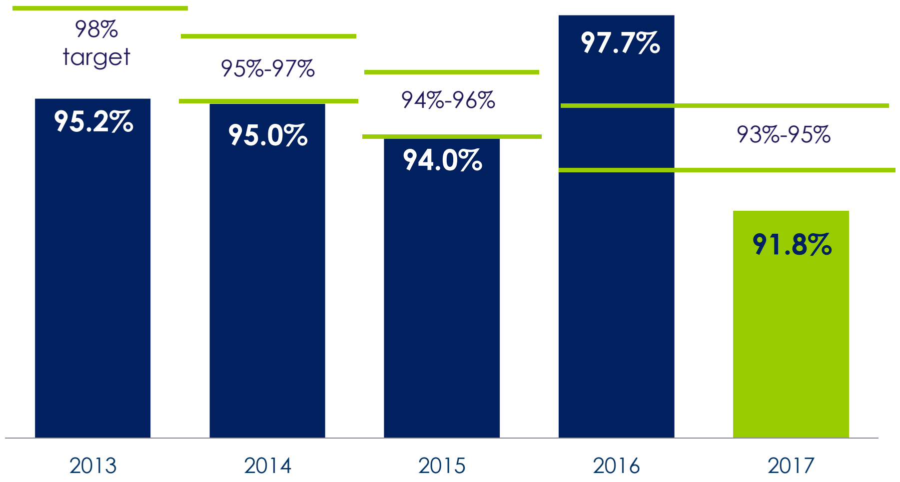
Direct Line Group

Five years performance on a page

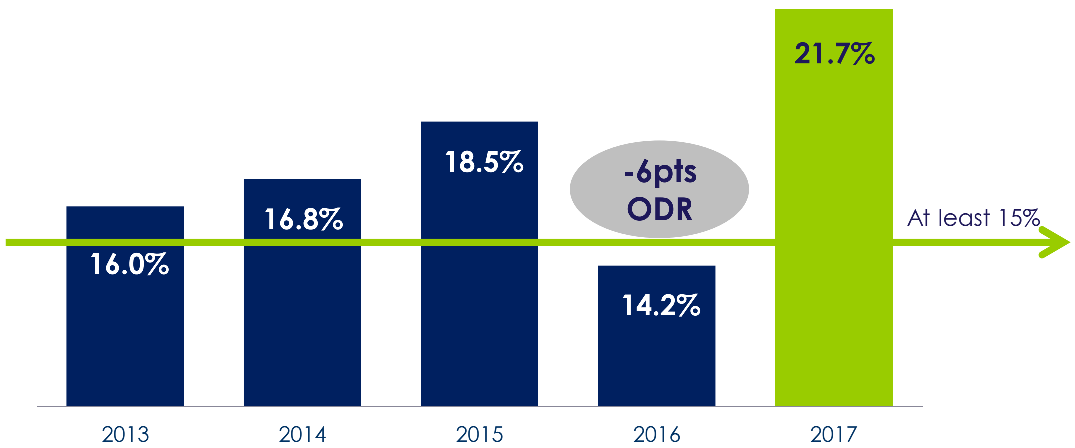
Direct Own brand IFPs[1,2], 000s



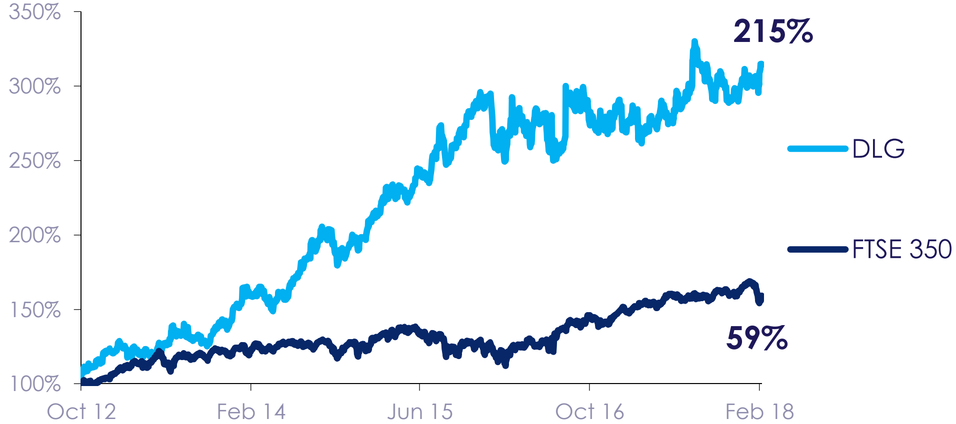
Combined operating ratio[1,2]



Return on tangible equity[1]



Total Shareholder Return since IPO[3]



1. See glossary for definitions
2. International has been excluded
3. TSR sourced from Bloomberg as at 16 February 2018

Introducing Penny James

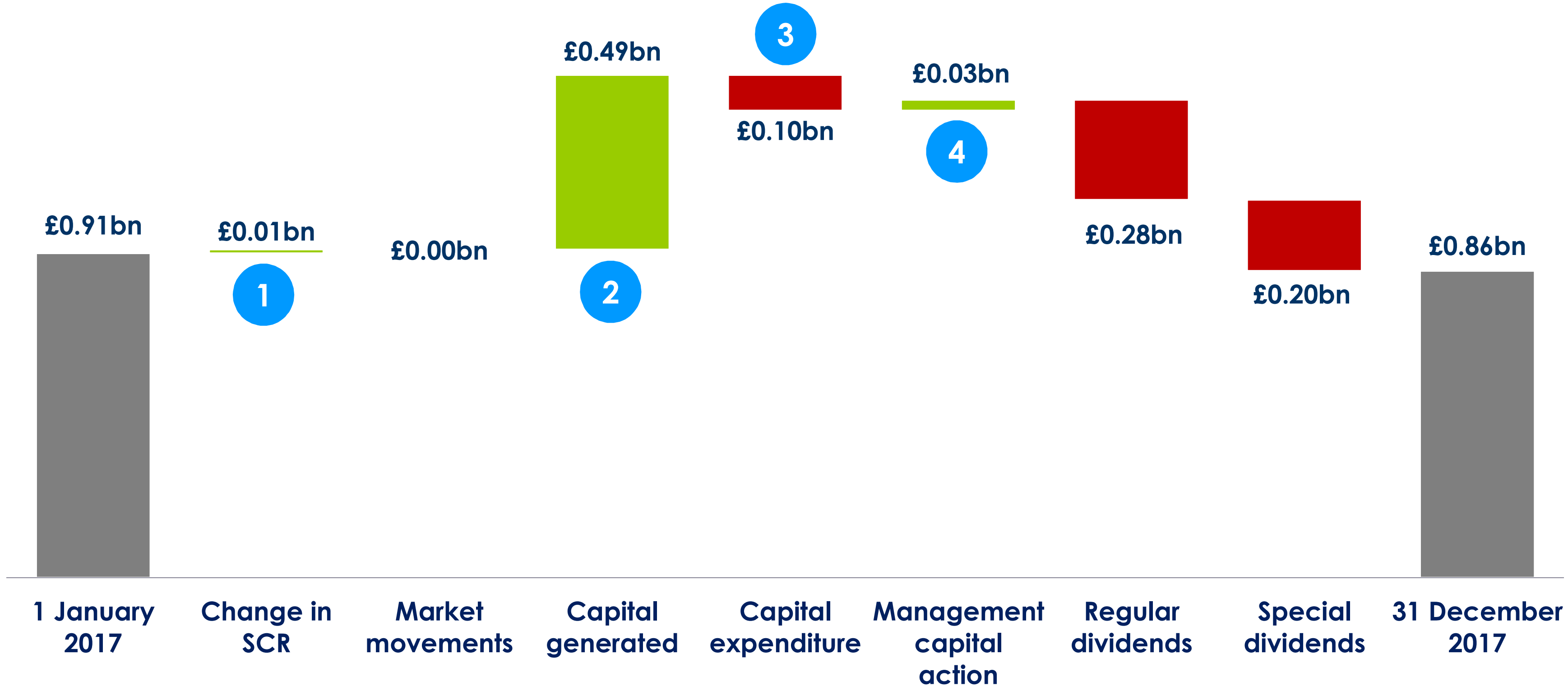
Penny James joined the Board as an Executive Director in November 2017 and is Chief Financial Officer from 1 March 2018

Penny brings extensive financial services experience including:

- Group Chief Risk Officer and Executive Director at Prudential plc
- Non-Executive Director of Admiral Group plc from January 2015 to September 2017
- Director of Group Finance at Prudential plc
- Group Chief Financial Officer at Omega Insurance Holdings Limited
- CFO, UK General Insurance, at Zurich Financial Services.

Capital: Strong surplus generation

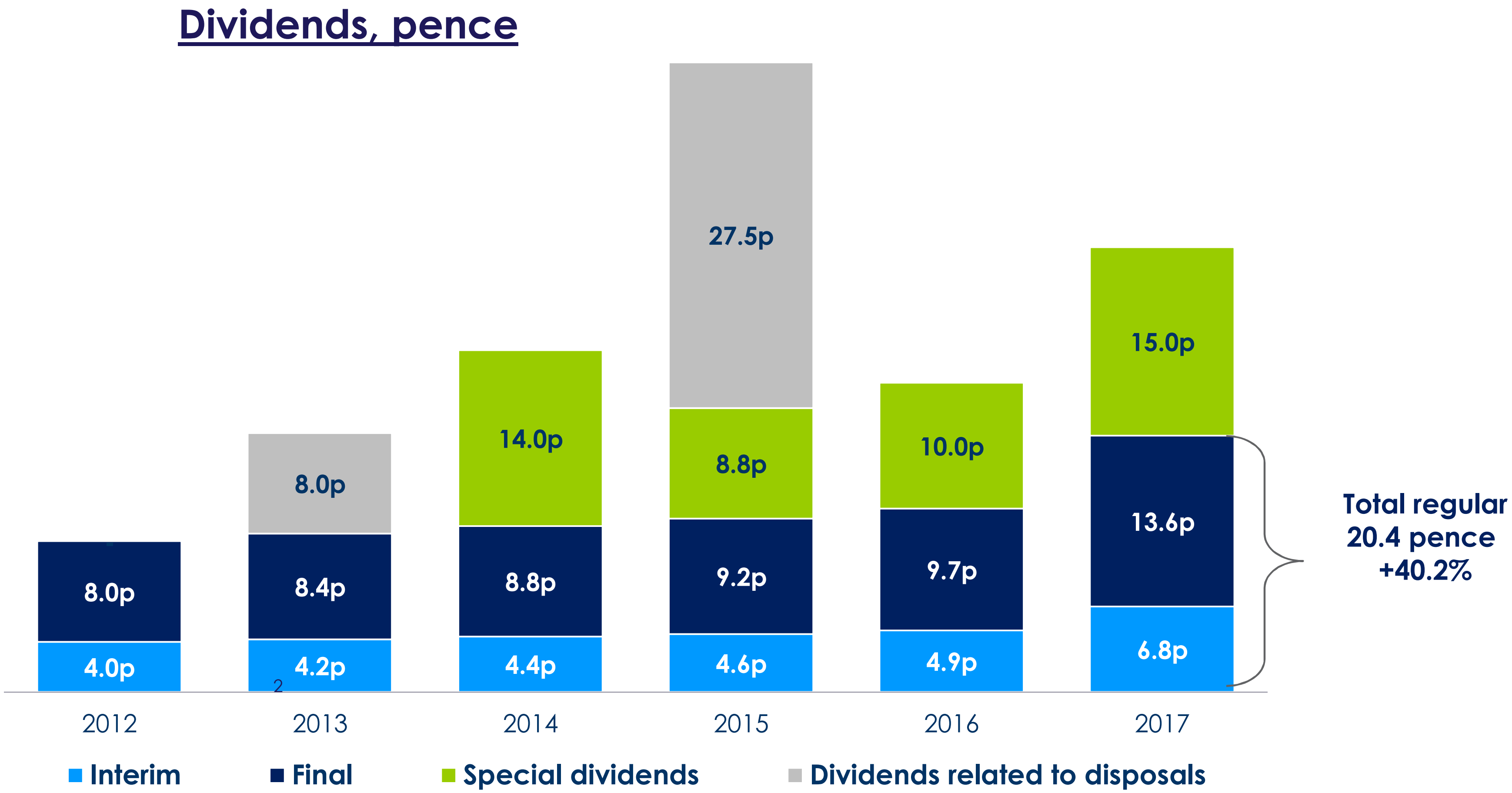
Movement in capital surplus, £bn



1. Reduction in capital requirement reflects continued lower net claims reserves
2. Strong capital generation of £0.49bn in 2017
3. Capital expenditure reflects ongoing investment in the business
4. Management capital action: partial refinancing of Tier 2 debt with Restricted Tier 1

1. See glossary for definitions
2. Figures are estimated and based on partial internal model (PIM) output for 31 December 2017

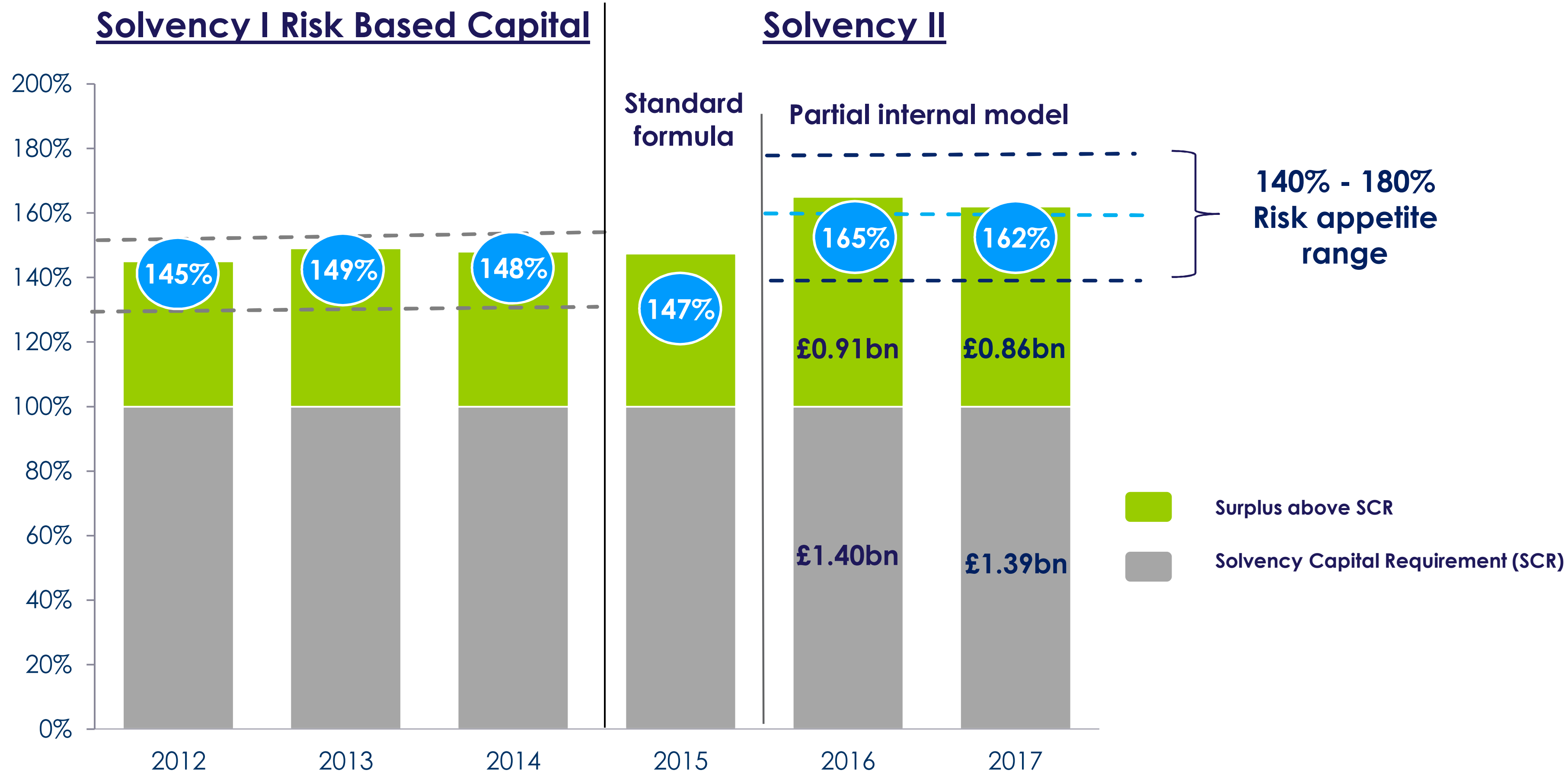
Dividends: Regular rebased and 15.0 pence special



- **Rebased the regular dividend in 2017; 40.2% increase to 20.4 pence**
- **Special dividend of 15.0 pence reflects strong capital generation in 2017**

1. See glossary for definitions
2. 2012 Pro-forma dividends

Capital: strong solvency; 162% coverage[1,2] after dividends



- **Capital coverage of 162% post dividends, around the middle of the risk appetite range**
- **Reduction in the SCR in 2017 reflects reduction in net liabilities over time**

1. See glossary for definitions
2. 2017 figures are estimated and based on partial internal model (PIM) output for 31 December 2017

Strong momentum and well positioned going forwards

Momentum + **Opportunity** → **Medium term targets**

- ✓ Growth momentum across own brands
- ✓ Continued efficiency improvements
- ✓ Strong underwriting performance
- ✓ Strong balance sheet

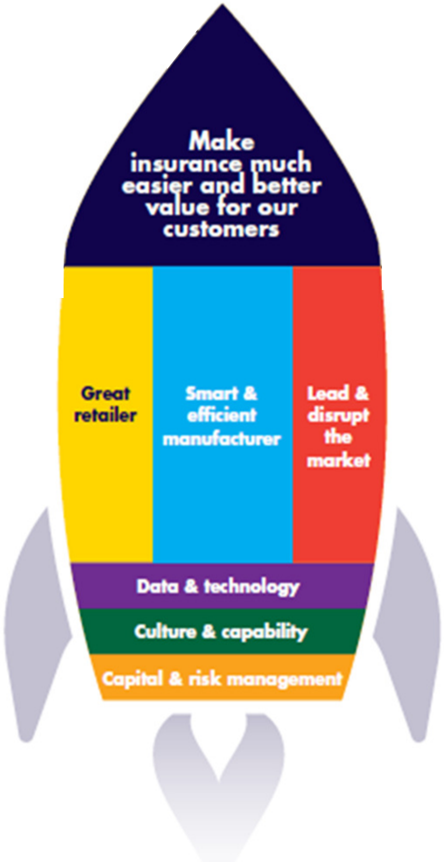
Strong pipeline of initiatives

1. **Costs:** Reduce expense and commission ratios
2. **Combined ratio:** 93%-95%
3. **Regular dividend:** grow in line with business growth
4. **Capital:** target the middle of the 140%-180% Solvency II target range[1]

Long term ambition: sustainable growth and at least 15% RoTE

1. In normal circumstances, and in the absence of any material threat or opportunity

3. Strategic update
Paul Geddes



We delivered against our priorities in 2017…

Maintain revenue growth	Reduce expense and commission ratios	Deliver underwriting and pricing excellence
Direct Own brands: +5.3% IFP growth +9.3% GWP growth	Underlying expense ratio: -0.5pts Commission ratio: -2.4pts	Current year attritional loss ratio maintained: 69.4%

Grow current year contribution and maintain COR[1] 93%-95%

1. The Group targets achieving a 93% to 95% COR assuming a normal annual level of claims from major weather events and no further change to the Ogden discount rate

…and see further opportunity across <u>all</u> our channels

2010 2012 2014 2017 Medium term

Direct	Distribution	Profitable but declining	Re-booted Direct Line into growth	Fuel customer advantages and leverage Group efficiencies
PCWs	Pricing Claims	Optimised offer to win on PCWs	Stable and profitable PCW business	Build best in class technical capabilities
Partners	Cost	Focus on own brands	Re-tooled capabilities	Leverage digital capabilities

DATA AND TECHNOLOGY

Supporting channel strategies and improving efficiency

Direct: Fuel advantages and leverage Group efficiencies

Current status

- Growing
- Significant opportunity in micro/SME and Rescue

Objectives

Fuel brand/customer advantages to maintain growth

Leverage improving efficiencies of Group

Initiatives

Direct Line: More propositions

DL4B: Roll-out bespoke to 75% of chosen trades

Green Flag: New team, new plan

Customer self service

Process automation and straight through processing

PCW: Build best in class technical capabilities

Current status

- Leading brands
- Competent pricing and fraud
- Competitive, steady share at adequate margins

Objectives

Invest to get best in class capabilities then grow

Initiatives

- Latest generation pricing engine
- Application fraud initiatives
- Alternative pricing
- Steady footprint expansion
- Maintain Churchill brand

Partnerships: Leverage our digital capabilities

	Current status	Objectives	Initiatives
Home	✓ Extended RBS and built digital customer journey	Grow existing and selectively acquire	Build on strong digital capability
Rescue and Travel	✓ Extended Nationwide Travel and RBS Rescue	Secure more volume and contribution	Develop a new Travel system
Motor	✓ Strategic partnership with PSA ✓ Introducer relationship with Tesla	Partner of choice for motor manufacturers	PSA Group partnership extended to 2021 Letter of intent with Volkswagen[1]

1. The Group has signed a letter of intent with Volkswagen Insurance Services (Great Britain) Limited for a 5 year agreement

Data & Technology: Supporting our channels at a lower cost

Current status

- ✓ Resilience & stability
- ✓ Digital / mobile front end
- ✓ Claims system
- = Self service
- X Legacy systems

Objectives

Leading pricing and fraud capabilities

Product agility / flexibility

Self-service, automation and straight through

New partners

Lower run costs to support expense ratio improvement

Investment

Complete building the latest generation of systems

New IT model:

New procurement capability
Rent vs. buy
Increase use of cloud
Reduce then decommission mainfame
Use of DevOps

DATA AND TECHNOLOGY

Supporting channel strategies and improving efficiency

Latest generation systems: Best of breed approach

Core Personal Lines

Current deployment:
- Good digital front-end
- Guidewire ClaimCenter mature

In development:
- Completion of full Guidewire InsuranceSuite with Towers Watson Radar Live and supporting systems and infrastructure

Status:
- New data architecture agreed (impairment taken), partnering with systems integrator

Timeline:
2018 Initial build/test
2019 begin roll-out

SME / micro

Status:
- Leading new SME / micro launched in 2017

Timeline:
roll out to 75% of chosen trades by end 2018

Other Personal Lines

Status:
- New Travel system

Timeline:
Aim to roll-out in 2018

Summary: Strong delivery, investing for the future

- ✓ Successfully delivered against management priorities
- ✓ Strong and highly cash generative earnings
- ✓ Investing for the long-term
- ✓ Delivered total dividends of 35.4p for 2017

Making insurance much easier and better value for our customers

Direct Line Group

Q&A

4. Appendix

Motor

(£m unless stated)	2017	2016
In-force policies (000s)	**4,019**	**3,873**
Own brand in-force policies (000s)	3,845	3,642
Partnerships in-force policies (000s)	174	231
Gross written premium	1,670.4	1,539.1
Net earned premium	1,470.6	1,337.1
Loss ratio – current year[1] 2	79.7%	84.1%
Loss ratio – prior years	(18.8%)	(9.2%)
Loss ratio	60.9%	74.9%
Commission ratio	2.5%	3.2%
Expense ratio 3	28.5%	28.2%
Combined operating ratio	**91.9%**	**106.3%**
Underwriting profit / (loss)	119.0	(84.8)
Of which prior year releases 4	*275.5*	1 *123.5*
Instalment and other income 5	128.3	117.0
Investment return	117.2	116.9
Operating profit	**364.5**	**149.1**

Results include

1. **£150.3m charge relating to the change to Ogden Discount Rate (ODR) in 2016**
2. **Current year loss ratio improvement reflects one-off reinsurance benefit, strong new business pricing and lower than expected claims inflation**
3. **Intangible asset impairment of £56.9m (2016: £39.3m)**
4. **£49m prior year release in 2017 from review of ODR claims reserves**
5. **One-off benefit in H1 2017, H2 2017 is a more reasonable run-rate**

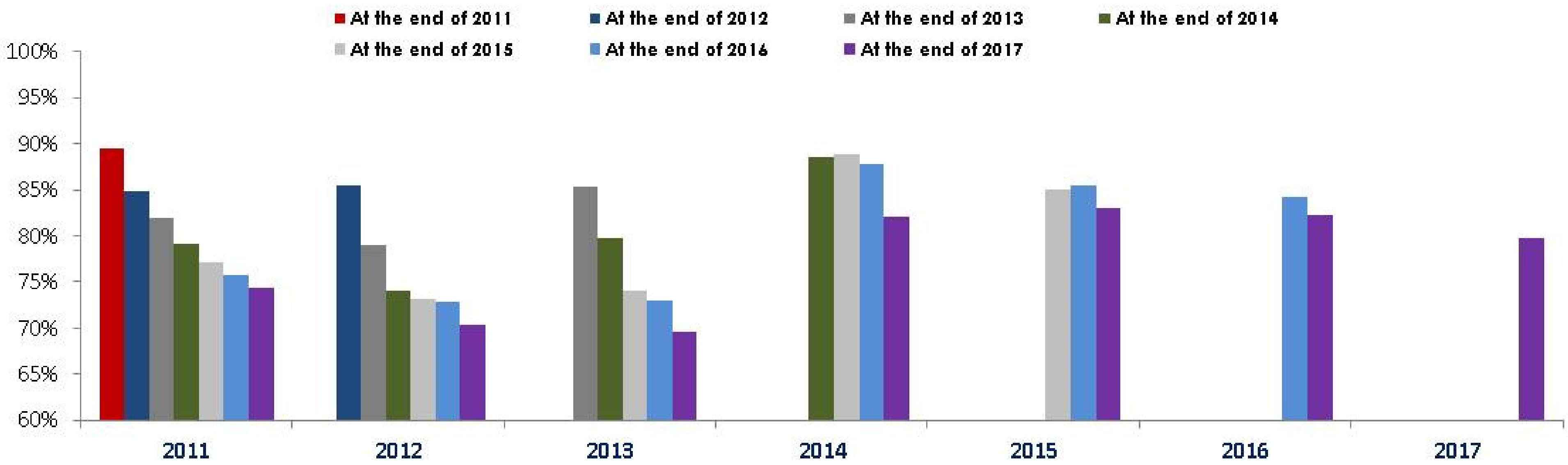
2018 Outlook

- **Excess of loss reinsurance renewed at higher cost reflecting Ogden discount rate**
- **Long term view of claims inflation: 3%-5%**

1. See glossary for definitions

Motor reserving

Motor booked loss ratio development (net[1,2]):



1. Group view based on management best estimate, net of reinsurance, including claims handling costs, add-ons and all other non-core elements. Note, prior accident year claims handling expense allocation has been updated since 2016, to fully align to the Annual Report & Accounts
2. The deterioration in accident years 2014 and 2015 is due to allocation of margin between current and prior year

Home

(£m unless stated)	2017	2016
In-force policies (000s)	**3,248**	**3,378**
Own brand in-force policies (000s)	1,794	1,759
Partnerships in-force policies (000s)	1,454	1,619
Gross written premium	799.1	834.4
Net earned premium	790.5	816.3
Loss ratio – current year attritional[1] 1	52.0%	47.8%
Major weather 2	1.6%	2.2%
Loss ratio – current year incl. weather	53.6%	50.0%
Loss ratio – prior years	(3.0%)	(9.3%)
Loss ratio	50.6%	40.7%
Commission ratio 3	17.7%	22.6%
Expense ratio	21.1%	21.7%
Combined operating ratio	**89.4%**	**85.0%**
Underwriting profit / (loss)	83.7	122.5
Of which prior year releases	*23.7*	4 *75.9*
Instalment and other income	24.0	24.3
Investment return	21.1	19.9
Operating profit	**128.8**	**166.7**

Results include

1. Current year impacted by Escape of Water inflation

2. Impact of major weather £13m in 2017 versus budget of £65m (2016: £18m)

3. Commission ratio reflects impact of, business mix, lower prior year, Escape of Water inflation and changes to partners arrangements

4. Includes c. £35m of prior year release from December 2015 storms

2018 Outlook

- Nationwide exit expected to increase loss ratio and significantly reduce commission ratio
- Normal weather assumed to be £55m

1. See glossary for definitions

Rescue and other personal lines

Rescue	2017	2016
In-force policies (000s)	**3,591**	**3,646**
Gross written premium	161.3	163.1
Combined operating ratio[1]	**82.8%**	**83.4%**
Operating profit	**43.5**	**42.8**

Rescue and other personal lines	2017	2016
In-force policies (000s)	**7,739**	**7,880**
Gross written premium	421.1	400.8
Net earned premium	417.6	394.4
Combined operating ratio	**94.3%**	**93.3%**
Underwriting profit / (loss)	24.0	26.6
Of which prior year releases	6.8	*17.5*
Operating profit	**43.6**	**45.9**

1. See glossary for definitions

Commercial

(£m unless stated)		2017	2016
In-force policies (000s)		**708**	**675**
Direct Line for Business(000s)		468	433
NIG and other (000s)		240	242
Gross written premium		501.5	499.8
Net earned premium		456.3	452.8
Loss ratio – current year[1]	2	68.8%	66.3%
Loss ratio – prior years		(18.9%)	(11.0%)
Loss ratio		49.9%	55.3%
Commission ratio		19.1%	19.5%
Expense ratio		24.4%	23.9%
Combined operating ratio	4	**93.4%**	**98.7%**
Underwriting profit / (loss)		30.2	1 5.8
Of which prior year releases	3	*86.3*	*49.8*
Instalment and other income		*12.0*	8.6
Investment return		31.8	27.4
Operating profit		**74.0**	**41.8**

Results include

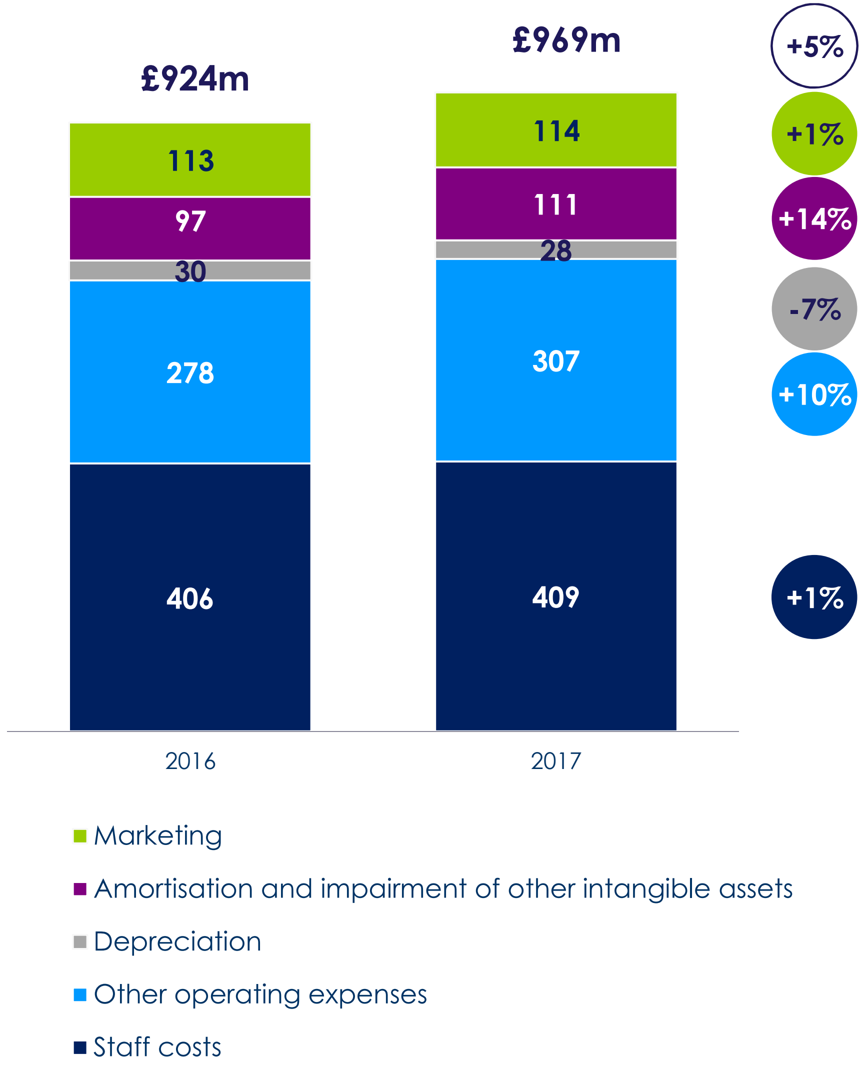
1. **£24.8m charge relating to the change to Ogden Discount Rate (ODR) in 2016**
2. **Current year loss ratio reflects prudent reserving**
3. **Higher prior year releases reflecting continuing favourable development of liability classes**
4. **Adjusted for benign weather and large losses, Commercial COR was in line with 2016 prior to Ogden change**

2018 Outlook

- **Normal weather assumed to be c. £20m**

1. See glossary for definitions

Total cost base[1]



£m	2017	2016
Total costs	969.4	923.7
Operating expenses	794.4	759.3
Claims handling expenses	175.0	164.4
Net earned premium	3,135.0	3,000.6
Expense ratio	**25.3%**	**25.3%**

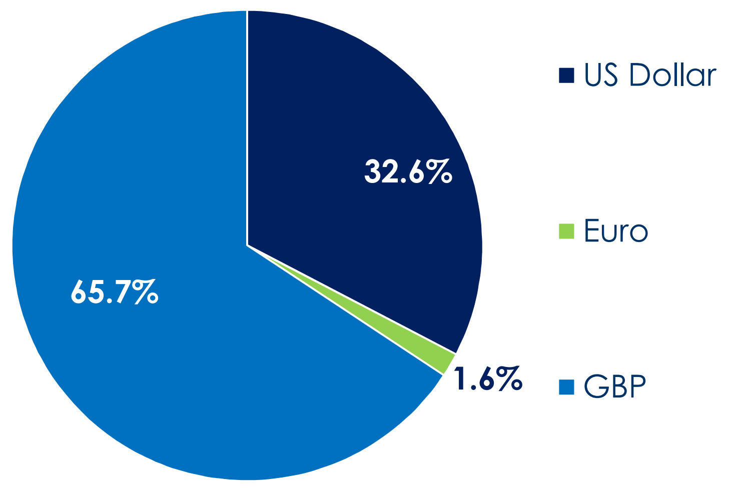
- **Staff costs and marketing costs broadly flat versus prior year**
- **Levies increased by c. £13m in 2017 reflecting higher volumes**
- **Intangible asset impairment of £56.9m in 2017 (£39.3m in 2016)**
- **Operating expenses includes £12.5m of investment expenses**
- **Increase in claims handling expenses due to a provision release in 2016**

1. See glossary for definitions

Investments[1]

Total Group 31 December 2017	Target allocation	Current holding	Income yield	Interest rate duration (years)
Investment grade (incl private placements)	64.0%	59.6%	2.8%	2.37
High yield	6.0%	5.8%	4.9%	1.58
Credit	**70.0%**	**65.4%**	**3.0%**	**2.30**
Sovereign	8.0%	3.4%	2.2%	1.40
Total debt securities 1	**78.0%**	**68.8%**	**3.0%**	**2.25**
Infrastructure debt	5.0%	4.7%	2.1%	0.15
Commercial real estate loans	3.0%	2.5%	3.0%	-
Investment property	5.0%	4.6%	5.1%	-
Cash and cash equivalents	9.0%	19.4%	0.2%	0.00
Total	**100.0%**	**100.0%**	**2.5%**	**1.56**

Assets under management by currency



1 **4.8% of total debt securities rated as 'AAA', 61.9% rated as 'AA' or 'A'**

1. See glossary for definitions

Reinsurance

Motor excess of loss reinsurance

(£m)	2010	2011	2012	2013	2014	2015	2016	2017	2018
Limit	Unlimited								
Deductible	10	3	3	3[1]	1[1]	1	1	1	1[1]

- Cover renewed on 1 January 2018 at increased cost reflecting the reduction in the Ogden discount rate
- Retained £1m deductible (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 reinsurers who are at least 'A+' rated

Property catastrophe reinsurance

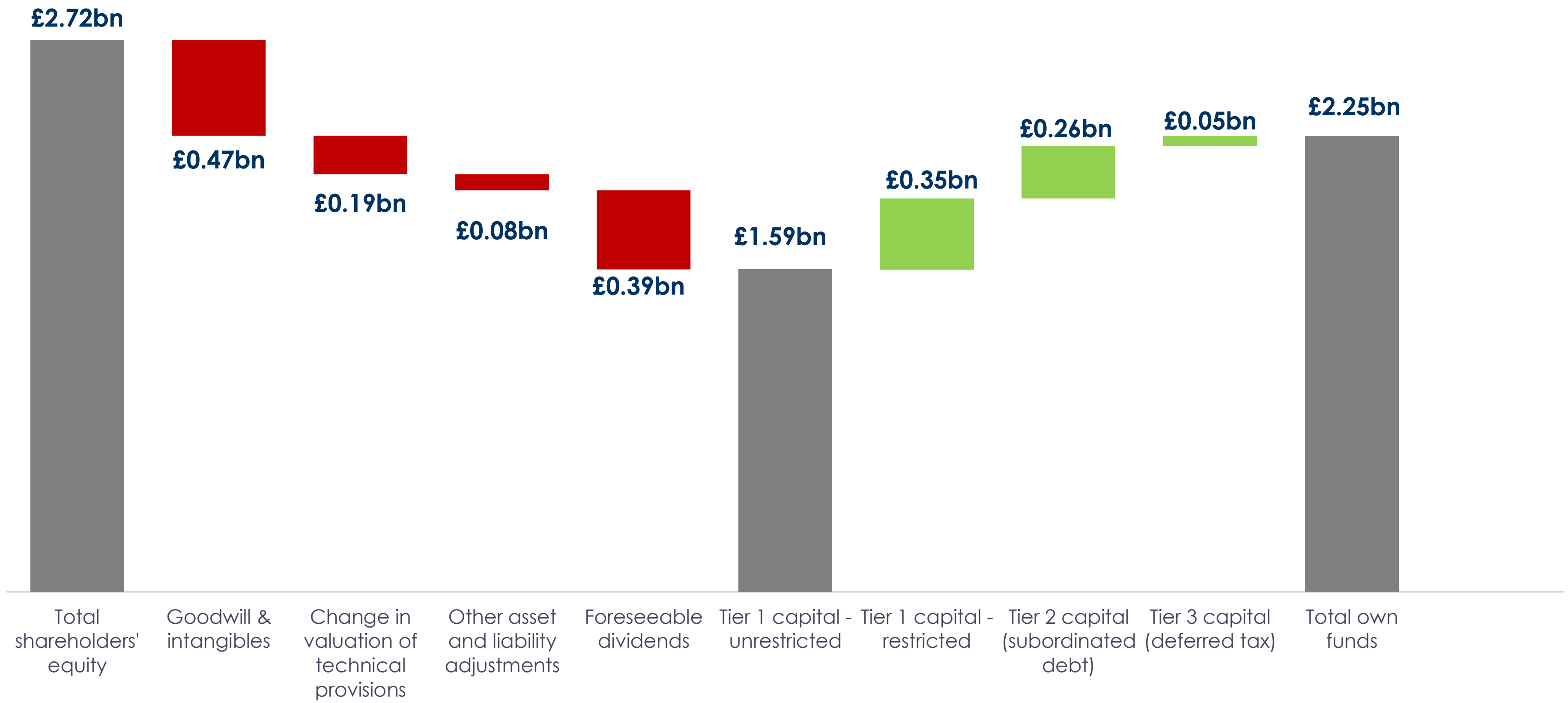
(£m)	2013/14	2014/15	2015/16	2016/17	2017/18
Limit	1,300	1,400	1,350	1,250	c.1.275
Deductible	150	150	150	150	c.150

- Cover renewed on 1 July 2017
- Retained deductible is 13.99% of gross earned premium (c. £150m)
- Cover is 118.94% of gross earned premium, c. £1,275m, equivalent to a modelled 1 in 200 year loss
- Cover has one full reinstatement for all programme and additional reinstatement up to £600m
- Placed with a panel of reinsurers who are all at least 'A-' rated
- In latest renewal approximately 60% placed on 3 year basis at a fixed price (reinsurance rate online)

1. Partial placement on lower layer(s). For 2018 90% of the first layer (£2m excess £1m) is placed with 10% retained

IFRS to Solvency II[1,2] bridge

Reconciliation of IFRS shareholder's equity to solvency II own funds £bn

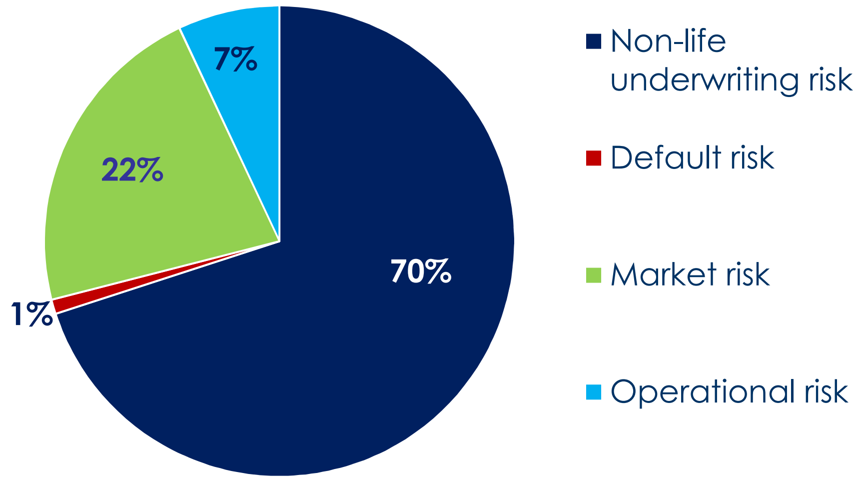


- **Tier 1 capital after dividends represented 86% of own funds and 139% of the estimated SCR**

1. See glossary for definitions
2. Figures are estimated and based on partial internal model (PIM) output for 31 December 2017

SCR[1] by risk type

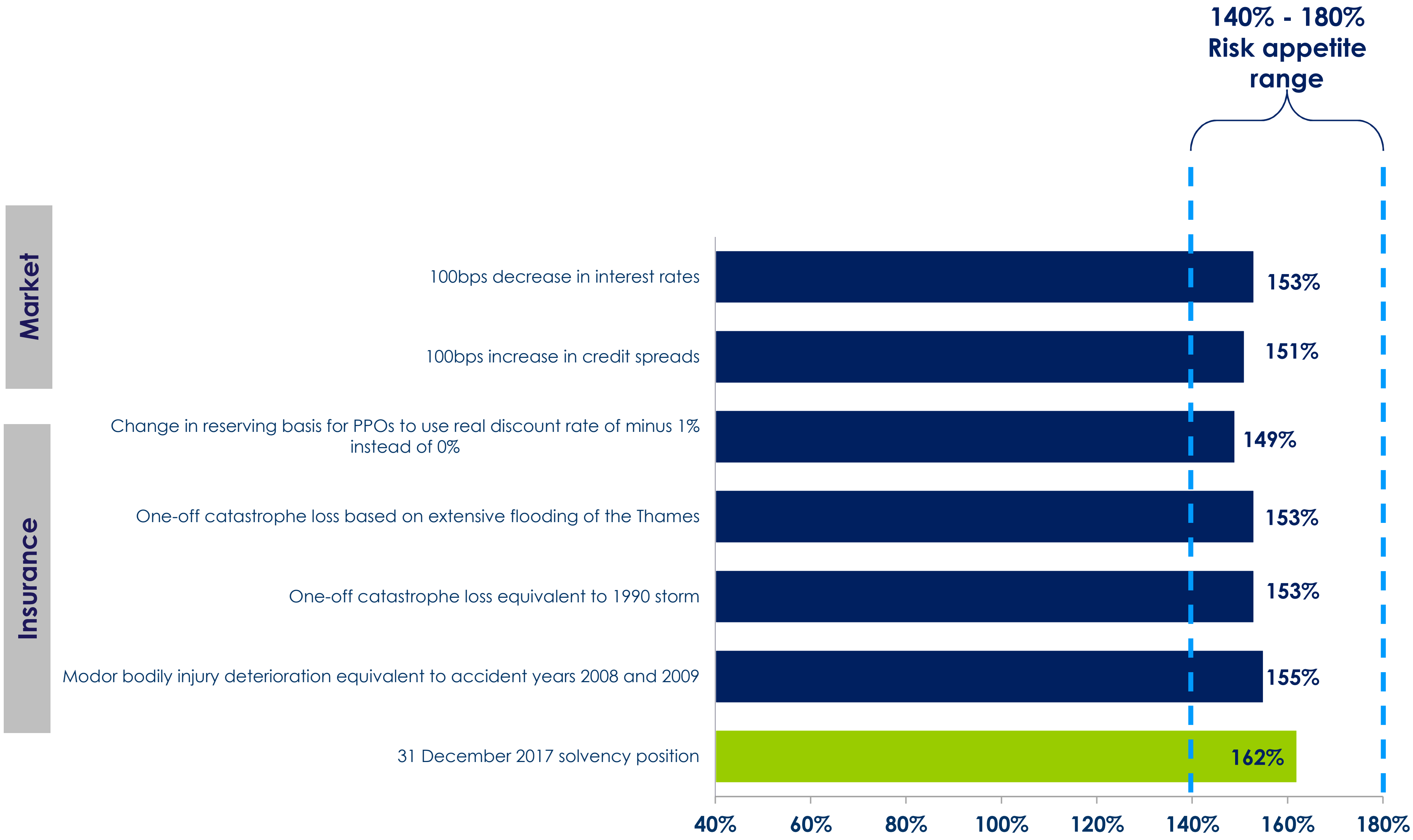
	31 Dec 2017[2]	31 Dec 2016	Comments
Non-Life u/w risk	944	943	
- Premium risk	274	249	Weighted towards Motor
- Reserve risk	375	438	Principally Motor claims, includes Run-off books
- Catastrophe risk	270	226	Mainly Home and Commercial
- Other underwriting	25	29	Risk margin volatility
Default risk	17	18	Mainly reinsurance credit risk
Market risk	303	315	Largest element is spread followed by interest rate
Operational risk	94	103	
UKI SCR	**1,358**	**1,378**	
Other entity SCR	31	25	
Solvency capital requirement (SCR)	**1,389**	**1,403**	



All figs stated post diversification

1. See glossary for definitions
2. Figures are estimated and based on partial internal model (PIM) output for 31 December 2017

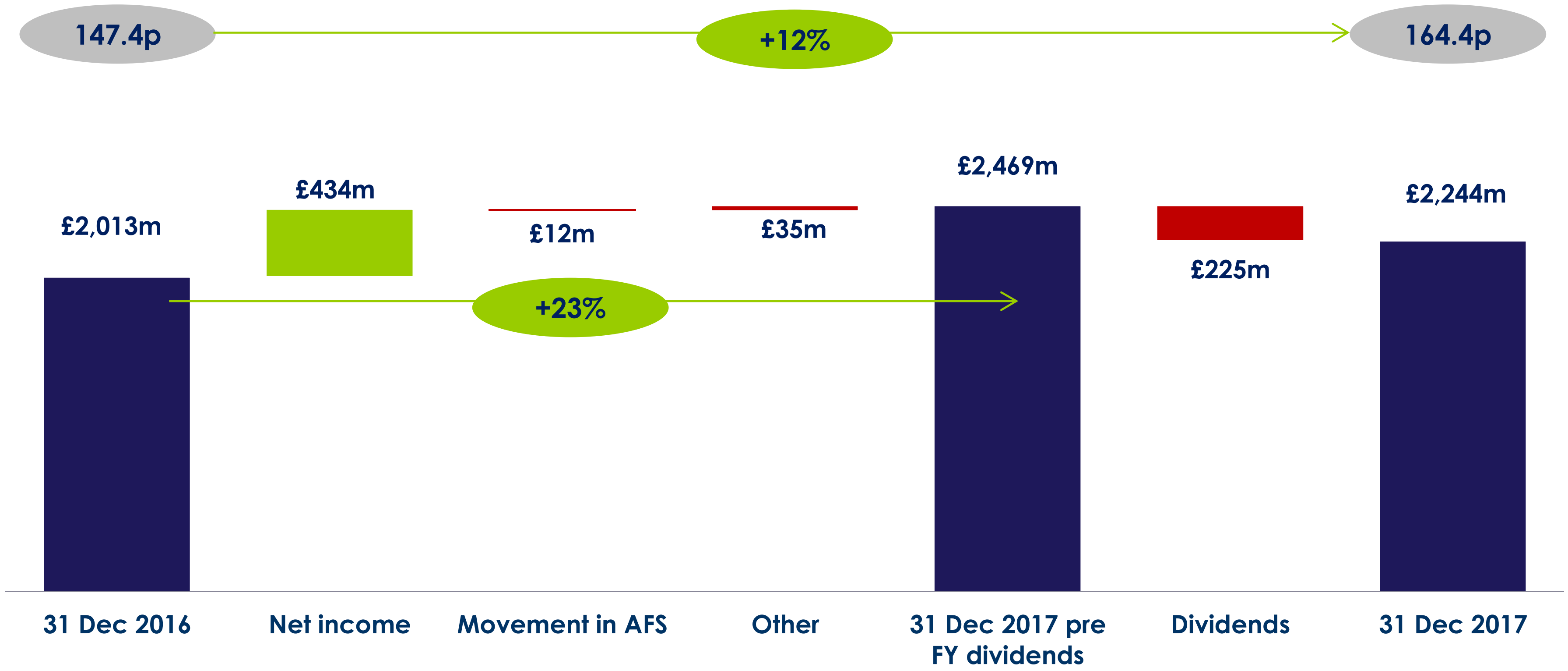
Solvency[1,2] sensitivity analysis



1. See glossary for definitions
2. Figures are estimated and based on partial internal model (PIM) output for 31 December 2017

Book value and TNAV

Movement in tangible net asset value[1] £m



pence	31 December 2017	31 December 2016
Net asset value per share	198.9	184.7
Tangible net asset value per share	164.4	147.4

- **Total unrealised AFS reserves of £80.2m (net of tax) as t 31 December 2017**

1. See glossary for definitions

Balance sheet summary

(£m unless stated)	31 December 2015	31 December 2016	31 December 2017
Goodwill and other intangible assets	524.8	508.9	471.1
Financial investments	5,614.6	5,147.0	5,040.4
Cash and cash equivalents	963.7	1,166.1	1,358.6
Assets held for sale	5.1	3.8	4.2
Reinsurance assets	1,011.4	1,371.8	1,178.5
Other assets	1,837	1,914.1	1,895.4
TOTAL ASSETS	**9,956.6**	**10,121.7**	**9,948.2**
Subordinated liabilities	521.1	539.6	264.7
Unearned premium reserve	1,476.6	1,547.9	1,600.3
Insurance liabilities	4,524.5	4,666.6	4,225.7
Borrowings	61.3	55.3	54.1
Other liabilities	743.1	790.8	741.8
TOTAL LIABILITIES	**7,326.6**	**7,600.2**	**6,886.6**
Shareholders' equity	2,630.0	2,521.5	2,715.1
Tier 1 notes	-	-	346.5
EQUITY	**2,630.0**	**2,521.5**	**3,061.6**
Net asset value per share (pence)	192.2	184.7	198.9
Net tangible asset value per share (pence)	153.8	147.4	164.4

Direct Line Group

ROTE[1] and EPS calculations

RoTE calculation

(£m)	2016	2017
Ongoing operating profit	403.5	610.9
Less: Finance costs	(37.2)	(103.8)
Finance cost adjustment for one-off subordinated debt	-	66.1
Profit before tax	366.3	573.2
Less: tax[2]	(73.3)	(110.3)
Profit after tax	**293.0**	**462.9**
Tangible equity b/f	2,105.2	2,012.6
Tangible equity c/f	2,012.6	2,244.0
Average tangible equity	2,058.9	2,128.3
Return on tangible equity	**14.2%**	**21.7%**

Adjusted EPS calculation

(£m)	2016	2017
Ongoing operating profit	403.5	610.9
Less: Finance costs	(37.2)	(103.8)
Finance cost adjustment for one-off subordinated debt	-	66.1
Profit before tax	366.3	573.2
Less: tax[2]	(73.3)	(110.3)
Profit after tax	**293.0**	**462.9**
Weighted average number of ordinary shares	1,368.7	1,366.1
EPS – Adjusted basic (pence)	21.4	33.9
Weighted average of ordinary shares (diluted)	1,381.8	1,379.0
EPS – Adjusted diluted (pence)	**21.2**	**33.6**

1. See glossary for definitions
2. UK standard tax rate of 19.25 (2016: 20.00%)

Segmental performance 2017

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total ongoing	Run-off	Total Group
GWP	1,670.4	799.1	421.1	501.5	**3,392.1**	-	3,392.1
Net earned premium	1,470.6	790.5	417.6	456.3	**3,135.0**	-	3,135.0
Net insurance claims	(896.0)	(400.5)	(273.3)	(227.5)	**(1,797.3)**	43.1	(1,754.2)
Commission expenses	(36.7)	(139.7)	(22.9)	(87.1)	**(286.4)**	-	(286.4)
Operating expenses	(418.9)	(166.6)	(97.4)	(111.5)	**(794.4)**	-	(794.4)
Underwriting result	**119.0**	**83.7**	**24.0**	**30.2**	**256.9**	**43.1**	**300.0**
Investment return	117.2	21.1	4.6	31.8	**174.7**	0.7	175.4
Instalment and other operating income	128.3	24.0	15.0	12.0	**179.3**	-	179.3
Operating profit/(loss)	**364.5**	**128.8**	**43.6**	**74.0**	**610.9**	**43.8**	**654.7**
Restructuring and other one off costs	-	-	-	-	**-**	-	**(11.9)**
Operating profit	-	-	-	-	**-**	-	642.8
Finance costs	-	-	-	-	**-**	-	**(103.8)**
Profit before tax	**-**	**-**	**-**	**-**	**-**	**-**	**539.0**
Loss ratio – current year	79.7%	53.6%	67.1%	68.8%	**69.8%**	-	**-**
Loss ratio – prior year	(18.8)	(3.0)	(1.7%)	(18.9%)	**(12.4%)**	-	**-**
Commission ratio	2.5%	17.7%	5.5%	19.1%	**9.1%**	-	**-**
Expense ratio	28.5%	21.1%	23.4%	24.4%	**25.3%**	-	**-**
Combined operating ratio	**91.9%**	**89.4%**	**94.3%**	**93.4%**	**91.8%**	-	**-**

1. See glossary for definitions

Segmental performance 2016

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total ongoing	Run-off	Total Group
GWP	1,539.1	834.4	400.8	499.8	**3,274.1**	-	**3,274.1**
Net earned premium	1,337.1	816.3	394.4	452.8	**3,000.6**	-	**3,000.6**
Net insurance claims	(1,001.7)	(332.0)	(243.0)	(250.5)	**(1,827.2)**	23.4	**(1,803.8)**
Commission expenses	(42.9)	(184.4)	(28.4)	(88.3)	**(344.0)**	-	**(344.0)**
Operating expenses	(377.3)	(177.4)	(96.5)	(108.1)	**(759.3)**	(0.2)	**(759.5)**
Underwriting result	**(84.8)**	**122.5**	**26.6**	**5.8**	**70.1**	-	**-**
Investment return	116.9	19.9	3.9	27.4	**168.1**	3.4	**171.5**
Instalment and other operating income	117.0	24.3	15.4	8.6	**165.3**	-	**165.3**
Operating profit/(loss)	**149.1**	**166.7**	**45.9**	**41.8**	**403.5**	**26.6**	**430.1**
Restructuring and other one off costs	-	-	-	-	**-**	-	**(39.9)**
Operating profit	-	-	-	-	-	-	390.2
Finance costs	-	-	-	-	**-**	-	**(37.2)**
Profit before tax	**-**	**-**	**-**	**-**	**-**	**-**	**353.0**
Loss ratio – current year	84.1%	50.0%	66.0%	66.3%	**69.8%**	-	**-**
Loss ratio – prior year	(9.2%)	(9.3%)	(4.4%)	(11.0%)	**(8.9%)**	-	**-**
Commission ratio	3.2%	22.6%	7.2%	19.5%	**11.5%**	-	**-**
Expense ratio	28.2%	21.7%	24.5%	23.9%	**25.3%**	-	**-**
Combined operating ratio	**106.3%**	**85.0%**	**93.3%**	**98.7%**	**97.7%**	-	**-**

1. See glossary for definitions

Direct Line Group

Segmental performance 2015

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total ongoing	Run-off	Total Group
GWP	1,406.7	866.3	394.1	485.3	**3,152.4**	0.1	**3,152.5**
Net earned premium	1,249.3	845.0	386.4	440.1	**2,920.8**	0.1	**2,920.9**
Net insurance claims	(794.8)	(435.1)	(231.6)	(275.8)	**(1,737.3)**	70.4	**(1,666.9)**
Commission expenses	(31.9)	(176.7)	(24.5)	(86.1)	**(319.2)**	(0.1)	**(319.3)**
Operating expenses	(327.1)	(167.6)	(96.4)	(98.0)	**(689.1)**	(0.7)	**(689.8)**
Underwriting result	**95.5**	**65.6**	**33.9**	**(19.8)**	**175.2**	-	**-**
Investment return	138.9	20.5	3.8	31.5	**194.7**	3.4	**198.1**
Instalment and other operating income	103.6	23.8	14.3	9.1	**150.8**	-	**150.8**
Operating profit/(loss)	**338.0**	**109.9**	**52.0**	**20.8**	**520.7**	**73.1**	**593.8**
Restructuring and other one off costs	-	-	-	-	**-**	-	**(48.7)**
Operating profit	-	-	-	-	-	-	**545.1**
Finance costs	-	-	-	-	**-**	-	**(37.6)**
Profit before tax	**-**	**-**	**-**	**-**	**-**	**-**	**507.5**
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%**	**-**	**-**

1. See glossary for definitions

UK Regulatory themes

IDD & GDPR

- The Insurance Distribution Directive (IDD) and General Data Protection Regulation (GDPR) will be implemented in 2018.
- The key elements of the IDD impacting DLG are the introduction of an Insurance Product Information Document (IPID), disclosure of remuneration, product oversight and governance requirements, and continuing professional development.
- The main articles of the GDPR that will impact DLG relate to subject access, contract terms and retention of data

ECJ judgement on Vnuk

- At present, the Road Traffic Act (RTA) requires compulsory motor insurance to be in place for vehicles intended for or adapted for road use or in a public place – not private land – which means that it is not compliant with the EU Motor Insurance Directive, as highlighted by Vnuk.
- The European Commission is reviewing the Directive and considering including an amendment to restrict the requirements to vehicles 'in traffic' which would limit some of the impact of Vnuk.
- A recent Portuguese case concluded by the CJEU held that there is a difference between vehicles being used as machines and those transporting people or goods.

MoJ review of Ogden discount rate

- The Lord Chancellor announced in February 2017 a change in the discount rate (applied to personal injury claims which are settled with lump sum payments) from 2.5% down to negative 0.75%.
- The methodology for setting the rate in future is expected to be included in a draft Civil Liabilities Bill due to be set before Parliament in 2018.

MoJ whiplash reforms

- The Ministry of Justice's planned measures to lower the number and cost of whiplash claims were delayed by the election.
- It is expected that the main features of the previous reforms will remain, including: a tariff of damages for whiplash claims that last up to 24 months; raising the small claims limit for RTA-related personal injury claims from £1,000 to £5,000 and to £2,000 for other personal injury claims; and banning offers to settle whiplash claims without medical evidence.

Direct Line Group

UK Regulatory themes

Automatic and electric vehicles bill

- The Bill allows for the development of advanced driver assistance systems leading to fully automated vehicles on UK roads in the future.
- Liability for accidents when the vehicle is self-driving will be accepted by the insurer who will have a right to recover costs from the vehicle manufacturer.

FCA renewal disclosures and value measures

- The requirement to disclose last year's premium on renewal documents as well as statements on shopping around for cover was implemented in April 2017. The FCA recently reviewed implementation and were concerned with the way many firms have done this.
- A pilot 'scorecard' publishing measures of product value is underway. Firms' claims frequency, acceptance and average payment for a small selection of products published on the FCA website. A request for a second year of data has recently been fulfilled.

FCA review of pricing practices

- The FCA launched a review of pricing practices in General Insurance in its 2017 Business Plan. It aims to develop a comprehensive understanding of how insurers set the price for consumers.
- DLG has fulfilled an information request, hosted a site visit and has completed a further, more detailed, information request all in relation to Home pricing.
- The ABI Board has agreed to draft a set of pricing principles for member firms to consider.

Glossary of terms

Term	Definition
Adjusted diluted earnings per share	Adjusted diluted earnings per share is calculated by dividing the adjusted profit after tax of Ongoing operations by the weighted average number of Ordinary Shares during the period adjusted for dilutive potential Ordinary Shares.
Adjusted profit after tax	Profit after tax is adjusted to exclude the Run-off segment and restructuring costs, and is stated after charging tax using the UK standard tax rate of 19.25%; (2016: 20.00%).
Solvency capital ratio	The ratio of Solvency II own funds to the solvency capital requirement.
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.
Commission ratio	The ratio of commission expense divided by net earned premium.
Current-year attritional loss ratio	The loss ratio for the current accident year, excluding the movement of claims reserves relating to previous accident years, and claims relating to major weather events in the Home segment.
Direct own brands	Direct own brands include Home and Motor under the Direct Line, Churchill and Privilege brands, Rescue under the Green Flag brand and Commercial under the Direct Line for Business brand.
Earnings per share	The amount of the Group’s profit allocated to each Ordinary Share of the Company.
Expense ratio	The ratio of operating expenses divided by net earned premium.
Investment income yield	The income earned from the investment portfolio, recognised through the income statement during the period, and divided by the average AUM. This excludes unrealised and realised gains and losses, impairments, and fair-value adjustments. The average AUM derives from the period’s opening and closing balances for the total Group.
Investment return	The income earned from the investment portfolio, including unrealised and realised gains and losses, impairments and fair value adjustments.

Glossary of terms

Term	Definition
Investment return yield	The return earned from the investment portfolio, recognised through the income statement during the period divided by the average AUM. This includes unrealised and realised gains and losses, impairments, and fair-value adjustments. The average AUM derives from the period's opening and closing balances.
Loss ratio	Net insurance claims divided by net earned premium.
Net investment income yield	The net investment income yield is calculated in the same way as investment income but includes the cost of hedging
Ongoing operations	Ongoing operations comprise Direct Line Group's Ongoing divisions: Motor, Home, Rescue and other personal lines, and Commercial. It excludes discontinued operations, the Run-off segment, and restructuring costs.
Operating profit	The pre-tax profit that the Group's activities generate, including insurance and investments activity, but excluding finance costs.
Return on tangible equity ("RoTE")	Return on tangible equity is 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 the Run-off segment and restructuring costs. It is stated after charging tax using the UK standard tax rate of 19.25% (2016: 20.0%).
Solvency II	The capital adequacy regime for the European insurance industry, which became effective on 1 January 2016. It establishes capital requirements and risk management standards. It comprises three pillars: Pillar I, which sets out capital requirements for an insurer; Pillar II, which focuses on systems of governance; and Pillar III, which deals with disclosure requirements.
Total costs	Total costs comprise operating expenses and claims handling expenses for Ongoing operations.
Underwriting result (profit or loss)	The profit or loss from operational activities, excluding investment return and other operating income. It is calculated as net earned premium less net insurance claims and total expenses.

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