



**Results for the first half 2015  
4 August 2015**



# Today's agenda

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<b>Key messages</b>	<b>Paul Geddes - CEO</b>
<b>Financials</b>	<b>John Reizenstein - CFO</b>
<b>Strategy update</b>	<b>Paul Geddes - CEO</b>
<b>Q&amp;A</b>	

# Key highlights

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- 1 Strong results whilst delivering for our customers
- 2 International sale completed – fully focused on UK market
- 3 Multi year investment programme driving improved competitiveness
- 4 Lower costs, improved efficiency
- 5 Backing evolving industry trends

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

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## Financial results

**John Reizenstein - CFO**

# Strong set of results, reflecting low weather claims and higher than expected reserve releases

## Observations

- 1 **GWP of £1,552.0m, 0.4% higher than prior year**
- 2 **Operating profit increased by 42.5% to £335.8m**
- 3 **COR of 89.4%, 6.7ppt improvement versus prior year; normalised for weather c.92%**
- 4 **RoTE of 21.2%, ahead of the 15% target**
- 5 **Increase in operating profit across all divisions**

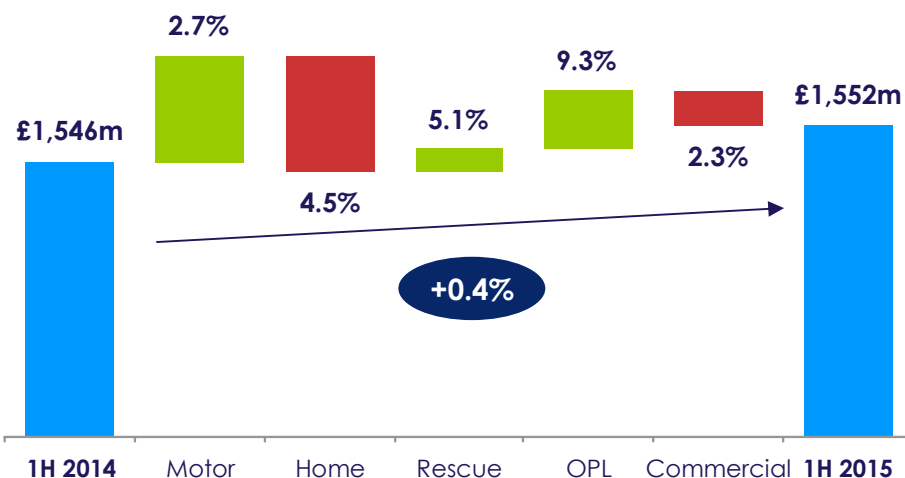
(£m unless stated)	1H 15	1H 14
<b>Ongoing operations<sup>1</sup></b>		
Gross written premium	1,552.0	1,546.0
Underwriting profit	153.2	58.7
Instalment and other income	72.8	72.9
Investment return	109.8	104.1
<b>Operating profit – ongoing operations</b>	<b>335.8</b>	<b>235.7</b>
Profit before tax - continuing operations	315.0	211.7
Profit after tax	427.8	175.6
<i>Of which Ongoing operations<sup>1</sup></i>	252.9	170.3
Combined operating ratio	89.4%	96.1%
RoTE <sup>2</sup>	21.2%	14.9%
<b>Operating profit – ongoing operations (£m)</b>	<b>1H 15</b>	<b>1H 14</b>
<b>Motor</b>	181.0	164.3
<b>Home</b>	104.4	34.8
<b>Rescue and other personal lines</b>	26.4	25.8
<b>Commercial</b>	24.0	10.8

1. Ongoing operations include 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. Continuing operations include all activities other than discontinued operations.

2. 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 tax rate of 20.25%; 2014: 21.5%)

# Encouraging quarterly trends in GWP and IFPs

## Ongoing GWP

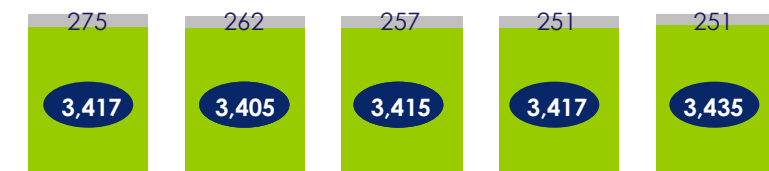


## Motor and Home IFPs

### Motor

Partners

Own brands



June 14

Sept 14

Dec 14

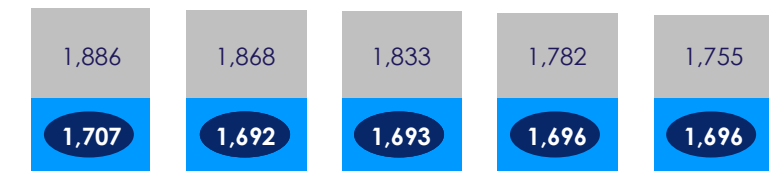
Mar 15

June 15

### Home

Partners

Own brands



June 14

Sept 14

Dec 14

Mar 15

June 15

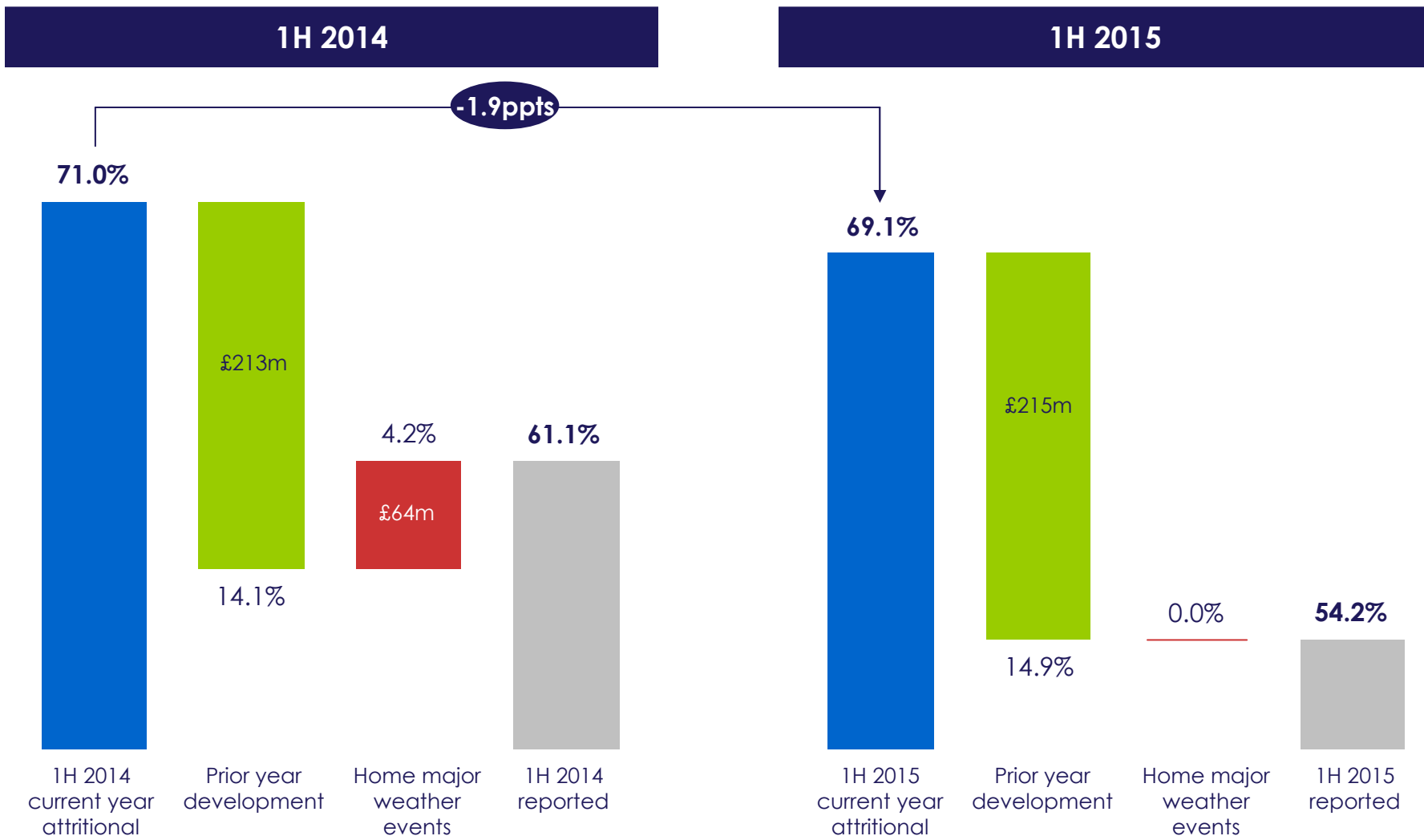
## Quarterly GWP trends

	3Q 14 vs. 3Q 13	4Q 14 vs. 4Q 13	1Q 15 vs. 1Q 14	2Q 15 vs. 2Q 14
Motor	(5.4%)	2.5%	(0.2%)	5.4%
Home	(5.0%)	(3.8%)	(4.8%)	(4.2%)
Rescue	8.4%	11.0%	5.6%	4.7%
Other personal lines <sup>1</sup>	5.7%	(5.2%)	9.8%	8.8%
Commercial	(1.1%)	2.0%	(2.5%)	(2.2%)
<b>Total ongoing</b>	<b>(4.2%)</b>	<b>0.4%</b>	<b>(0.9%)</b>	<b>1.6%</b>

1. Adjusted for the sale of Life

# Improvement in current year loss ratio

## Loss ratio analysis - ongoing operations<sup>1</sup>



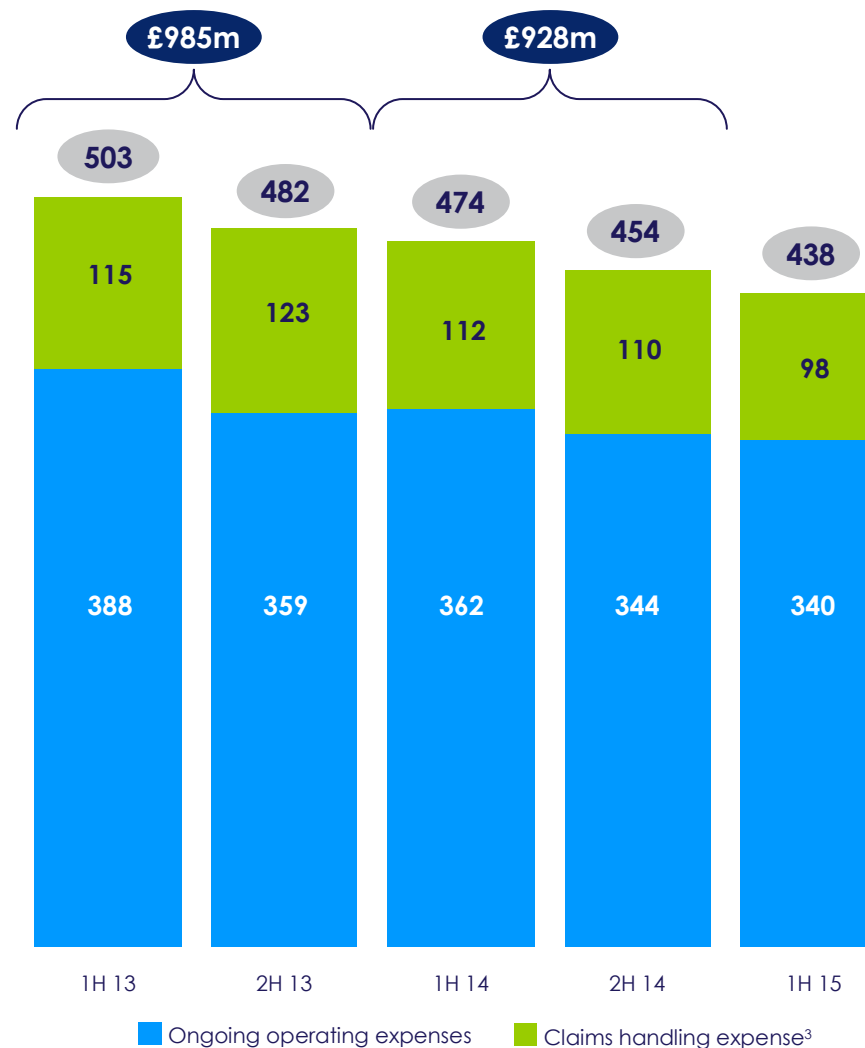
1. See note 1 page 5

# Further reduction in our cost base

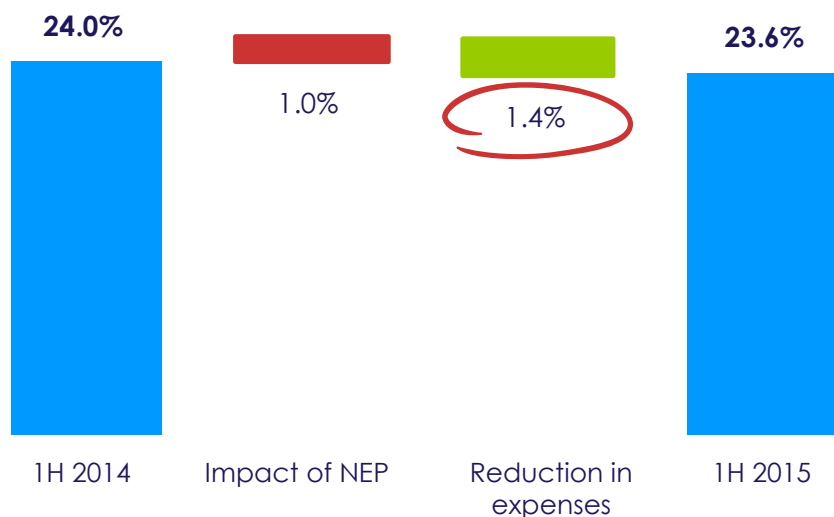
## Observations

- Total costs of £438m, down 7.6% versus prior year
- Expense ratio down by 0.4ppts to 23.6% as continued focus on cost efficiencies more than offset the effect of lower NEP

## Cost base<sup>2</sup> (£m)



## Expense ratio movement – ongoing operations<sup>1</sup>



1. See note 1 page 5  
 2. Operating expenses and claims handling expenses from ongoing operations. It excludes discontinued operations, the Run-off segment and restructuring and other one-off costs  
 3. Included in loss ratio

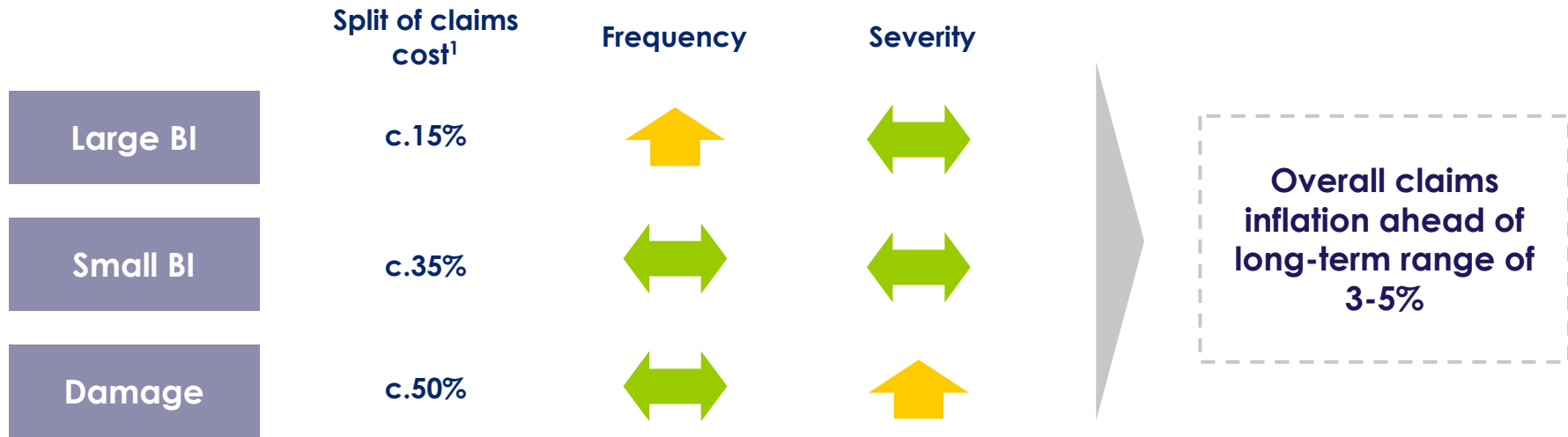


# Motor highlights

Results		Observations	
(£m unless stated)	1H 15	1H 14	
<b>In-force policies (000s)</b>	<b>3,686</b>	<b>3,692</b>	<b>1</b> Stable IFPs; own brands up 0.5% since June 2014
Own brand in-force policies (000s)	3,435	3,417	
Partnerships in-force policies (000s)	251	275	<b>2</b> 2.7% growth in GWP with 5.4% growth in the second quarter
Gross written premium	683.3	665.4	
Net earned premium	611.5	658.0	<b>3</b> NEP down 7.1%, around half due to increased reinsurance spend
Loss ratio – current year	85.6%	87.2%	
Loss ratio – prior years	(23.8%)	(22.6%)	<b>4</b> Current year loss ratio improved by 1.6ppts
Loss ratio	61.8%	64.6%	
Commission ratio	2.9%	2.6%	
Expense ratio	26.7%	26.4%	<b>5</b> Continued significant prior year releases in the first half
<b>Combined operating ratio</b>	<b>91.4%</b>	<b>93.6%</b>	<b>6</b> Combined operating ratio improved by 2.2ppts to 91.4%
Underwriting profit / (loss)	52.5	42.4	
<i>Of which prior year releases</i>	145.5	149.0	
Instalment and other income	49.9	50.6	
Investment return	78.6	71.3	
<b>Operating profit</b>	<b>181.0</b>	<b>164.3</b>	<b>7</b> Operating profit up 10.2% to £181.0m

# Motor pricing and claims trends

## Claims by peril vs. expectations



## Motor premium movement

UK Motor change on prior year except IFPs

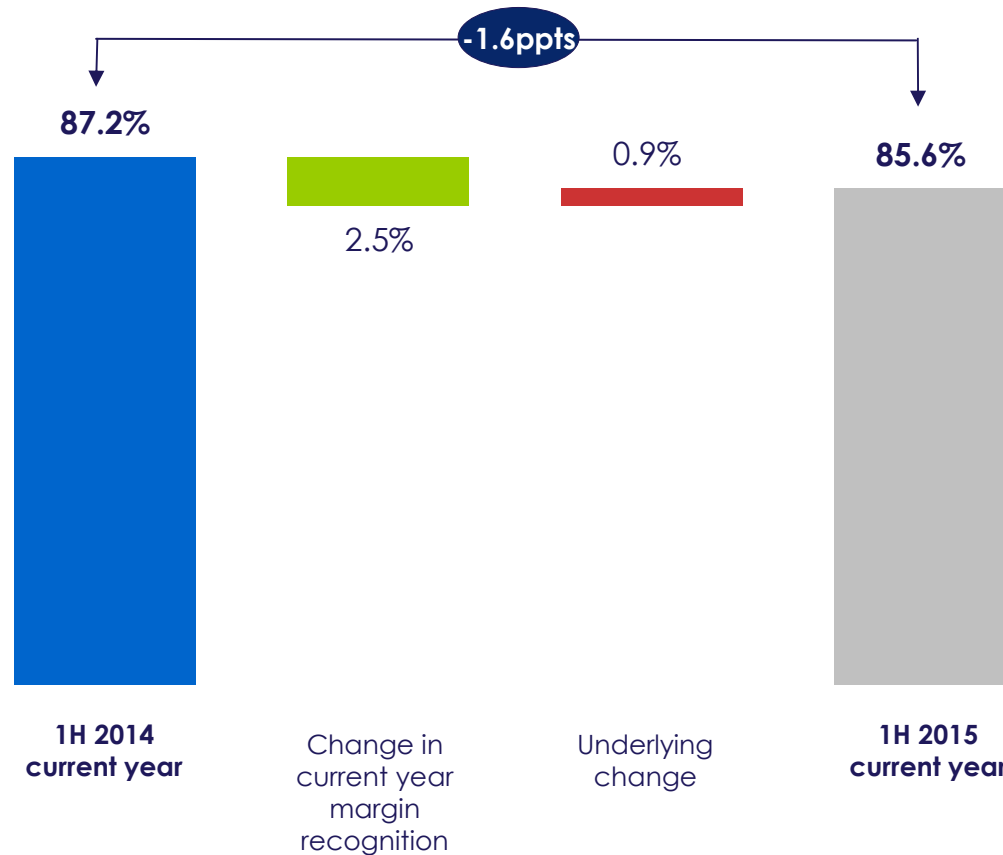


1. Gross

2. 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

# Improvement in current year loss ratio

## Current year loss ratio analysis - Motor

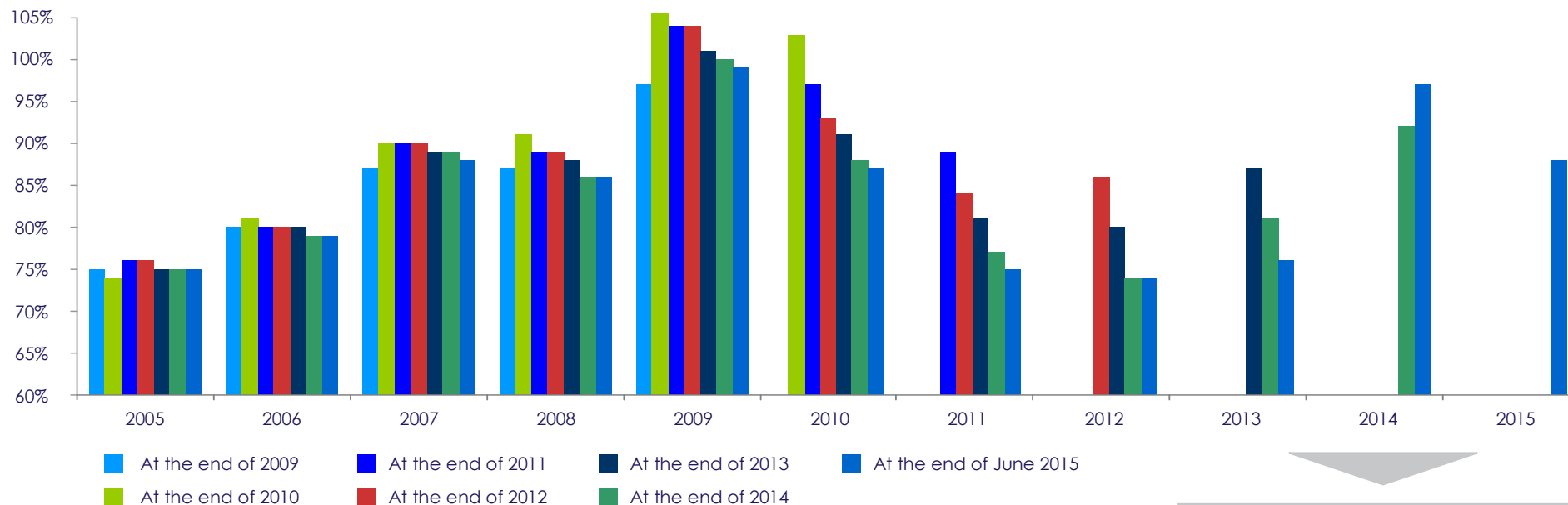


- Current year loss ratio improved by 1.6ppts
- Change in current year margin recognition accounted for 2.5ppts
- Increase of 0.9ppts due to underlying movements

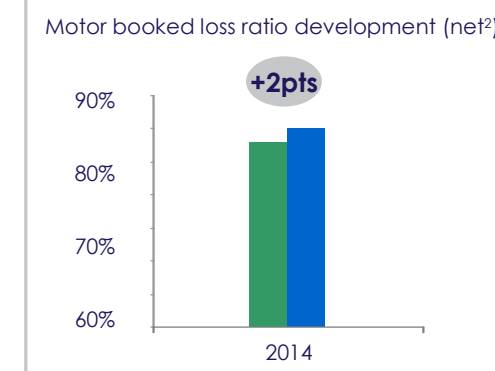
# Motor reserving

## Significant reserve releases

Motor booked loss ratio development (gross<sup>1</sup>)



Prior year releases	1H 15	1H 14	FY 14
£m	145.5	149.0	278.4
% NEP	23.8%	22.6%	21.5%



1. Based on management best estimate, gross of reinsurance and excluding claims handling costs  
 2. Based on management best estimate, net of reinsurance and excluding claims handling costs

# Home highlights

Results		
(£m unless stated)	1H 15	1H 14
<b>In-force policies (000s)</b>	<b>3,451</b>	<b>3,593</b>
Own brand in-force policies (000s)	1,696	1,707
Partnerships in-force policies (000s)	1,755	1,886
Gross written premium	417.8	437.3
Net earned premium	421.9	440.0
Loss ratio – current year attritional	47.5%	49.6%
Major weather	-	14.5%
Loss ratio – current year incl. weather	47.5%	64.1%
Loss ratio – prior years	(9.1%)	(7.5%)
Loss ratio	38.4%	56.6%
Commission ratio	22.8%	20.9%
Expense ratio	19.6%	20.3%
<b>Combined operating ratio</b>	<b>80.8%</b>	<b>97.8%</b>
Underwriting profit / (loss)	81.0	9.9
<i>Of which prior year releases</i>	38.2	33.1
Instalment and other income	12.0	12.2
Investment return	11.4	12.7
<b>Operating profit</b>	<b>104.4</b>	<b>34.8</b>

- ## Observations
- 1 Own brand IFPs stable since June 2014, overall down 4.0%, due to partners
  - 2 GWP down 4.5%, due to lower IFPs and price deflation
  - 3 2.1ppt improvement in current year attritional loss ratio to 47.5%
  - 4 Increase in commission ratio driven by better weather and higher prior year releases
  - 5 17.0ppt improvement in combined operating ratio to 80.8%
  - 6 Operating profit up £69.6m to £104.4m

# Home pricing trends

## Home own brand premium movement

UK Home own brands change on prior year except IFPs



### Market observations

- Third year of market deflation
- Deflation accelerated in Q2
- Favourable weather experience and reduced reinsurance pricing potentially increasing competitor appetite

### Experience

- Own brands policy count held flat during Q2
- Strong retention
- Reinvesting in pricing and claims benefits to protect value

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

# Rescue and other personal lines highlights

## Results

## Observations

(£m unless stated)

Rescue		1H 15	1H 14
In-force policies (000s)		4,034	3,963
Gross written premium	1	80.6	76.7
Combined operating ratio	2	79.6%	78.5%
Operating profit	3	22.0	22.5

Rescue and other personal lines <sup>1</sup>		1H 15	1H 14
In-force policies (000s)	1	8,408	8,552
Gross written premium	2	194.8	181.2
Net earned premium		189.5	183.5
Combined operating ratio		91.0%	90.9%
Underwriting profit		17.1	16.7
Of which prior year releases		(1.2)	6.6
Operating profit	3	26.4	25.8

- 1 1.8% growth in IFPs since June 2014; 5.1% growth in GWP
  - 2 1.1ppt increase in COR, due to pricing in the bank channel
  - 3 Operating profit of £22.0m, 2.2% lower than 1H 2014
- 
- 1 IFPs down 1.7% since June 2014, mainly due to reduction in packaged bank account volumes
  - 2 7.5% increase in GWP, due to pricing in Travel and rescue performance
  - 3 Operating profit of £26.4m, 2.3% higher than 1H 2014

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

# Commercial highlights

## Results

(£m unless stated)		1H 15	1H 14
<b>In-force policies (000s)</b>	<b>1</b>	<b>629</b>	<b>600</b>
Gross written premium	<b>2</b>	256.1	262.1
Net earned premium		217.6	222.8
Loss ratio – current year	<b>3</b>	71.5%	73.3%
Loss ratio – prior years	<b>4</b>	(15.0%)	(10.7%)
Loss ratio		56.5%	62.6%
Commission ratio		19.5%	18.5%
Expense ratio		22.8%	23.5%
<b>Combined operating ratio</b>	<b>5</b>	<b>98.8%</b>	<b>104.6%</b>
Underwriting profit/loss		2.6	(10.3)
<i>Of which prior year releases</i>		32.6	23.8
Instalment and other income		3.7	4.1
Investment return		17.7	17.0
<b>Operating profit</b>	<b>6</b>	<b>24.0</b>	<b>10.8</b>

## Observations

- 1** 4.8% growth in IFPs since June 2014
- 2** 2.3% decrease in GWP year on year, with growth in direct and eTrade offset by reductions in regional channel
- 3** 1.8ppt improvement in current year loss ratio, due to lower weather costs and strong claims performance
- 4** Higher prior year reserve releases
- 5** Combined operating ratio improved to 98.8% in line with FY 2014
- 6** Operating profit of £24.0m, up substantially on 1H 2014



# Growing investment returns from a high quality portfolio

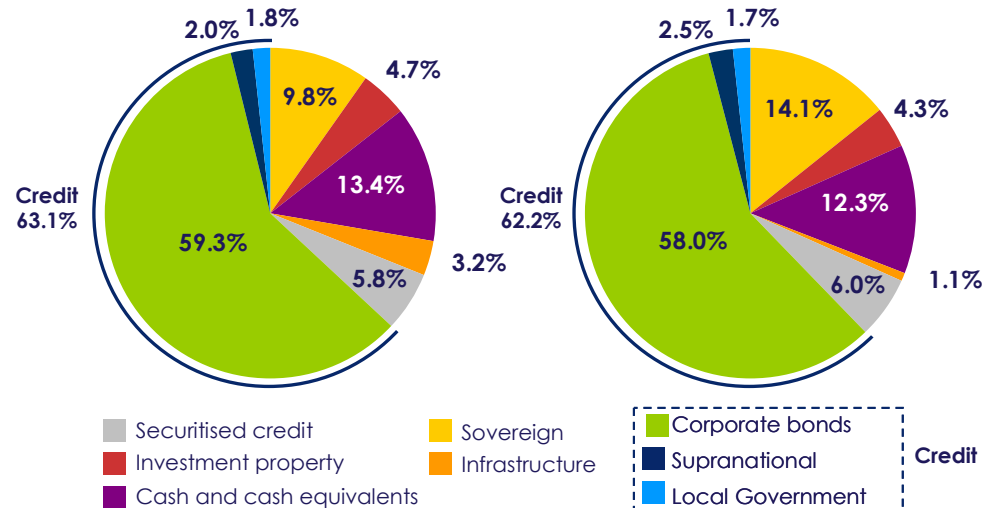
## Observations

- Investment income yield of 2.4%, as actions to diversify portfolio took effect
- Overall investment return of 3.1%, due to higher property gains
- Gains not expected to be as high in 2H or in future years
- Forecast 2.6% income yield in 2016 (previously 2.7%)

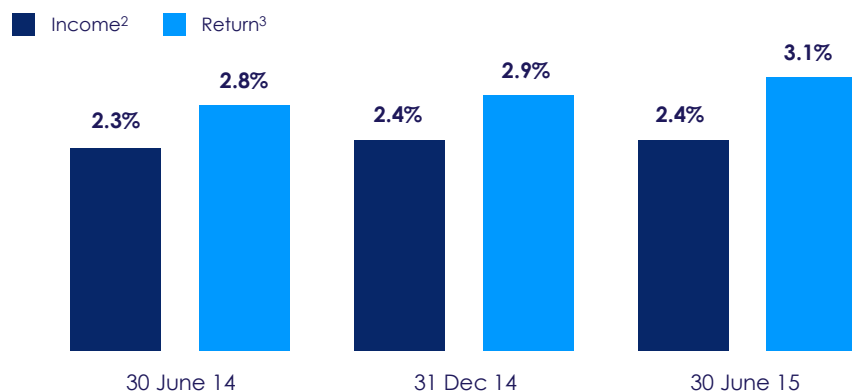
## UK investment assets by type

30 June 15: £6.9bn<sup>1</sup>

31 Dec 14: £7.1bn



## Group investment yields



## Investment return - ongoing operations

(£m unless stated)	1H 15	1H 14
Investment income	83.0	85.0
Net realised gains and unrealised gains	26.8	19.1
<i>of which investment property</i>	14.6	11.9
<b>Total</b>	<b>109.8</b>	<b>104.1</b>

1. Asset allocation for Total Group, excluding International and adjusted for the payment of the special dividend on 24 July 2015, in relation to the sale of the Group's International division  
 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  
 3. 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

# Ongoing operating profit reconciliation

## Observations

- 1 Run-off segment profit of £38.3m, with improved claims experience, particularly from large bodily injury
- 2 Restructuring and other one-off costs of £40.4m, reflecting costs associated with the exit of one location and IT migration
- 3 International division results together with the gain on disposal of £167.1m gives profit from discontinued of £181.2m

## Outlook

- 2015 restructuring and other one off costs expected to be in the region of £50m
- Profit from run off is expected to offset restructuring and other one off costs over the period from 2015 to 2018

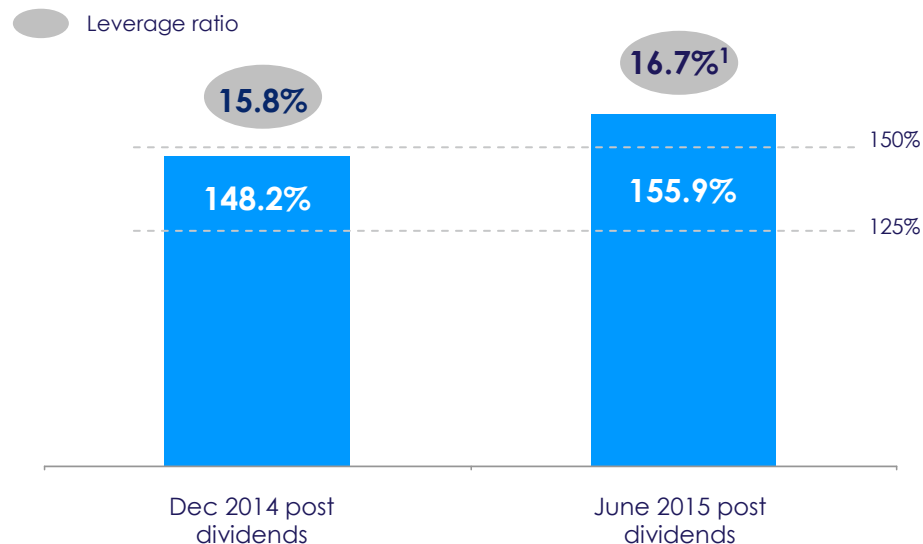
## Operating profit

(£m unless stated)	1H 15	1H 14
<b>Operating profit – ongoing operations</b>	<b>335.8</b>	<b>235.7</b>
Run-off 1	38.3	20.4
Restructuring and other one-off costs 2	(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 <sup>1</sup> 3	-	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, net of tax <sup>2</sup>	181.2	11.7
<b>Profit after tax</b>	<b>427.8</b>	<b>175.6</b>
<b>EPS – adjusted (pence)<sup>3</sup></b>	<b>16.7</b>	<b>11.3</b>

1. Tracker disposed of on 5 February 2014 – the period ended 30 June 2014 includes Tracker related operating income: £1.4m and operating loss: £0.4m  
 2. Relates to the International division which is now treated as a discontinued operation  
 3. Adjusted earnings per share on a diluted basis – ongoing operations (using UK standard tax rate of 20.25%; 2014 21.5%)

# Strong capital position

## Capital position and leverage



## Observations

- RBC coverage above top end of range post dividends
- Leverage of 16.7% remains conservative
- Credit ratings 'A' (strong) S&P, 'A2' (good) Moody's

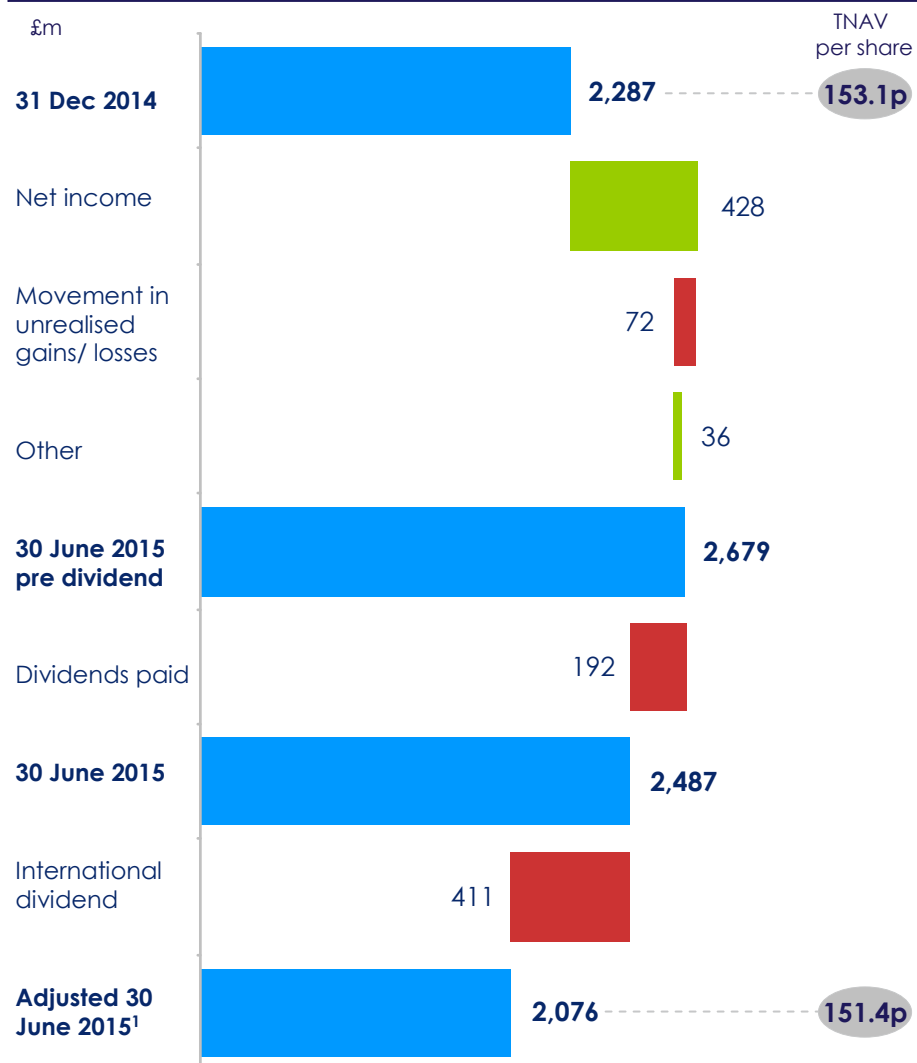
## Solvency II

- Capital position remains conservative ahead of Solvency II
- Internal model approval submission on track for second half of 2015
- The Group is expected to operate under the standard formula for at least the first six months of 2016
- Review and recalibration of risk appetite during 2015
- Board next likely to consider any return of capital at 2015 full year results, subject to capital requirements at that time

1. Leverage ratio stated post International special dividend

# Post dividends book value and TNAV

## Movement in tangible net asset value



## Observations

- Headline increase in TNAV and NAV per share as a result of continuing earnings and profit on sale of International
- 1.1% decrease in TNAV per share after adjusting for the International dividend and share consolidation
- Total unrealised gains at 30 June 2015 of £44m (net of tax)

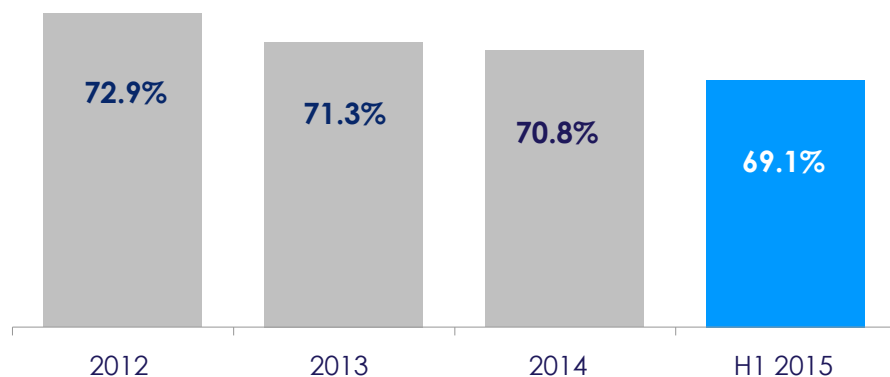
## Dividends

- Completed the sale of our International division. Special interim dividend of 27.5p pence per share paid on 24 July 2015
- 5% growth in interim dividend to 4.6p per share
- Dividends paid since IPO equivalent to 53% of IPO price including the 2015 interim and International special

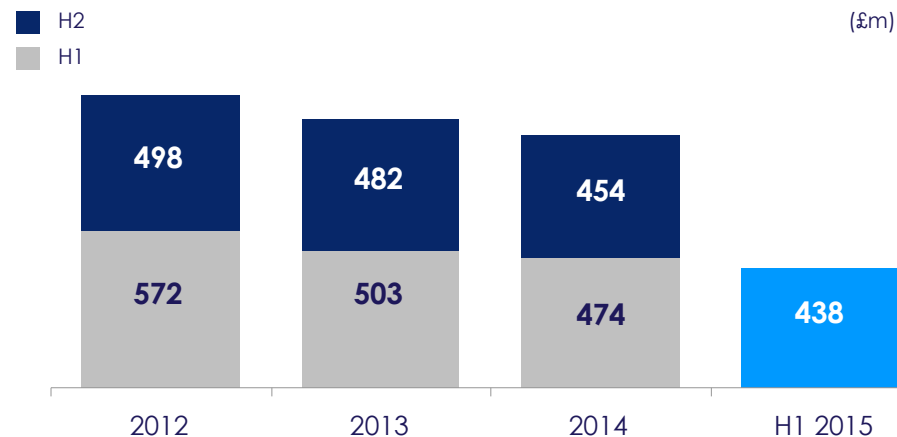
1. Adjusted for payment of the International special dividend and subsequent share consolidation

# Progress on key financials

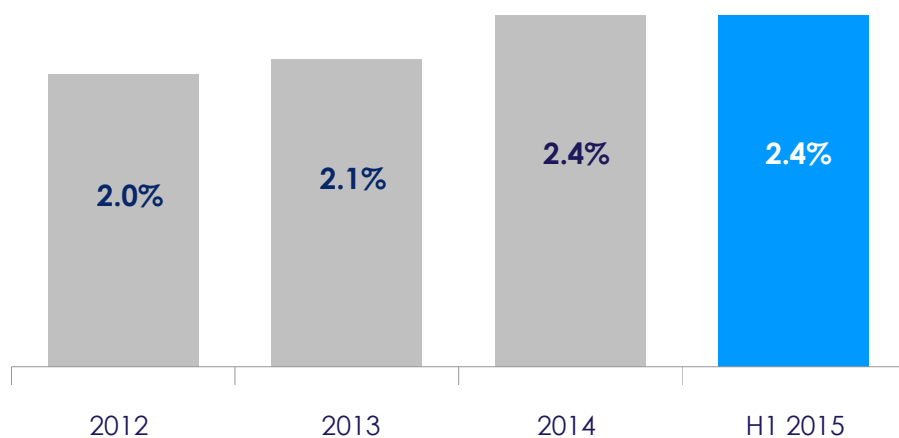
## Current year attritional loss ratio<sup>1</sup>



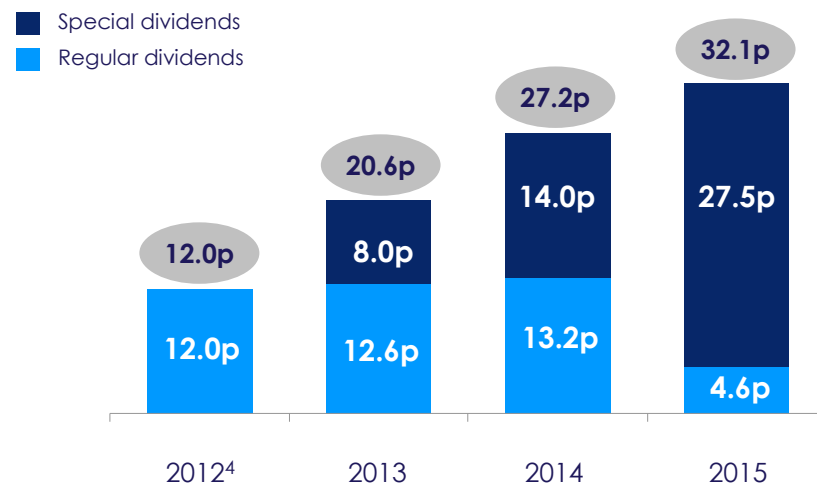
## Total costs<sup>2</sup>



## Investment income yield<sup>3</sup>



## Dividends










1. Current-year attritional-loss ratio: The loss ratio for the current accident year, excluding the impact of movement of claims reserves relating to previous accident years and claims relating to weather events in the Home division. Includes International for 2012  
 2. See note 2 page 8  
 3. See note 2 page 17  
 4. 2012 pro-forma dividend

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# Strategy update

**Paul Geddes - CEO**

# Strong UK franchise

	1H COR	1H operating profit	Brands	Franchise
Motor	91.4%	£181.0m	   	<b>#1</b> <sup>1</sup> Personal Lines insurer Stable own brand IFPs in 1H
Home	80.8%	£104.4m		<b>#3</b> <sup>2</sup> Rescue provider Growing IFPs and GWP
Rescue & other personal lines	91.0%	£26.4m	 	<b>#2</b> <sup>3</sup> Direct commercial insurer
Commercial	98.8%	£24.0m		

1. Ranked by total in-force policies in the motor and home markets, including partner brands. GfK NOP Financial Research Survey (FRS) 6 months ending December 2014, 12,973 adults were interviewed for motor insurance and 12,181 for home insurance.  
 2. Mintel Vehicle Recovery - UK, September 2014  
 3. Management estimate

# Our strategy

Mission

Make insurance much easier and better value for our customers

Strategic pillars

Great retailer

Smart & efficient manufacturer

Lead & disrupt the market

①

②

③

Key enablers

④

Data & technology

⑤

Culture & capability

⑥

Capital & risk management

Long-term ambition: Sustainable growth and a 15% RoTE



# Continuing to make progress on 2015 deliverables

1	2	3	4	5	6
<b>Great retailer</b>	<b>Smart &amp; efficient manufacturer</b>	<b>Lead &amp; disrupt the market</b>	<b>Data &amp; technology</b>	<b>Culture &amp; capability</b>	<b>Capital &amp; risk management</b>
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
<ul style="list-style-type: none"> <li>• Further differentiate our brands including refresh of Churchill</li> <li>• Launch customer experience programmes to increase NPS, reduce frictional costs and reduce complaints</li> <li>• Improve trading capability to maximise sales, cross-sales and retention while optimising margin</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to build technical pricing excellence</li> <li>• Beat market claims inflation via further claims programmes</li> <li>• Reduce level of overall costs by improving efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to grow Green Flag</li> <li>• Capitalise on market trends towards direct and eTrade to grow Commercial</li> <li>• Double number of telematics policies in-force</li> </ul>	<ul style="list-style-type: none"> <li>• Complete migration of IT infrastructure</li> <li>• Continue to implement next generation of customer systems including policy system</li> <li>• Update Motor pricing engine</li> </ul>	<ul style="list-style-type: none"> <li>• Invest in developing our employees' skills to capitalise on new systems</li> <li>• Build superior people engagement via focus on leadership and people management</li> </ul>	<ul style="list-style-type: none"> <li>• Be ready for Solvency II implementation on 1 January 2016 and submit internal model for approval</li> </ul>

# Great retailer

Continue to improve customer experience through targeted initiatives and investment

## Increase in brand preference<sup>1</sup>

Direct Line +27%  
Churchill +18%

## Increase in NPS<sup>2</sup>

Direct Line +3.3pts  
Churchill +1.5pts

## Increase in retention<sup>3</sup>

Motor +0.8ppts  
Home + 2.6ppts

- Amendment fees removed from all Direct Line products, including DL4B



- Reboot of Churchill with new adverts “depend on the dog”



- Improved customer retention in Motor and Home own brands

- New quote and buy journey for Home insurance products

- Launch of Professional indemnity on DL4B

- Launch of Churchill for Business on two major PCWs

**Data & technology:** Investment in digital infrastructure and roll out of further digital claims propositions

**Culture & capability:** Roll-out of My Customer with focus on having better customer conversations

1. Year on year metric from monthly online survey conducted by Hall & Partners Q: If price was equal, who would you prefer to use for Motor/Home insurance Base size: H1 2014 (9744 interviews), H1 2015 (8715 interviews). Scores: Churchill H1 2014 (11%) H1 2015 (13%), Direct Line H1 2014 (11%) H1 2015 (14%)  
2. Based on aggregate 12 month rolling average, as at 1 July 2015  
3. Total book 1H 15 vs. 1H 14

# Smart & efficient manufacturer

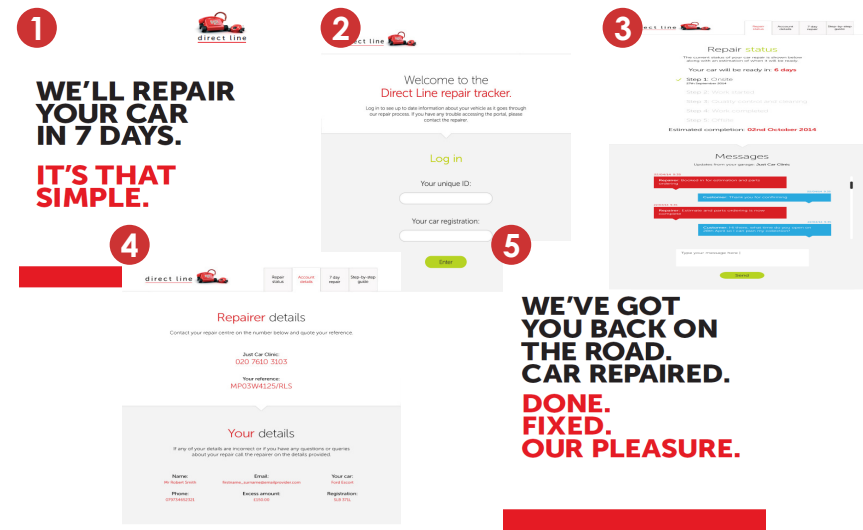
## Continuing to invest in capabilities

**7.6%<sup>1</sup>**  
reduction in total costs  
in first half of 2015

**124k**  
motor repairs tracked online

**24.5k**  
Direct Line cars repaired within 7 days

- Pricing projects broadening Motor and Home's competitive footprint
- Efficient claims management contributing to the Group's aim to beat claims inflation
- Using personal lines capabilities in Commercial, improving Van technical pricing
- LiveChat successfully launched in Commercial



**Data & technology:** Continuing to invest in technical pricing capabilities

**Culture & capability:** Embedding a low cost culture while improving efficiency through digital

1. See note 2 page 8

# Lead & disrupt the market

Building on our strong market position, investing in future growth

**48% increase**  
in telematics policies  
year to date

**Voted No.1**  
for eTrading in  
broker insight survey

**4.9% increase**  
in Green Flag IFPs<sup>1</sup>

- Leveraging data analytic capabilities
- On track to double telematics in-force policies during 2015
- Delivering telematics offering to SME fleet market
- Recognised for leading capabilities in eTrade and direct Commercial insurance, both growing parts of the commercial market
- Green Flag launched on major comparison website
- Launching Cyber product to regional broker business



 E-TRADING | Broker Insight 2015

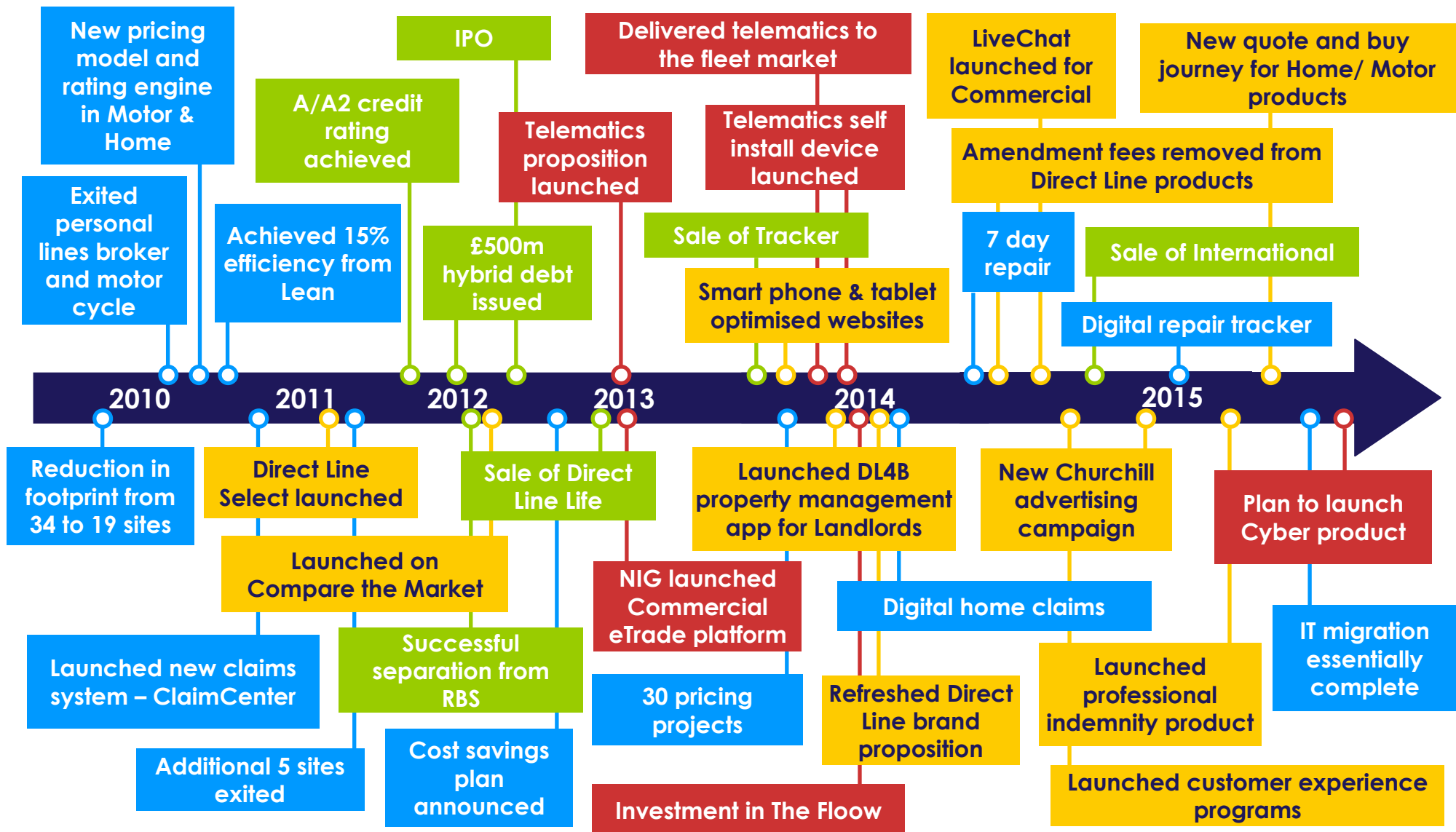
**GreenFlag**   
No Matter What

**Data & technology:** Continuing to invest in new product offerings and the eTrade platform

**Culture & capability:** Test and learn approach to Telematics. Leveraging skills from personal lines

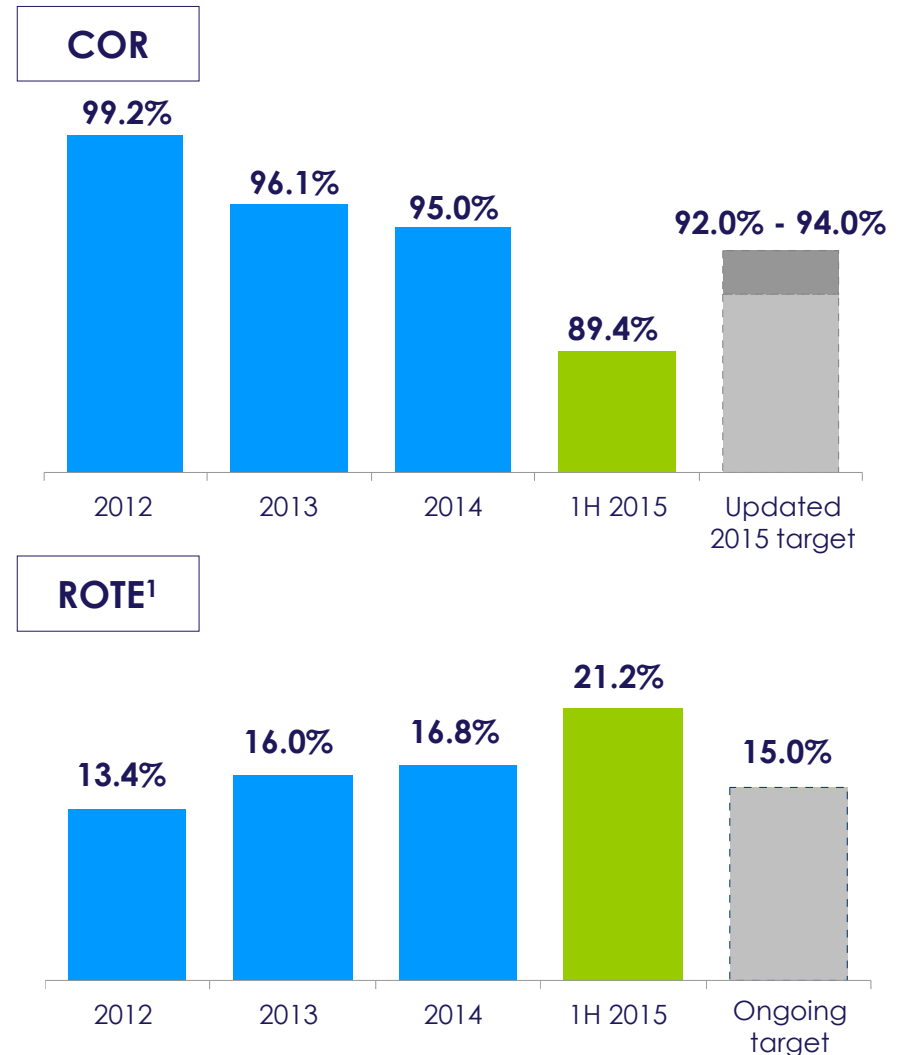
1. Since Dec 2014

# Our transformational journey so far..



# Outlook

- 1 Motor and Home markets remain highly competitive
- 2 Aim to reduce costs in absolute terms
- 3 Strong reserve and capital position
- 4 Ongoing investment in capability
- 5 2015 COR target updated to 92-94% assuming normal annual Home weather; underlying trends in line with 94-96% COR



**Our mission is to make insurance much easier and better value for our customers**

1. See note 2 on page 5

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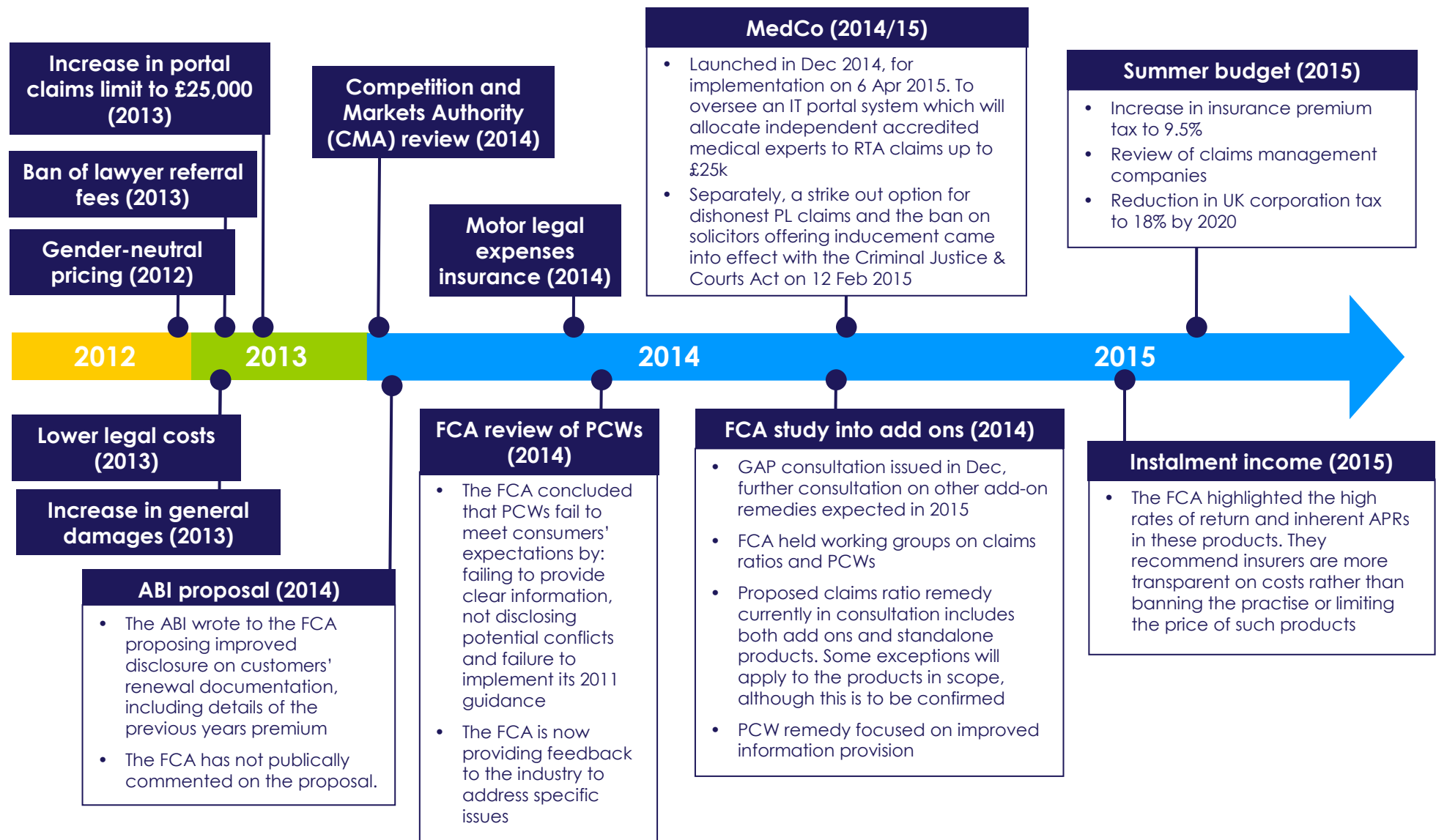
# Q&A

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# Appendix



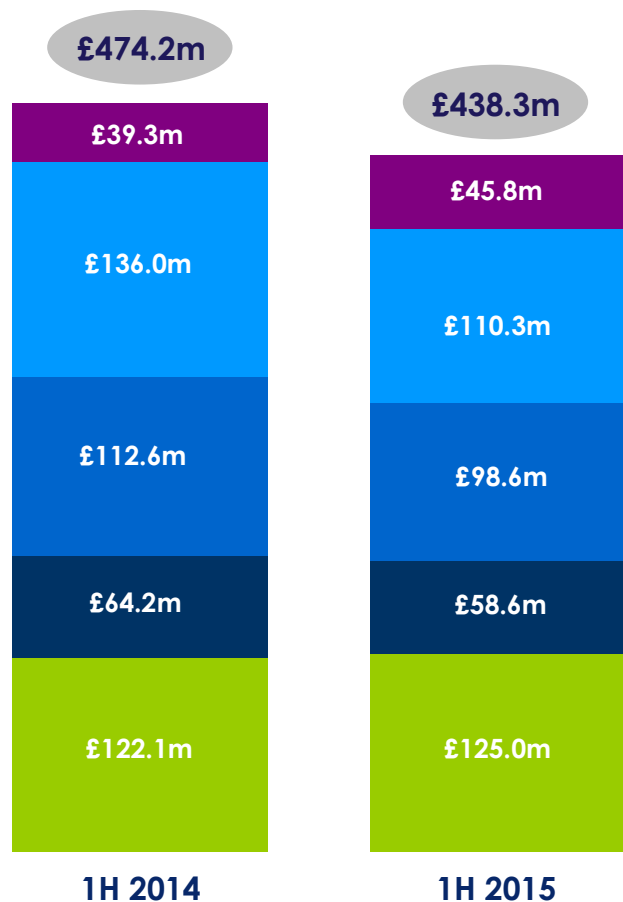
# UK regulatory themes



# Cost savings achieved through greater efficiency

## Analysis of cost base<sup>1</sup>

## Observations



- Overall costs down 7.6%
- Underlying 'payroll' costs down 2.9%
- Making more efficient use of marketing with costs down 8.7%
- Increased depreciation and amortisation costs reflecting investment in the business
- Continuing to reduce costs in absolute terms in 2015

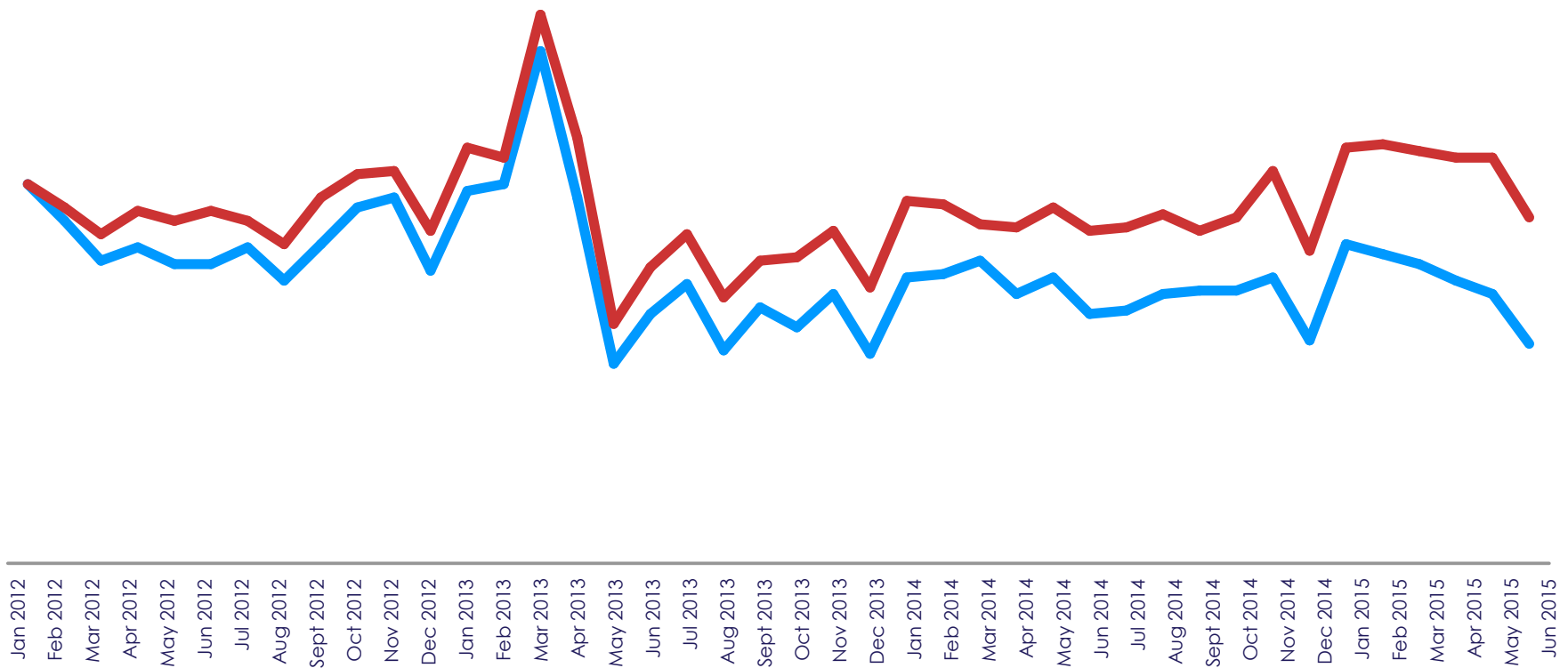


<sup>1</sup>. See note 2 page 8

# Small BI claims trends

## RTA Portal claims notifications forms by working day (indexed Jan 12 = 100)

- Industry<sup>1</sup> with estimated adjustment to remove exited and re-submitted claims March, September & October 2014 due to transfers between organisations
- Direct Line Group volume adjusted



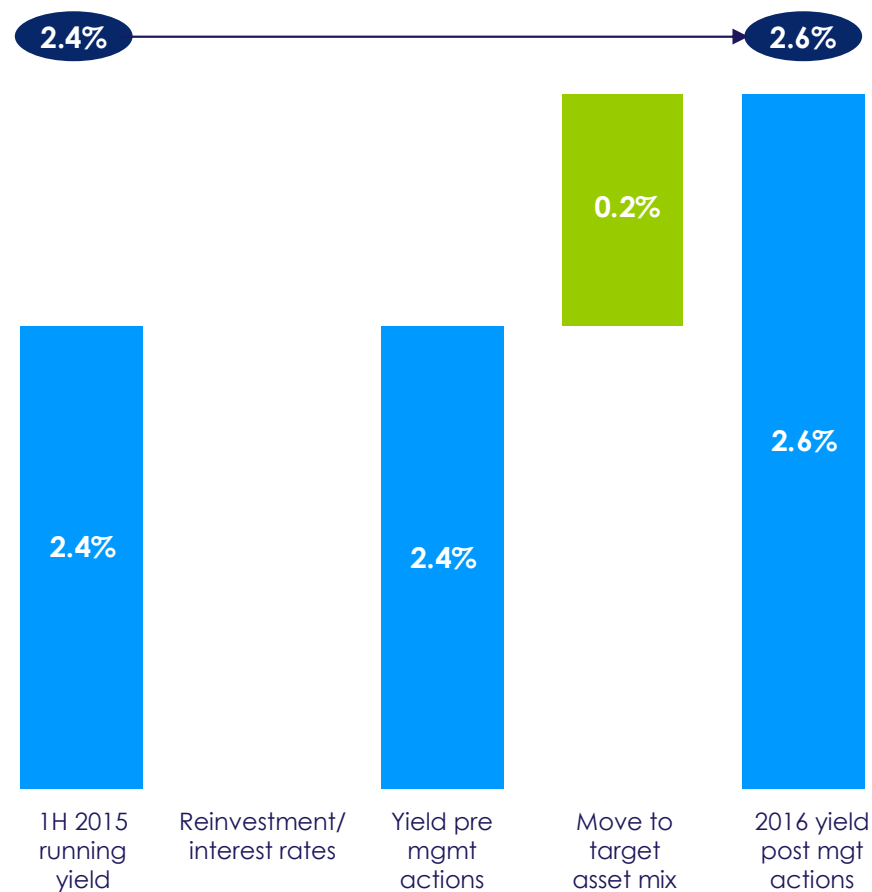
1. Source MOJ Portal Statistics Executive Dashboard June 2015 – RTA Motor

# Investment yield outlook

## Income yield<sup>3</sup>

30 June 15	Target allocation <sup>1</sup>	Allocation (ex Int'l proceeds)	Income yield <sup>1</sup>	Duration (years)
Credit <sup>2</sup>	63.0%	63.1%	2.8%	2.4
Securitised credit <sup>3</sup>	6.0%	5.8%	1.5%	0.1
Sovereign	12.0%	9.8%	1.7%	1.4
<b>Total debt securities</b>	<b>81.0%</b>	<b>78.7%</b>	<b>2.6%</b>	<b>2.1</b>
Infrastructure	6.0%	3.2%	n.m. <sup>4</sup>	n.m. <sup>4</sup>
Investment property	6.0%	4.7%	5.6%	-
Cash and cash equivalents	7.0%	13.4%	0.7%	0.0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>2.4%</b>	<b>1.6<sup>5</sup></b>

## Income yield outlook

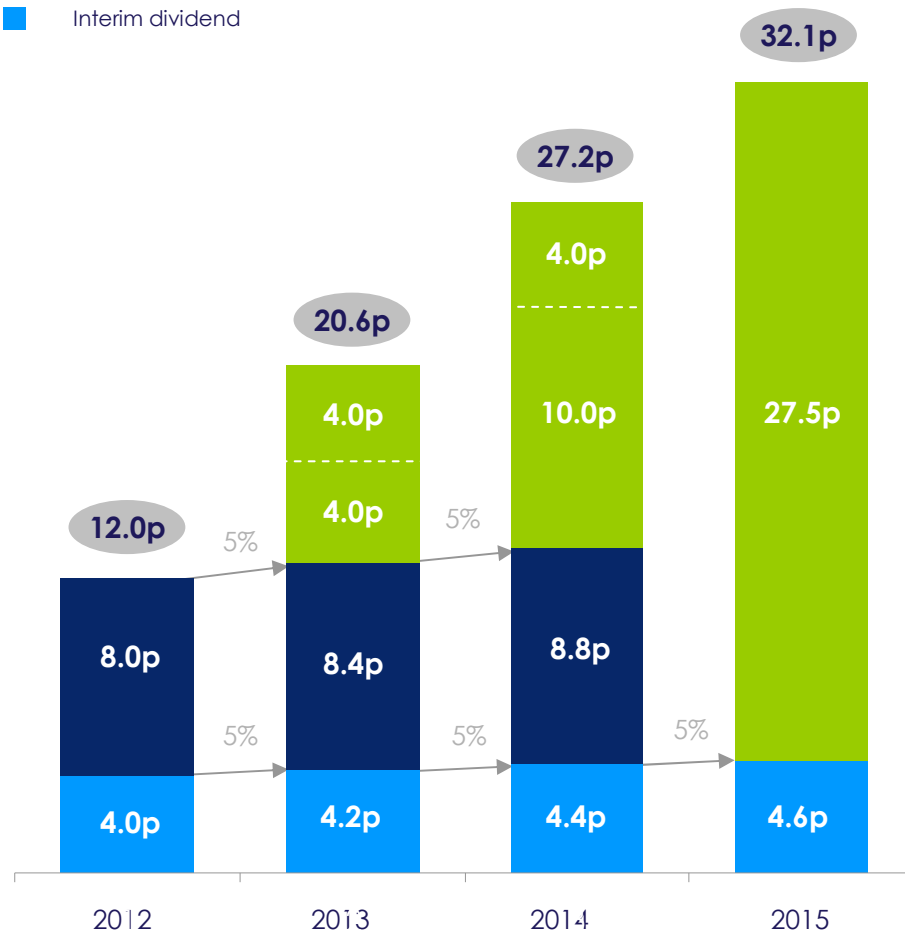


1. Target allocation and actual income yield for U K Insurance Limited  
 2. Includes high yield and private placements  
 3. Securitized credit is all in the form of prime mortgage backed securities, collateralised loan obligations, securitised student loans and commercial mortgage backed securities  
 4. Not meaningful  
 5. Excludes investment property

# Dividends

## Dividends

- Special dividend
- Final dividend
- Interim dividend



## Commentary

- **5% growth in interim dividend to 4.6 pence per share**
- **Completed the sale of our International division with substantially all of the net proceeds returned to shareholders as a special interim dividend of 27.5 pence per share paid on 24 July 2015**
- **Dividends paid since IPO equivalent to 53% of IPO price including the 2015 interim and International special**

Date	Event
13 August 15	Ex-dividend date
14 August 15	Record date
11 September 15	Payment date

# Reinsurance and risk based capital

## Motor excess of loss reinsurance<sup>1</sup>

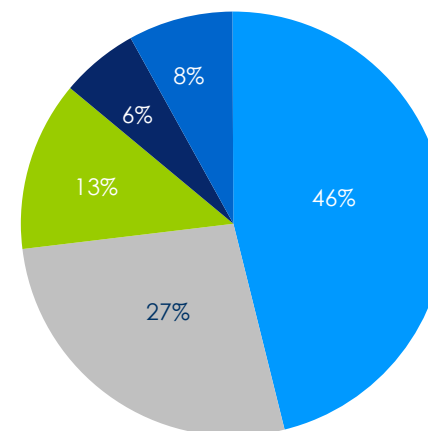
(£m)	2011	2012	2013	2014	2015
Limit	Unlimited				
Deductible	3 <sup>2</sup>	3	3 <sup>2</sup>	1 <sup>2</sup>	1

## Property catastrophe reinsurance<sup>3</sup>

(£m)	2013/14	2014/15	2015/16
Limit	1,300	1,400	1,350
Deductible	150	150	150

## Risk based capital

- Reserve risk
- Underwriting risk
- Operational risk
- Market risk
- Counterparty risk



- A risk based capital model is used to determine capital requirements for the Group as part of its Internal Capital Assessment (ICA)
- The model is calibrated to a 99.5% confidence interval over a one year period and allows for uncertainty until ultimate settlement
- The risk based capital model has been enhanced to meet Solvency II requirements
- Direct Line Group seeks to hold capital coverage in the range of 125% -150% of risk based capital requirements

# RoTE calculation

## RoTE calculation

(£m)	1H 15	1H 14
Ongoing operating profit	335.8	235.7
Less: Finance costs	(18.7)	(18.7)
Profit before tax	317.1	217.0
Less: tax <sup>1</sup>	(64.2)	(46.7)
<b>Profit after tax</b>	<b>252.9</b>	<b>170.3</b>
Tangible equity b/f	2,287.4	2,289.9
Tangible equity c/f	2,487.1	2,295.7
Average tangible equity	2,387.3	2,292.8
<b>Return on tangible equity</b>	<b>21.2%</b>	<b>14.9%</b>

## Adjusted EPS calculation

(£m)	1H 15	1H 14
Ongoing operating profit	335.8	235.7
Less: Finance costs	(18.7)	(18.7)
Profit before tax	317.1	217.0
Less: tax <sup>1</sup>	(68.4)	(47.8)
<b>Profit after tax</b>	<b>252.9</b>	<b>170.3</b>
Weighted average number of shares	1,493.2	1,495.0
<b>Adjusted EPS – basic (pence)</b>	<b>16.9</b>	<b>11.4</b>
Weighted average number of share (diluted)	1,510.9	1,504.9
<b>Adjusted EPS – diluted (pence)</b>	<b>16.7</b>	<b>11.3</b>

1. UK standard tax rate of 20.25% (2014: 21.5%)

# Segmental performance: 2014

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



# Segmental performance: 2013

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

# Balance sheet overview

(£m)	June 2015	Dec 2014
<b>Assets</b>		
Goodwill and other intangible assets	506.6	517.5
Financial investments	5,641.4	5,961.2
Cash and cash equivalents	1,345.1	880.4
Assets held for sale	7.1	1,208.4
Other assets	2,741.2	2,658.1
<b>Total assets</b>	<b>10,241.4</b>	<b>11,225.6</b>
<b>Liabilities</b>		
Subordinated liabilities	516.8	526.3
Insurance liabilities and unearned premium reserve	5,948.0	6,108.3
Borrowings	82.1	69.8
Other liabilities	700.8	1,710.7
<b>Total liabilities</b>	<b>7,247.7</b>	<b>8,415.1</b>
<b>Equity</b>	<b>2,993.7</b>	<b>2,810.5</b>
Net asset value per share (pence)	<b>218.4</b>	<b>188.2</b>
Net tangible asset value per share (pence)	<b>181.5</b>	<b>153.1</b>

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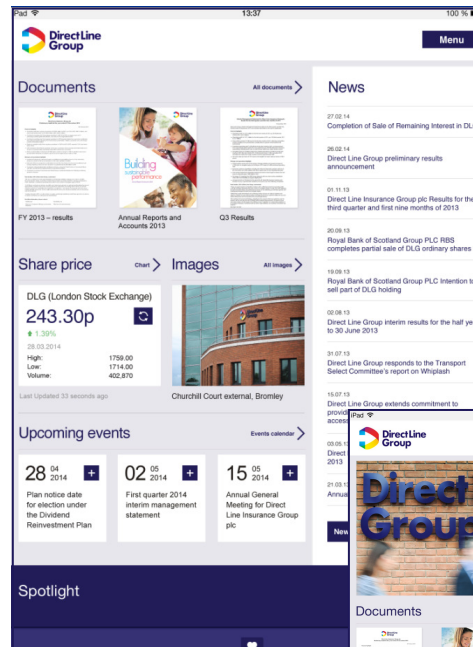
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## Investor relations app



# General disclaimer

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## Forward-looking statements

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