



**2015 preliminary results  
1 March 2016**

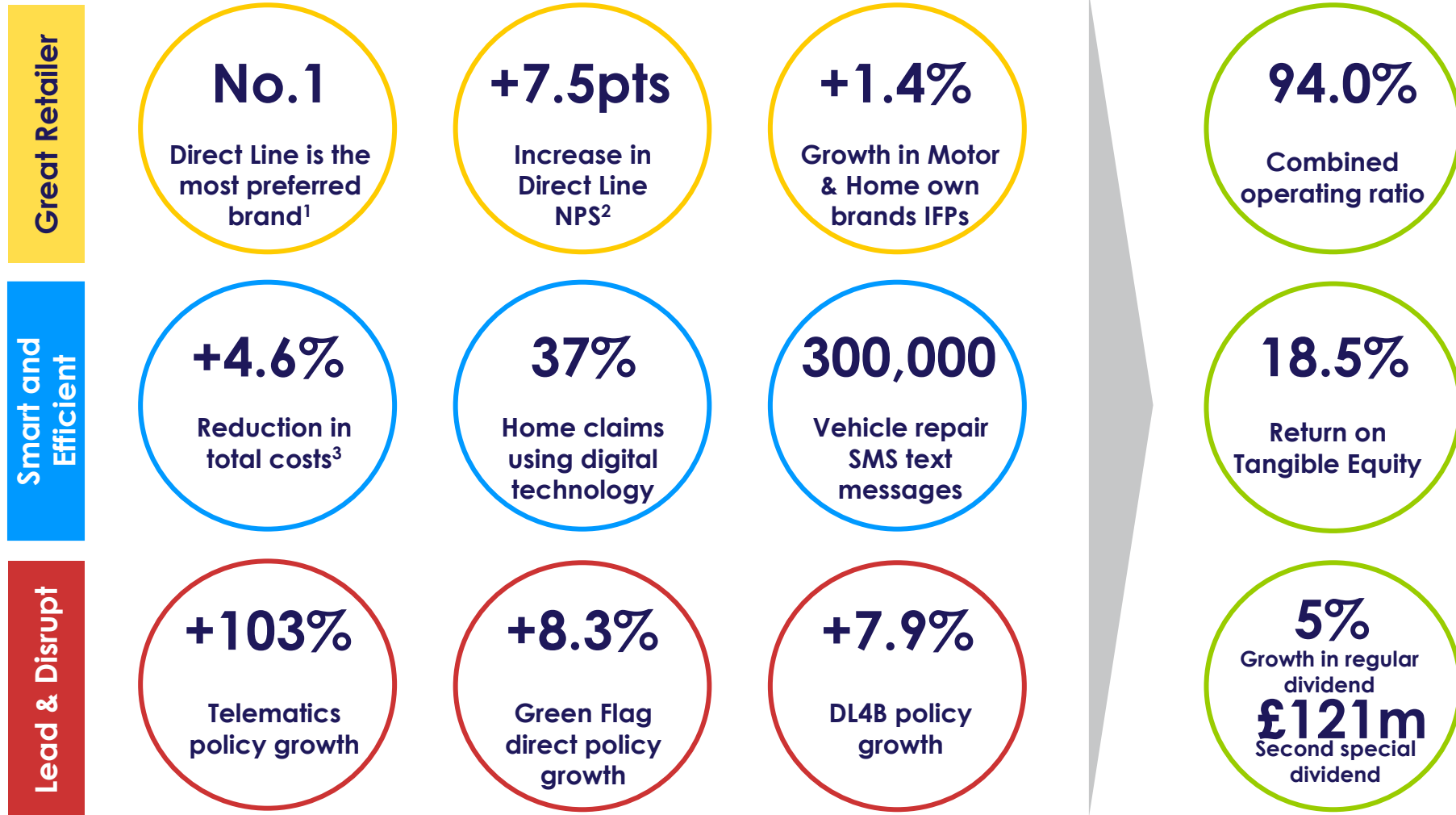


# Today's agenda

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- 1. 2015 highlights:** **Paul Geddes - CEO**
- 2. Financial results:** **John Reizenstein - CFO**
- 3. Strategy update:** **Paul Geddes – CEO**  
**Mike Holliday-Williams – MD Personal Lines**
- 4. Q&A**

# 2015 highlights



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

1. See note 1 on slide 22  
2. See note 2 on slide 22  
3. See note 2 on slide 5

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## Financial results

**John Reizenstein - CFO**

# Good set of results in competitive markets

## Observations

- 1 **GWP of £3,152.4m, up 1.7% versus 2014**
- 2 **Ongoing operating profit increased by 2.9% to £520.7m**
- 3 **COR of 94.0% is 1ppt better than 2014; normalised for major weather c.93%**
- 4 **Total costs of £884.7m, down 4.6% versus 2014**
- 5 **RoTE of 18.5%, ahead of the 15% target**
- 6 **Increase in operating profit in Motor and Rescue and other personal Lines, Home broadly stable and Commercial impacted by higher claims from December storms**

(£m unless stated)	2015	2014
<b>Ongoing operations<sup>1</sup></b>		
Gross written premium	3,152.4	3,099.4
Underwriting profit	175.2	148.1
Instalment and other income	150.8	147.3
Investment return	194.7	210.6
<b>Operating profit – ongoing operations</b>	<b>520.7</b>	<b>506.0</b>
Profit before tax - continuing operations	507.5	456.8
Profit after tax	580.4	372.6
<i>Of which Ongoing operations</i>	385.3	368.0
Combined operating ratio	94.0%	95.0%
Total costs <sup>2</sup>	884.7	927.7
RoTE <sup>3</sup>	18.5%	16.8%

Operating profit – ongoing operations (£m)	2015	2014
Motor	338.0	297.1
Home	109.9	113.9
Rescue and other personal lines	52.0	48.0
Commercial	20.8	47.0

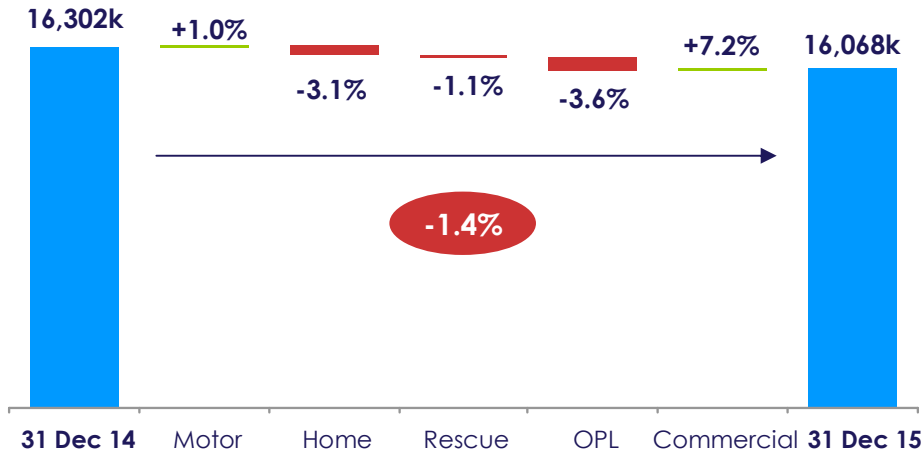
1. Ongoing operations comprises Direct Line Group's (the 'Group') ongoing divisions: Motor, Home, Rescue and other personal lines and Commercial. It excludes discontinued operations (the Group's former International division), the Run-off segment and Restructuring and other one-off costs.

2. Total ongoing costs include operating expenses and claims handling expenses.

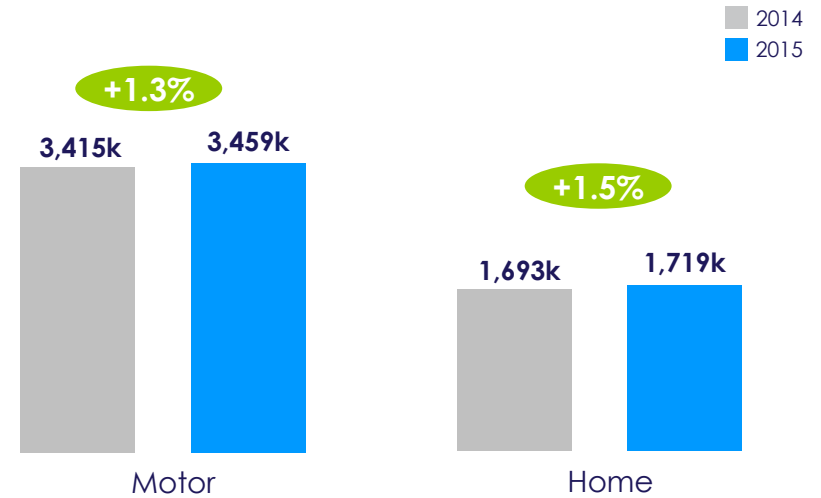
3. Return on tangible equity ('RoTE') is adjusted profit after tax from ongoing operations divided by the Group's average shareholders' equity, less goodwill and other intangible assets and net assets held for sale in the disposal group relating to discontinued operations. Profit after tax is adjusted to exclude discontinued operations, the Run-off segment and restructuring and other one-off costs, and the gain on disposal of subsidiary. It is stated after charging tax (using the UK tax rate of 20.25%; 2014: 21.5%). RoTE for the comparative period includes the net assets held for sale in the disposal group and profit after tax for discontinued operations, as the International division was managed as part of ongoing operations.

# Reduction in total IFPs but improving mix towards own brands and direct

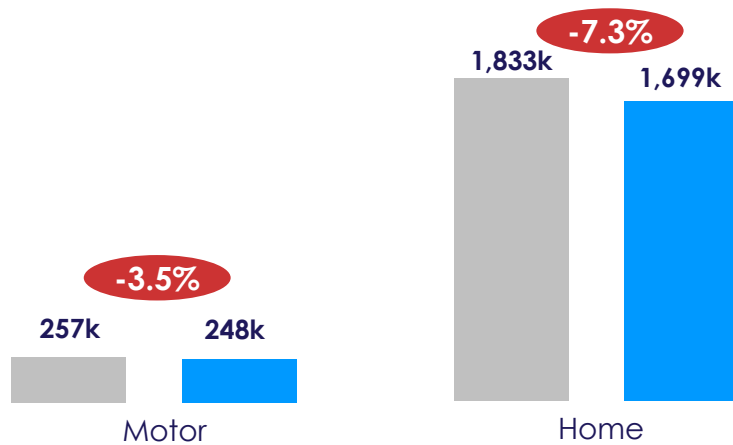
## Reduction in total IFPs



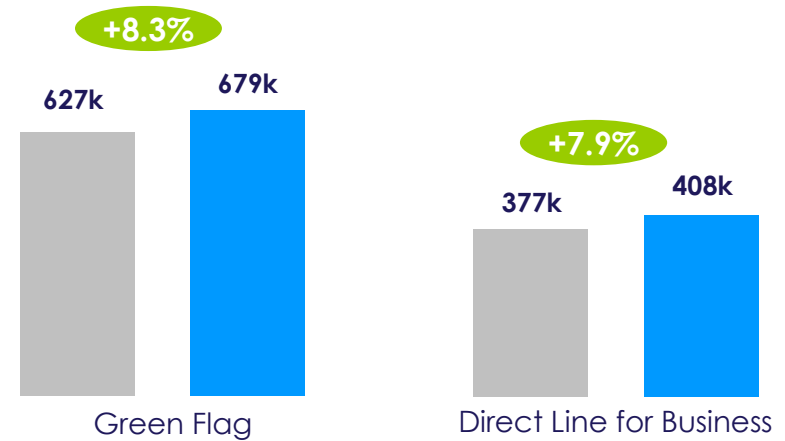
## Growth in Motor and Home own brands



## Lower Motor and Home Partners

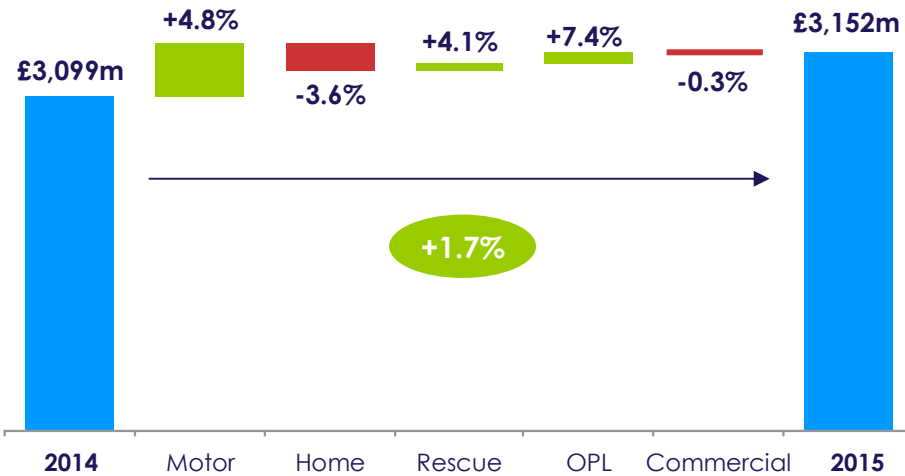


## Growth in Green Flag direct and DL4B

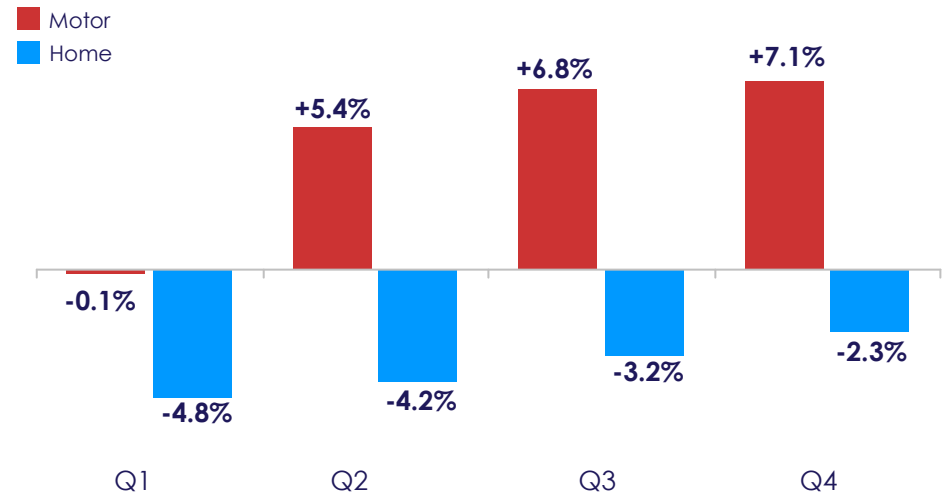


# Improving GWP performance during the year

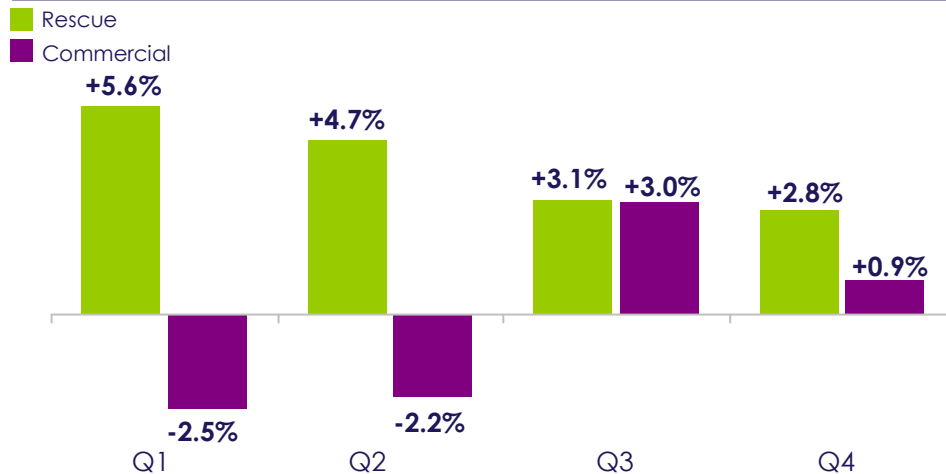
## Growth in total GWP



## Motor and Home quarterly performance



## Rescue and Commercial quarterly performance



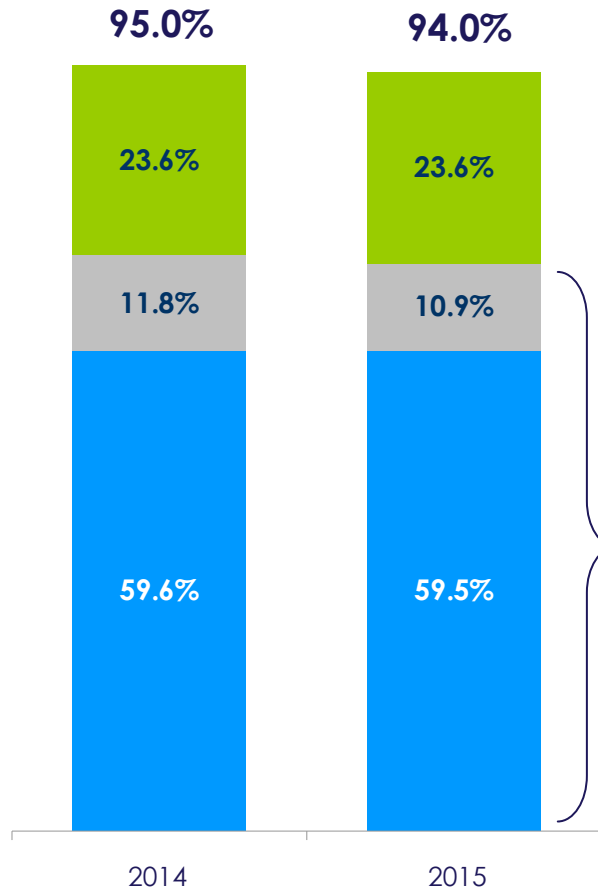
## Observations

- Motor GWP growth accelerated during 2015
- Reduction in the rate of decline in Home
- Rescue continued to grow GWP despite increased competition in H2
- Growth in Commercial direct, offsetting competitive regional markets

# Improvement in overall COR and loss ratio

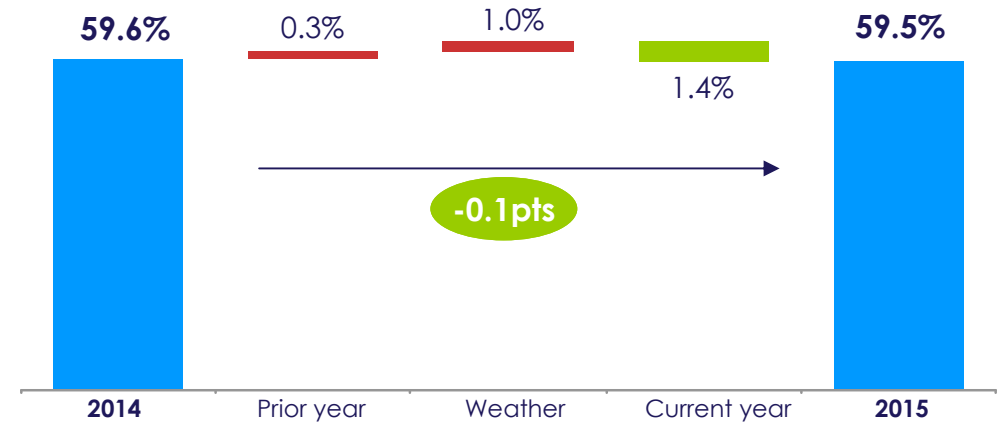
## Combined operating ratio

- Expense ratio
- Commission ratio
- Loss ratio

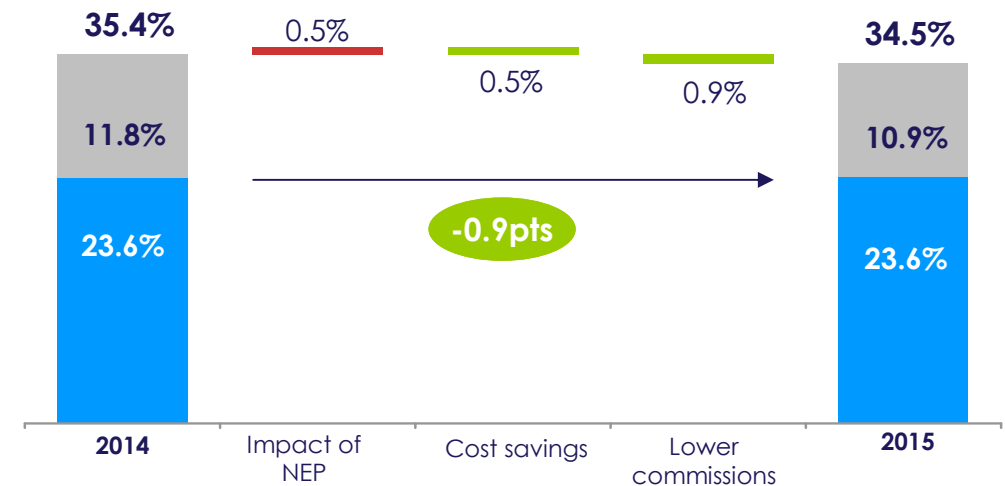


Impact of major weather c. 1ppt

## Loss ratio analysis

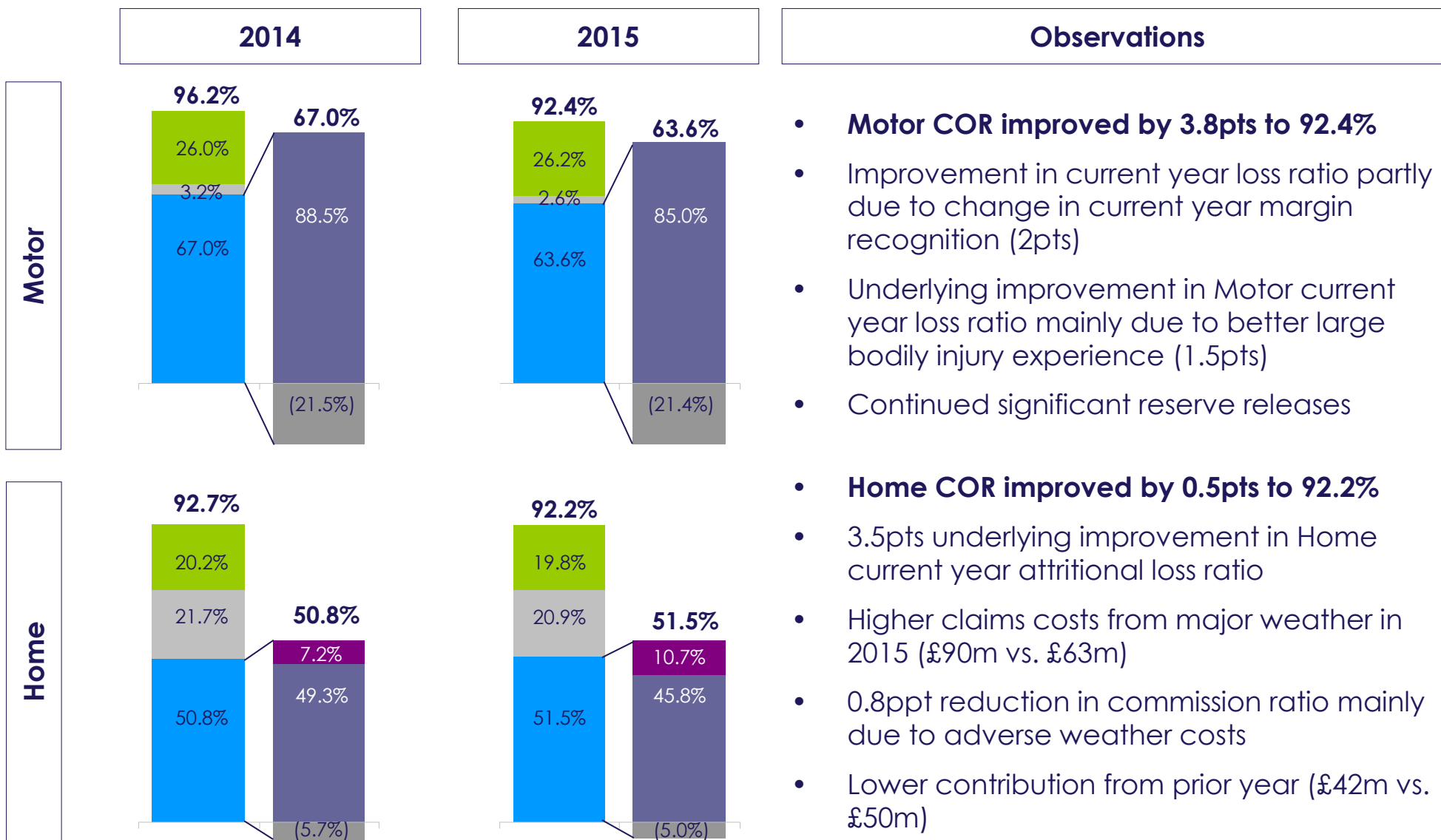


## Expense and commission ratio analysis





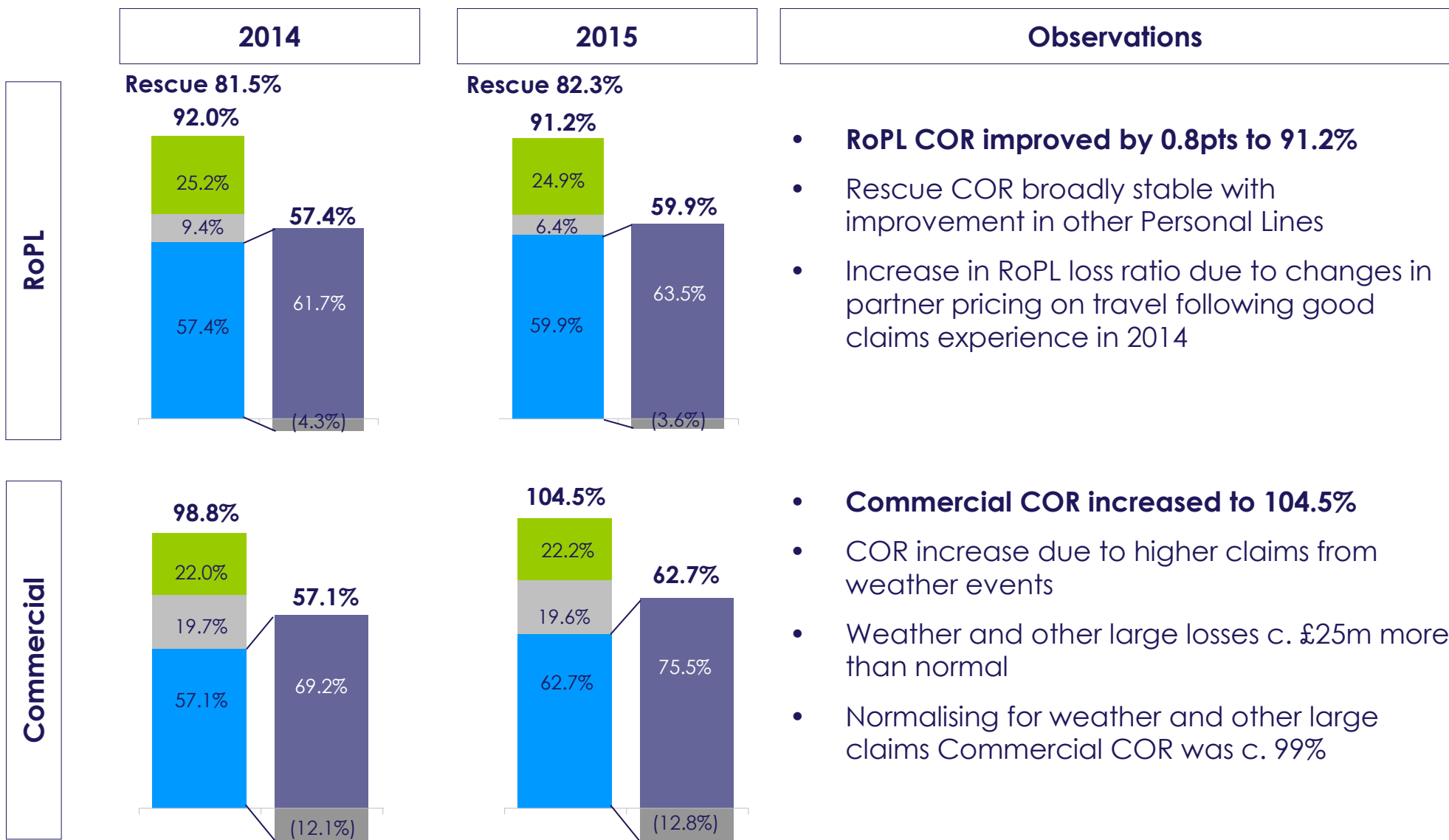
# Improved COR and loss ratio in Motor and Home



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- Expense ratio
- Commission ratio
- Loss ratio
- Major weather
- Loss ratio - current year attritional
- Loss ratio - prior years

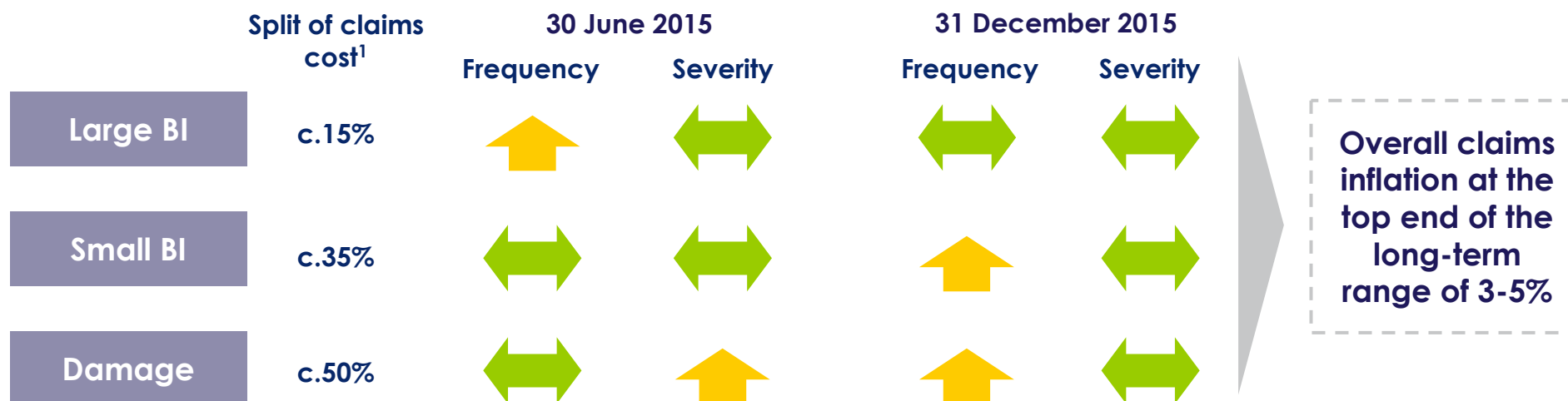
# Improved COR in RoPL, Commercial impacted by weather



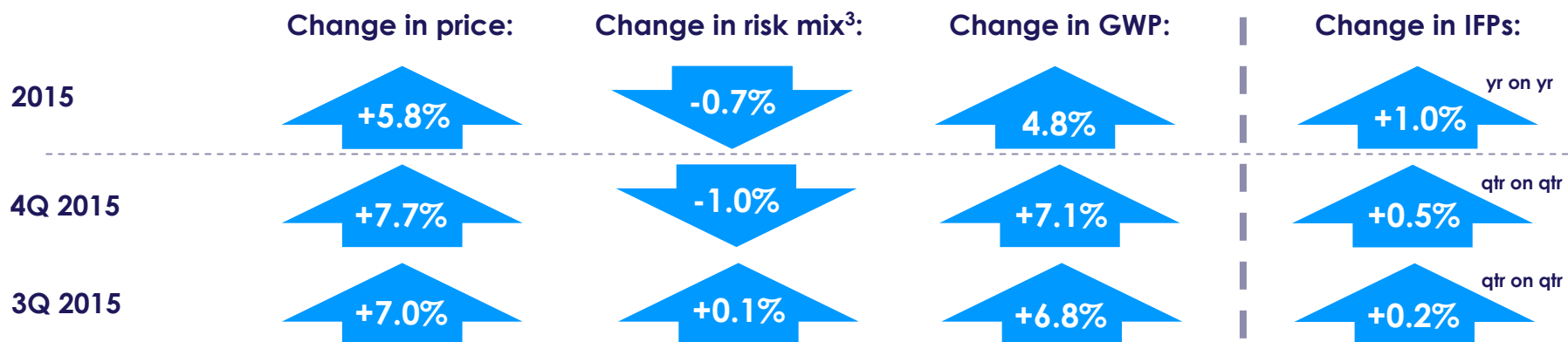
■ Expense ratio     ■ Loss ratio - current year attritional  
■ Commission ratio     ■ Loss ratio - prior years  
■ Loss ratio

# Motor - higher premiums broadly in line with claims trends

## Claims by peril vs. expectations



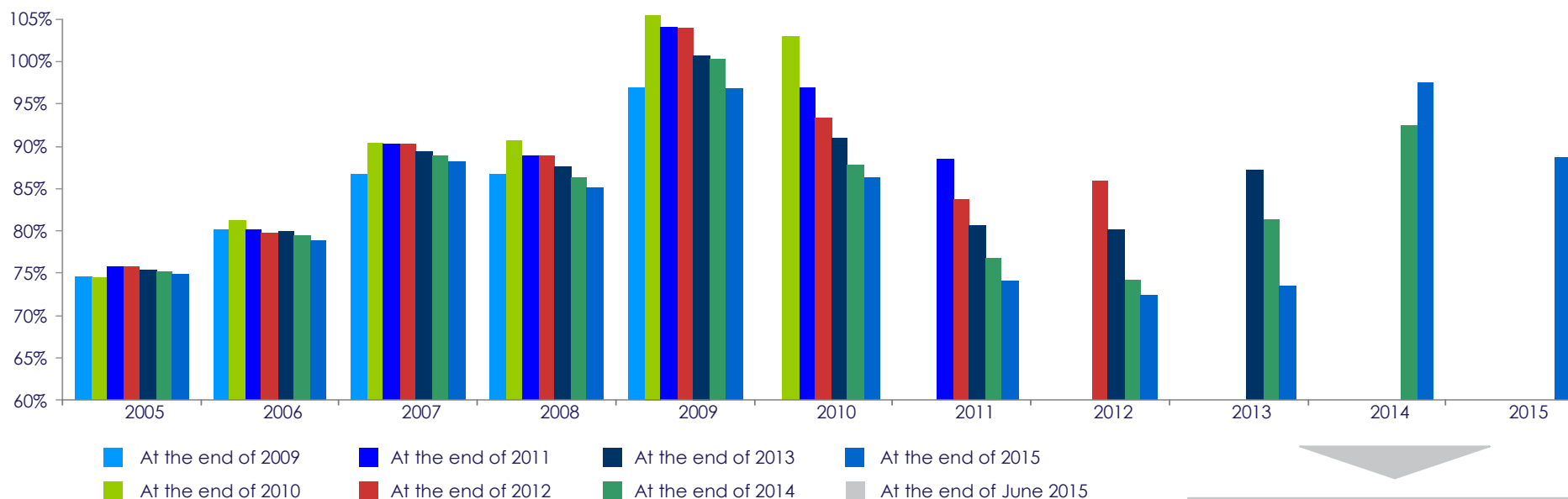
## Motor premium movement<sup>2</sup>



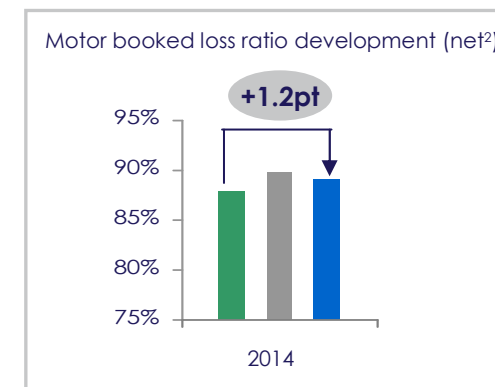
1. Gross  
 2. Excludes IPT  
 3. Risk mix reflects the expected level of claims from the portfolio. It measures the estimated movement based on risk models used in that period and is revised when risk models are updated

# Motor - Conservative reserving leading to prior year releases

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



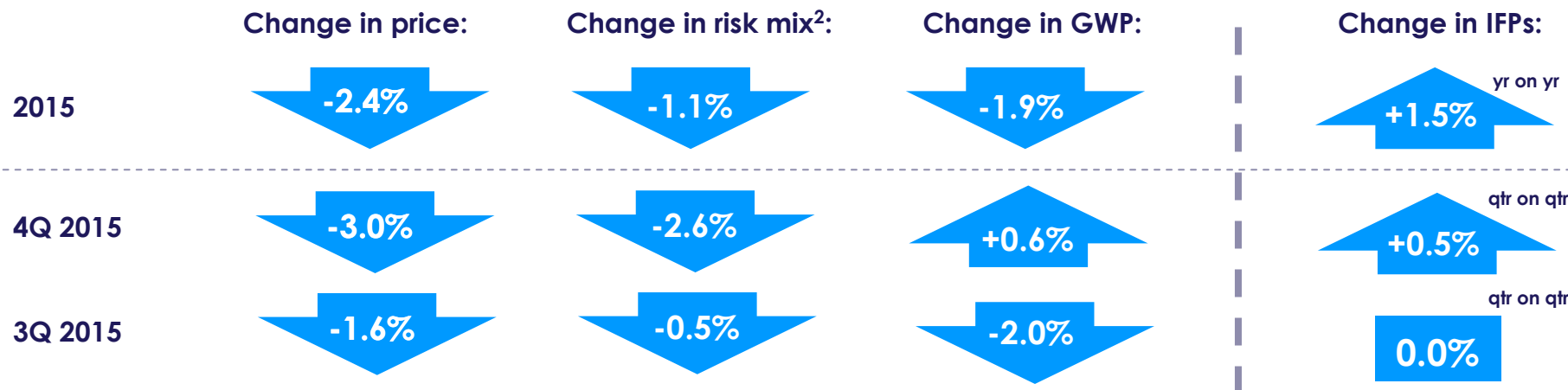
Prior year releases	2015	2014	2013
£m	266.8	278.4	291.9
% NEP	21.4%	21.5%	20.2%



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

# Home - Continued price deflation across market

## Home own brand premium movement<sup>1</sup>



### Market observations

- Home market remained competitive during 2015 with the third year of market deflation
- Underlying pricing (excluding IPT) was broadly stable in Q4
- Market still benefitting from lower reinsurance pricing

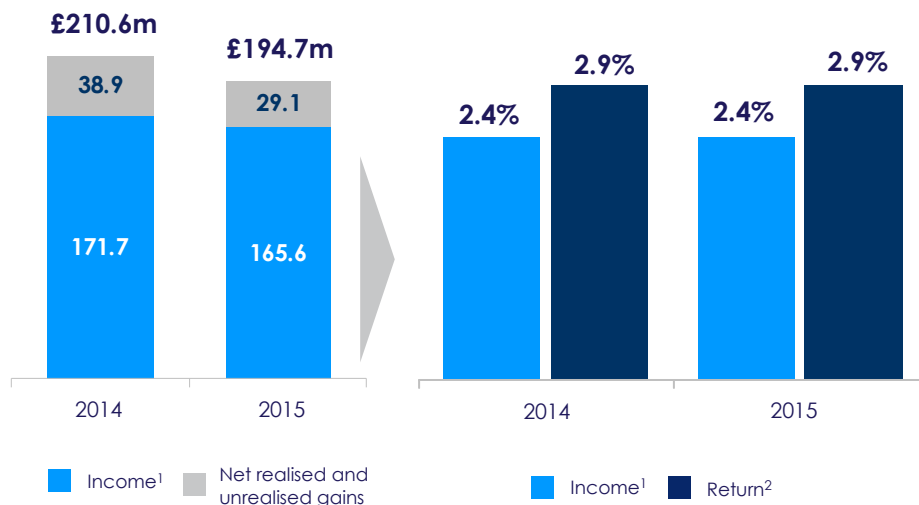
### Experience

- Own brands policy count increased in Q4 2015
- Retention remained strong throughout the year
- Underlying inflation lower than long term average particularly in theft and AD

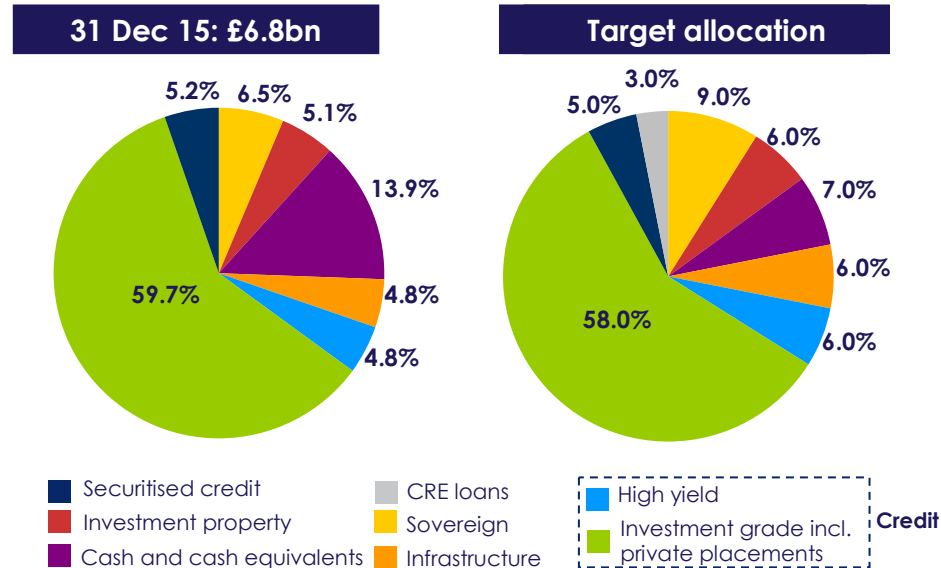
13 1. Excludes IPT  
2. Risk mix reflects the expected level of claims from the portfolio. It measures the estimated movement based on risk models used in that period and is revised when risk models are updated

# Stable investment returns from a high quality portfolio

## Investment income and yields



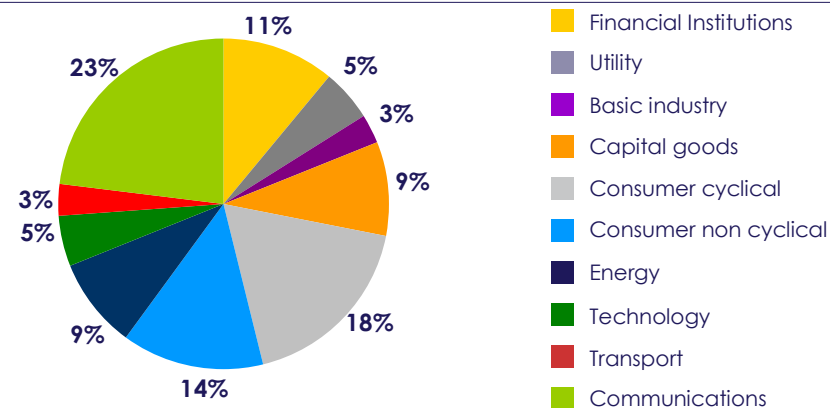
## AUM – current and target allocations



## Changes to target allocations

- **New Commercial Real Estate lending mandate**
- **Diversification of existing investment grade credit into global credit**
- **Increased allocation to high yield**

## High Yield by sector

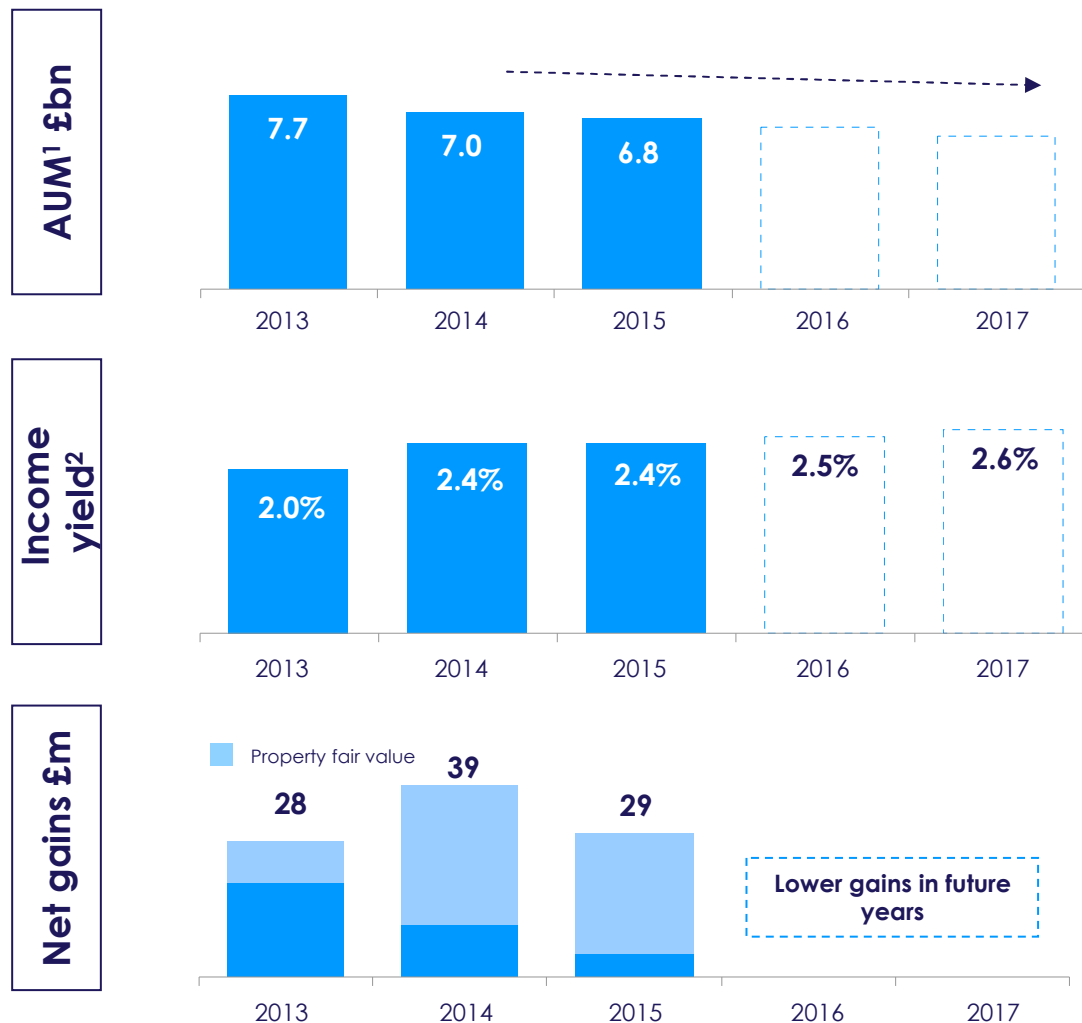


1. Investment income excluding net gains divided by average AUM based on opening and closing balance for total Group – continuing operations  
 2. Investment return including net gains divided by average AUM based on opening and closing balance for total Group – continuing operations

# Investments outlook

## Recent performance and outlook

## Observations



- Modest reduction in AUM over last two years due to lower business volumes/claims reserves and capital management
- Based on current market, income yield expected to be 2.5% in 2016 and 2.6% in 2017
- Assumes 25bps rate rise in September 2017
- Investment property unrealised gains have contributed to net gains
- Unrealised AFS net gains at 31 Dec 2015 of £5.4m (net of tax)

1. Excluding International  
2. See note 1 page 14

# Higher profit after tax

## Observations

- 1 Run-off segment profit £73.1m driven by positive prior year development from large bodily injury
- 2 Restructuring and other one-off costs of £48.7m, 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

- The Run-off segment is expected to continue to contribute positively to operating profit in future years
- Profit from run-off is expected to be substantially offset by restructuring and other one-off costs over the three year period 2015 to 2017

## Operating profit

(£m unless stated)	2015	2014
<b>Operating profit – ongoing operations</b>	<b>520.7</b>	<b>506.0</b>
Run-off 1	73.1	55.3
Restructuring and other one-off costs 2	(48.7)	(69.6)
<b>Operating profit – continuing operations</b>	<b>545.1</b>	<b>491.7</b>
Finance costs	(37.6)	(37.2)
Gain on disposal of subsidiary <sup>1</sup> 3	-	2.3
<b>Profit before tax – continuing operations</b>	<b>507.5</b>	<b>456.8</b>
Tax	(108.3)	(97.5)
Profit from discontinued, net of tax <sup>2</sup>	181.2	13.3
<b>Profit after tax</b>	<b>580.4</b>	<b>372.6</b>
<b>EPS – adjusted diluted (pence)<sup>3</sup></b>	<b>26.6</b>	<b>25.5</b>

1. Tracker disposed of on 5 February 2014 – the period ended 31 December 2014 includes Tracker related operating income: £1.4m and operating loss: £0.4m

2. In 2015, the Group completed the sale of its International division. The gain on disposal of £167.1m (pre tax) is included in profit after tax from discontinued operations together with operating profit of £29.9m.

3. 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 20.25%; 2014 21.5%)

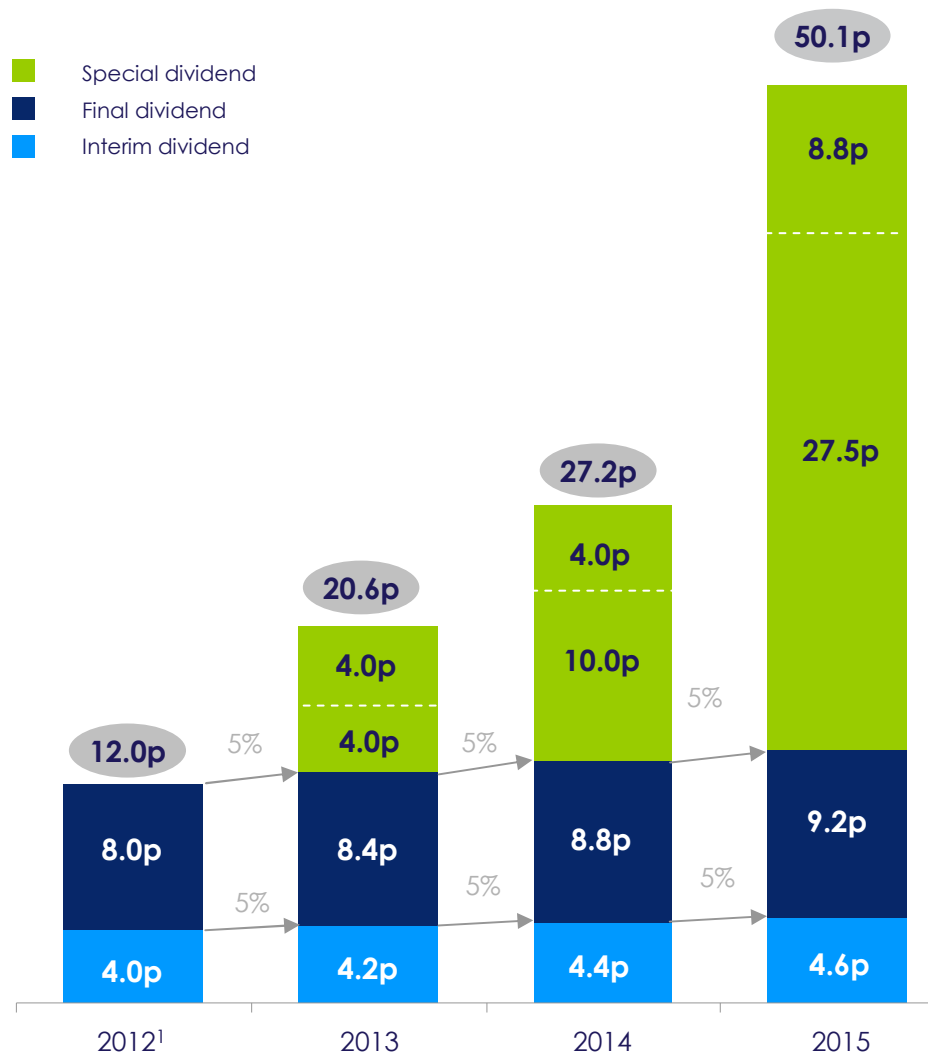


# Dividend growth and special dividends in line with policy

## Dividends

## Commentary

- Special dividend
- Final dividend
- Interim dividend

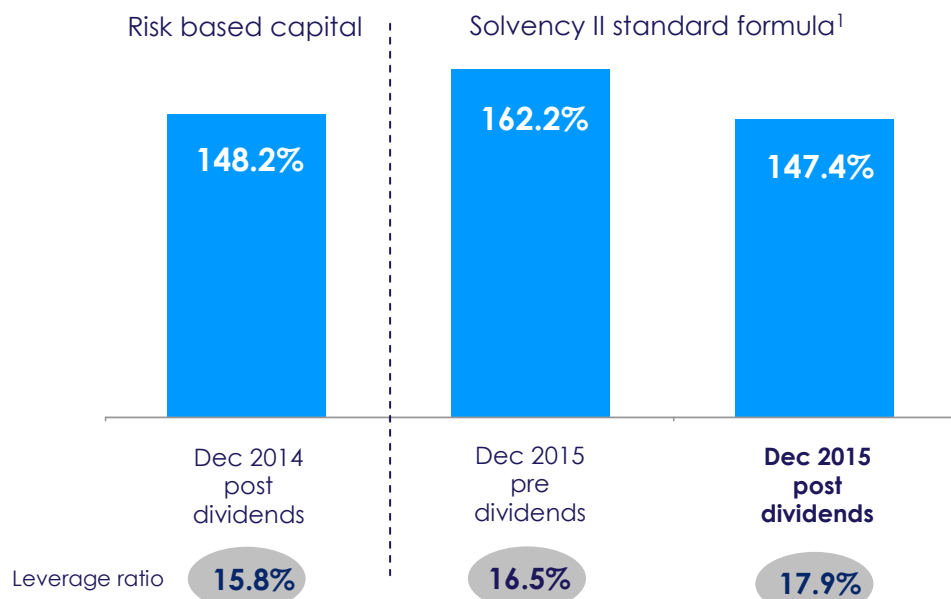


- 5% growth in final dividend to 9.2 pence per share makes total regular dividend of 13.8p per share
- 27.5p per share dividend paid in July following sale of International
- Further special dividend of 8.8 pence per share reflects build up of surplus capital during year
- Total dividends per share since IPO of over £1.5bn

Date	Event
10 March 2016	Ex-dividend date
11 March 2016	Record date
19 May 2016	Payment date

# Conservative capital position on transition to Solvency II

## Capital position and leverage



## Observations

- Capital position remains conservative
- Leverage increased to 17.9% due to the sale of International
- Credit ratings 'A' (strong) S&P, 'A2' (good) Moody's

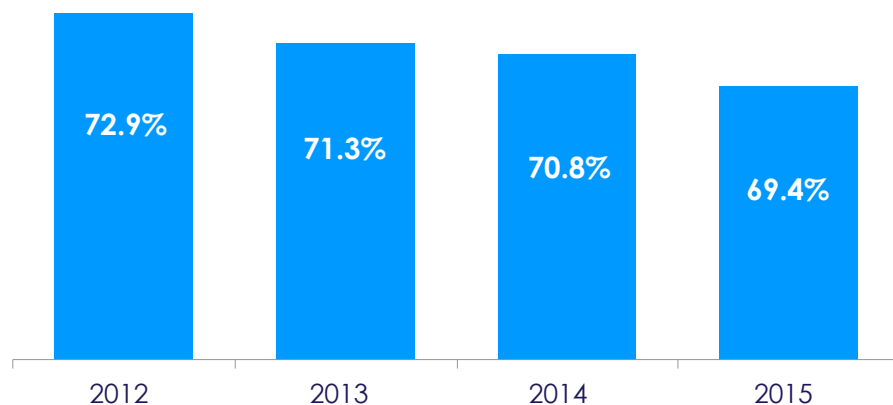
## Solvency II and transition to internal model

- Operating under standard formula from 1 Jan 2016
- Applied for internal model approval for UKI as part of Group-wide partial internal model
- Aim to move to internal model during 2016 subject to PRA approval
- Review and recalibration of risk appetite underway
- No 'step change' in capital requirement is expected

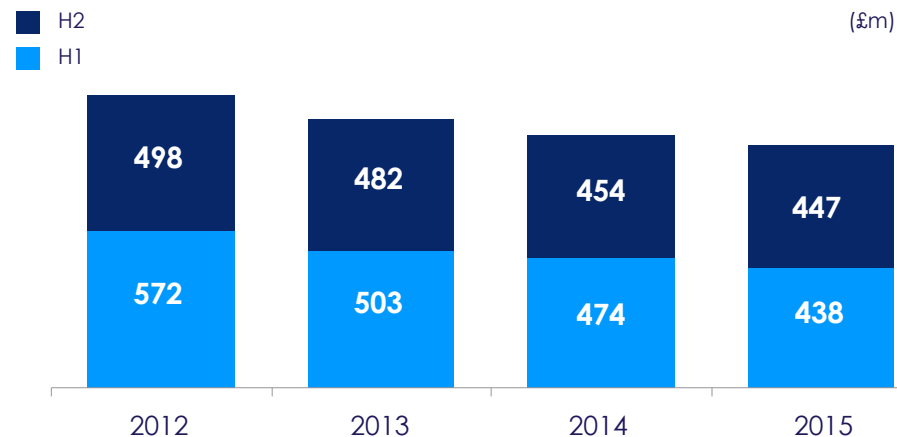
1. Figures are pro forma, assuming expected changes to hedging arrangements were in effect at 31 December 2015

# Further progress on key financials

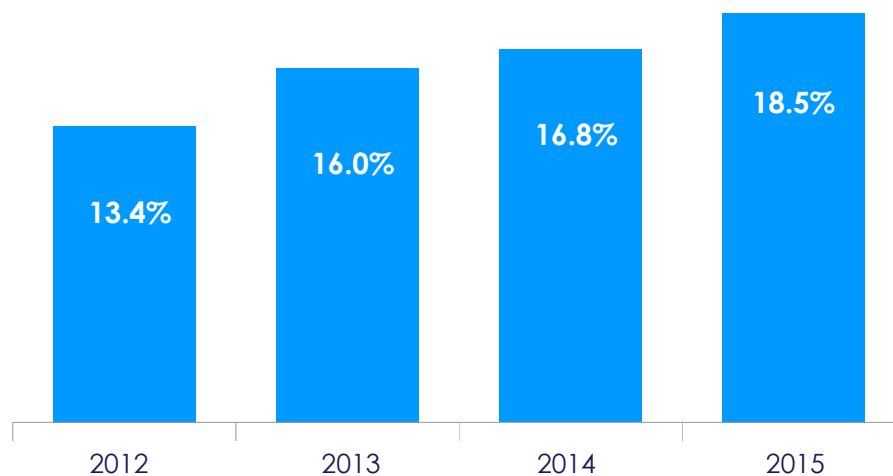
Current year attritional loss ratio<sup>1</sup>



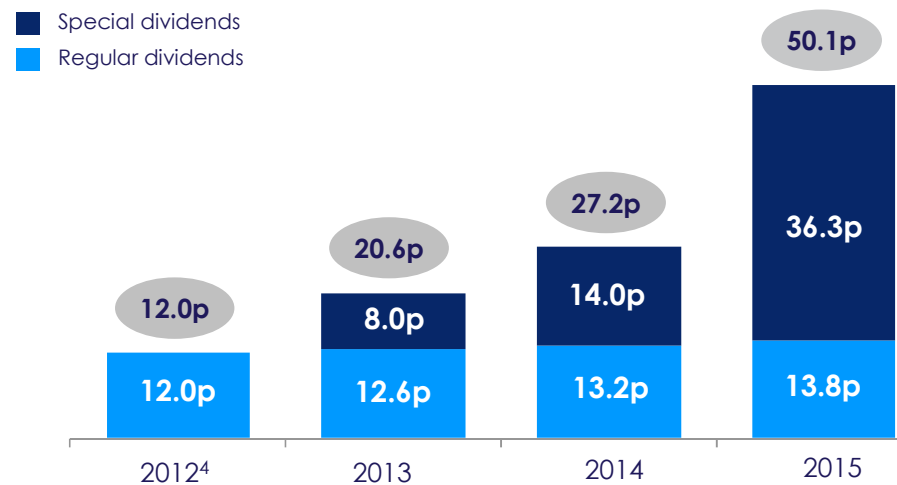
Total costs<sup>2</sup>



RoTE



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 4 page 5  
 3. See note 2 page 14  
 4. 2012 pro-forma dividend

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## **Strategy update**

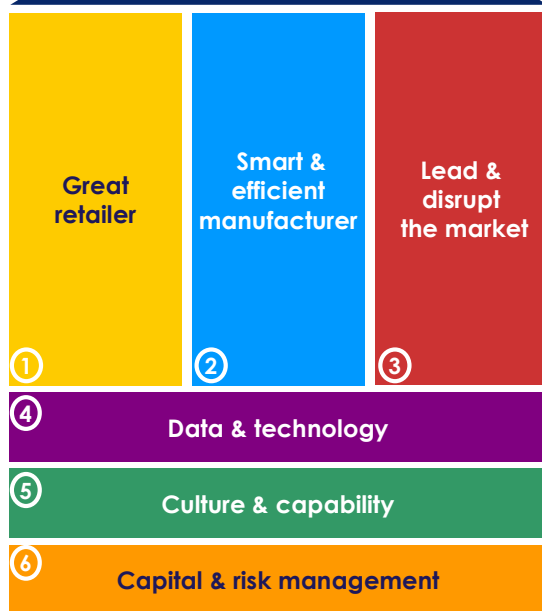
**Paul Geddes – CEO**

**Mike Holliday-Williams – MD Personal Lines**

# Reminder of our strategy and 2015 deliverables

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

Make insurance much easier and better value for our customers



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
<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

We're delivering improved customer experience and satisfaction

**Direct Line #1  
Churchill #2**

Brand preference<sup>1</sup>

**+7.5 pts**

Increase in Direct Line Net Promoter Score (NPS)<sup>2</sup>

**Motor +1 ppt  
Home +2 ppt**

Increase in retention rates

- **Strengthened Direct Line's positioning**
  - **Guaranteed car hire as standard**
  - **Removal of amendment fees**
  - **7 day car repair service**
  - **8 hour household essential replacement**
- **Refreshed the Churchill brand "depend on the dog"**
- **Improved PCW trading capability**
- **Continued roll out of digital capabilities**
  - **New quote and buy journeys for Home and Green Flag**
- **Investment in training for customer facing teams**

# Smart and efficient manufacturer

Delivering efficiency and improving processes for our customers

**-4.6%**

Reduction in total costs<sup>1</sup>

**300,000**

Vehicle repair SMS text messages sent

**37%**

Proportion of Home claims that used digital journey

- Improving claims efficiency through
  - New propositions such as 7 day repair service
  - Use of digital for customers to report and track claims online
  - New processes in our accident repair centres
- Continued to improve technical pricing sophistication and quote footprint
  - Telematics
  - Commercial Van
- Improved efficiency across all areas of the business
  - Reduced total cost base
- Launched 'Idea Lab'

<sup>1</sup>. Total costs include ongoing operating expenses and claims handling expense

# Lead and disrupt the market

## Delivering innovation to meet customer needs

**>100%**

Growth in Telematics policies

**+9.1%**

Growth in Commercial Direct Line  
and eTrade policies

**+8.3%**

Growth in Green Flag direct policies

- **Growing and extending the telematics proposition**
  - Achieved 2015 growth target to double IFPs
  - New cashback app launched for over 25s
  - Proactively improving driving behaviour through direct feedback
- **Investing in Green Flag**
  - New Green Flag app
  - Green Flag Alert Me
- **Commercial focus on growing eTrade and direct**
  - 11.7% policy growth in award winning Landlord product
  - Launched Churchill business insurance
- **Commercial launched new propositions**
  - Cyber cover
  - Professional Indemnity



# Direct Line - successive initiatives are driving performance

Improvements to our proposition are giving people more reason to go direct driving improvements in our key metrics

Direct Line will give you a hire car for up to 21 consecutive days as standard.

**PROBLEM SOLVED**

**REPAIRS SORTED IN 7 DAYS.**  
OR WE'LL PAY YOU £10 A DAY UP TO £70.

Comprehensive cover. Small hatchback provided as standard.  
Underwritten by U K Insurance Limited



**YOUR BIKE BEEN TAKEN FOR A RIDE?**

Send photo proof and if all is good replacements will be **ready to send in 8 hours**



Underwritten by U K Insurance Limited. Theft claims & Accidental Loss up to £3000. Cover limits apply. 8am-8pm Mon-Fri, 9am-5pm Sat. Personal Possessions cover needed for items outside the home.

Insurance that works for you

**CAR**  
INSURANCE

More

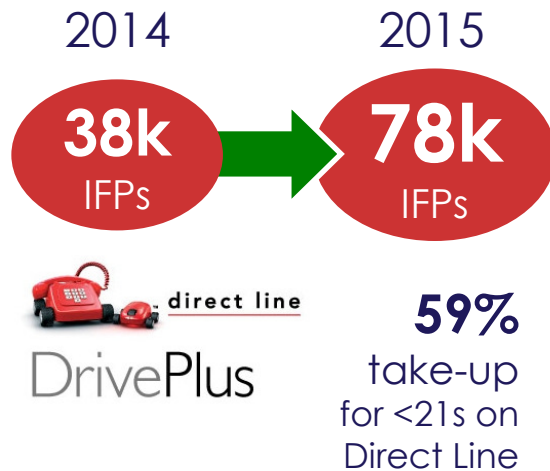
Quote



	direct line	AXA	Hastings Direct	Aviva
Courtesy car provided as standard	✓	✓	✓	✗
Provided in advance of repair assessment when using <b>our</b> approved repairers	✓ Until yours is fixed	✗ During repair	✗ During repair	✗
Provided in advance of repair assessment while using <b>your</b> own repairers	✓ For up to 21 consecutive days	✗	✗	✗
Provided if your car is written off, stolen and not recovered	✓ For up to 21 consecutive days	✓ Up to 14 days	✗	✗
Provided by hire car company (not the repairer)	✓	✗	✗	✗

# Telematics - volume target delivered, focus on mass market

## Good 2015 performance



**DriveXpert™**  
from privilege

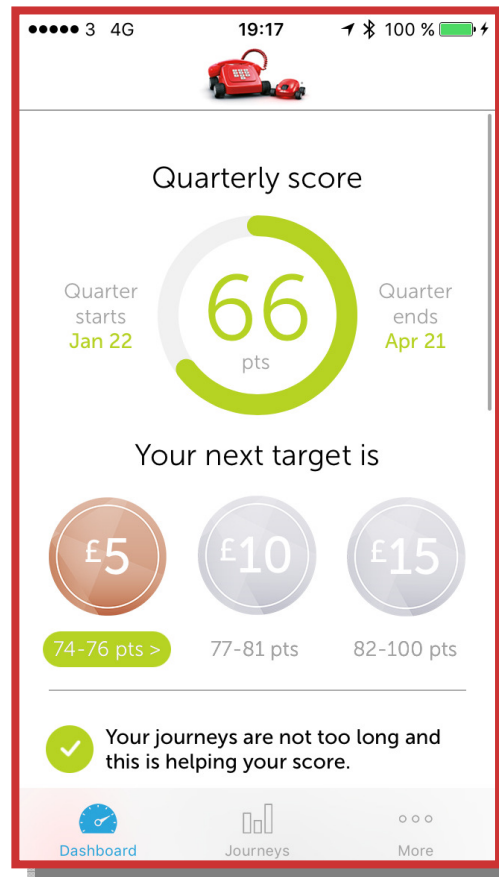
Leading with Telematics on PCWs through Privilege<sup>1</sup>

**PEUGEOT INSURANCE**

Launched Telematics 'just add fuel' with Peugeot

## 2016 – Developments on new fronts

### DrivePlus CashBack



### GreenFlag AlertMe

**NEW**

Green Flag Alert Me App

Whether your engine has overheated, you're stuck in snow or you've simply run out of fuel, Green Flag are here to help 24 hours a day, 365 days a year. But what if we can prevent breakdowns altogether? That's the aim with our new Alert Me App.

[Learn more](#)

### In Car Technology Research



# UK weather events - helping our customers

## Key facts

- **Three separate storms – Desmond (3-8 Dec), Eva (25-28 Dec) and Frank (29-30 Dec)**
- **Nearly 5,000 home claims**
  - Storm represents over 75% of claims by volume
  - Flood represents vast majority of claims by cost
- **High average flood cost for Desmond and Frank**
  - High cost of alternative accommodation and contractors
  - Victorian housing stock and some contamination from oil based heating in remote areas



## Delivering for customers

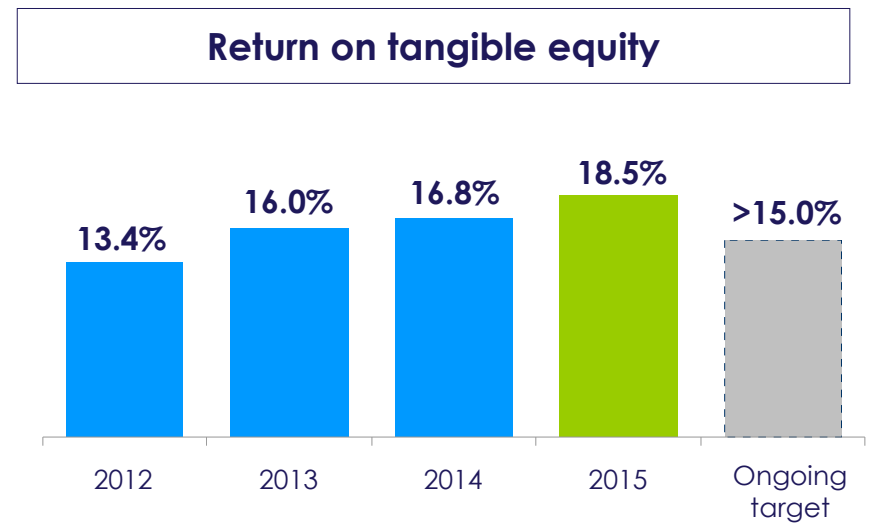
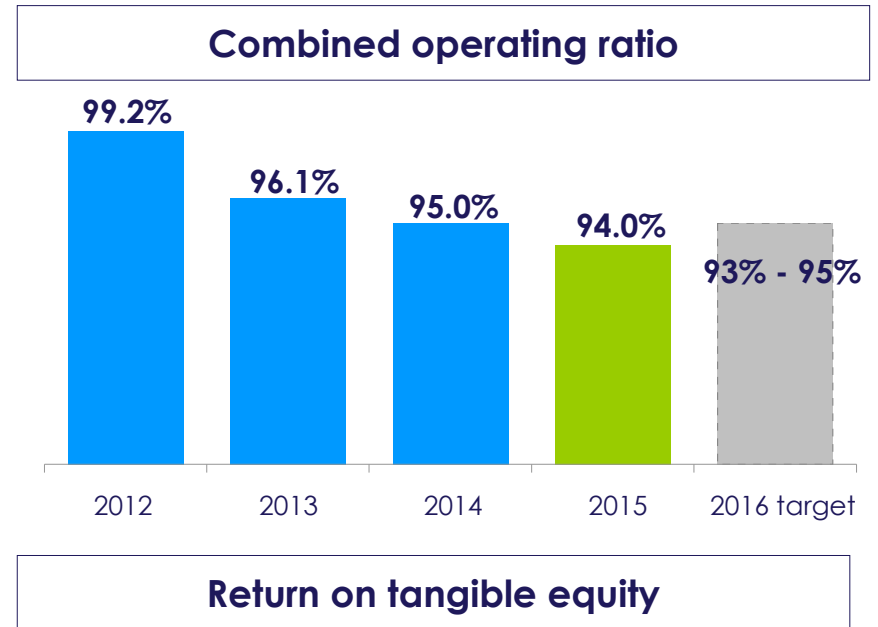
- **Proactive actions before storms hit**
  - Field teams in place before events in Kendal, Carlisle, York, the Calder Valley and Aberdeenshire
  - Most alternative accommodation sourced in advance
- **Ready to help once storm hit**
  - Off-road vehicles – we get to where others can't
  - Response centre deployed in Carlisle and York – advice, internet access, etc.
  - 80% of claims visited <7 days (allowing for safe access)
  - 51% of properties – work commenced <1 week
  - 20% of contents only claims settled on the spot
  - Use of smartphone and video evidence

# Our 2016 priorities build on 2015 performance

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
<ul style="list-style-type: none"> <li>• Improve customer experience with focus on cross channel distribution</li> <li>• Reduce customer complaints and improve the customer renewal process</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>• Develop a market leading partner proposition</li> </ul>	<ul style="list-style-type: none"> <li>• Grow eTrade and direct Commercial SME</li> <li>• Develop enhanced Telematics propositions</li> <li>• Become insurer of choice for new safety tech in cars</li> </ul>	<ul style="list-style-type: none"> <li>• Improve level, performance, and cost effectiveness from our IT systems</li> <li>• Get ready to launch the next generation of customer systems for Motor and Rescue</li> </ul>	<ul style="list-style-type: none"> <li>• Improve efficiency and effectiveness across the organisation</li> <li>• Sustain high performance and engagement while building capability for the future</li> </ul>	<ul style="list-style-type: none"> <li>• Implement Solvency II internal model</li> <li>• Recalibrate risk appetite</li> </ul>

# Outlook

- 1 Markets generally competitive but nuanced by segment
- 2 Disciplined approach to managing margins and volumes
- 3 Lower contribution from prior years expected
- 4 Ongoing focus on reducing costs through efficiency
- 5 2016 COR target of 93-95% assuming normal annual major weather



# Key highlights

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- 1 Strong performance by delivering for our customers
- 2 Multi year investment programme driving improved competitiveness
- 3 Lower costs, improved efficiency
- 4 Challenging market norms and aim to be at the forefront of evolving trends
- 5 5% growth in regular dividend plus £121m special dividend

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

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# Q&A

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# Appendix

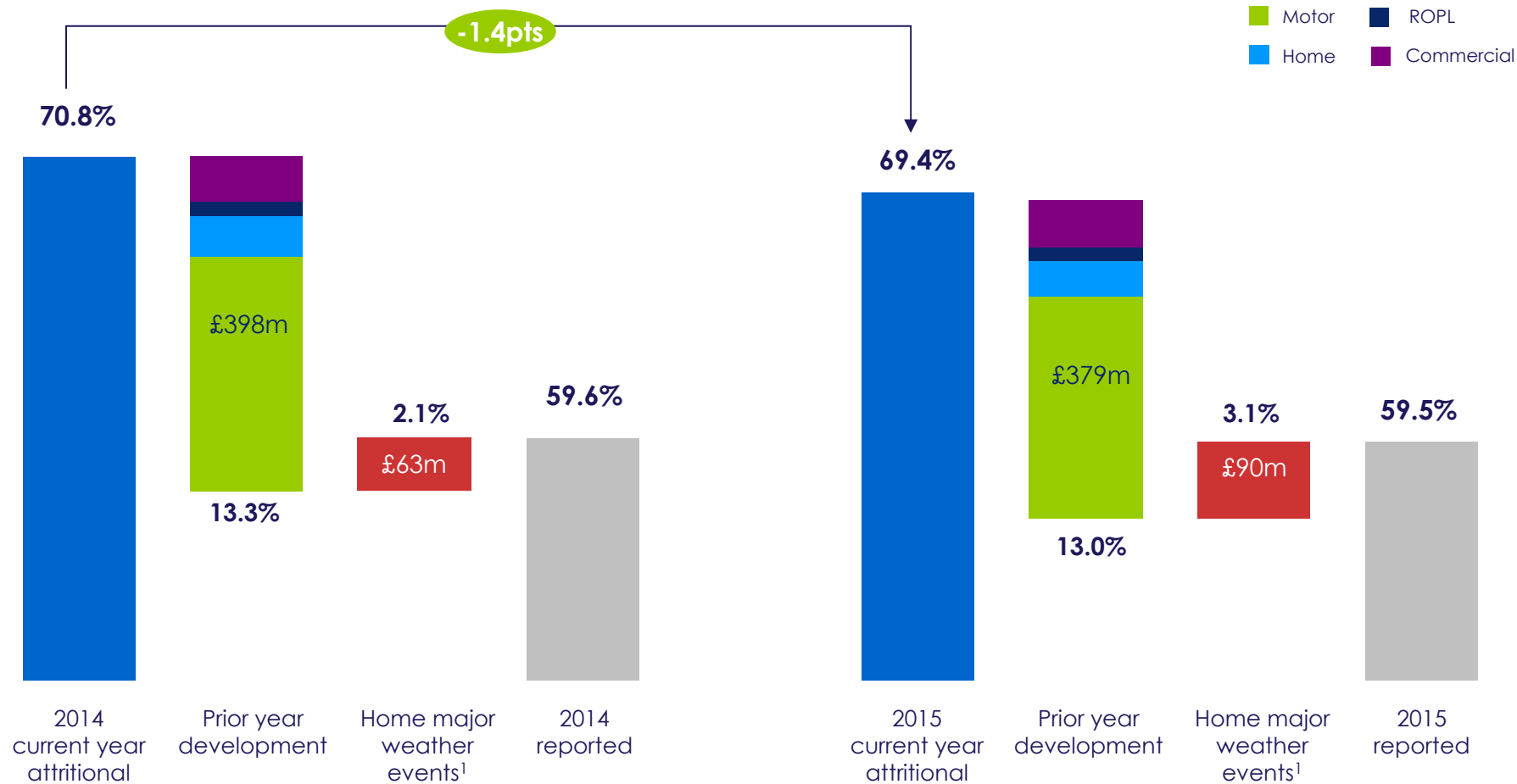


# Improvement in current year underwriting performance

## Loss ratio analysis - ongoing operations

2014

2015



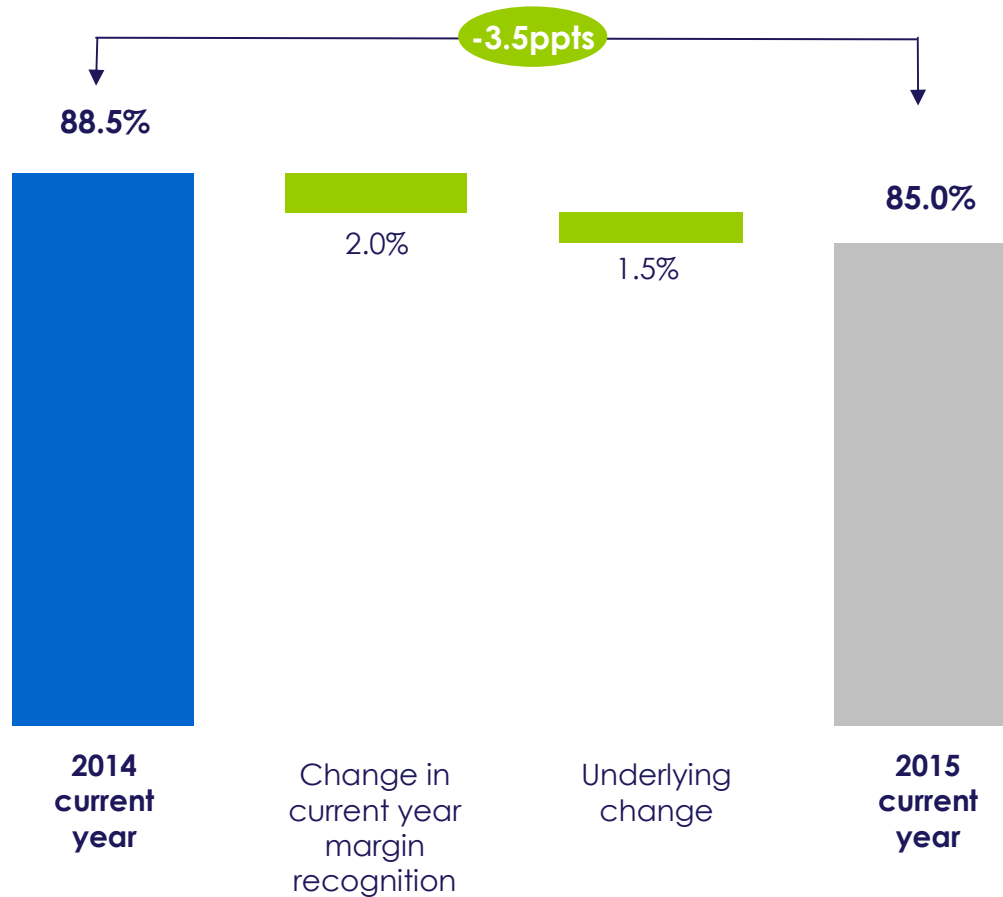
# Motor highlights

Results		Observations	
(£m unless stated)		FY 15	FY 14
<b>In-force policies (000s)</b>	<b>1</b>	<b>3,707</b>	<b>3,672</b>
Own brand in-force policies (000s)		3,459	3,415
Partnerships in-force policies (000s)		248	257
Gross written premium	<b>2</b>	1,406.7	1,342.0
Net earned premium	<b>3</b>	1,249.3	1,295.9
Loss ratio – current year	<b>4</b>	85.0%	88.5%
Loss ratio – prior years	<b>5</b>	(21.4%)	(21.5%)
Loss ratio		63.6%	67.0%
Commission ratio		2.6%	3.2%
Expense ratio		26.2%	26.0%
<b>Combined operating ratio</b>	<b>6</b>	<b>92.4%</b>	<b>96.2%</b>
Underwriting profit / (loss)		95.5	49.8
<i>Of which prior year releases</i>		266.8	278.4
Instalment and other income		103.6	102.5
Investment return		138.9	144.8
<b>Operating profit</b>	<b>7</b>	<b>338.0</b>	<b>297.1</b>

- 1** IFPs grew by 1.0% since December 2014, with own brands up 1.3% offset by a reduction in partners
- 2** 4.8% growth in GWP during 2015 with 7.1% growth in Q4
- 3** NEP down 3.6%, partly driven by increased reinsurance cover purchased
- 4** Current year loss ratio improved by 3.5ppts
- 5** Continued significant prior year releases in 2015
- 6** Combined operating ratio improved by 3.8ppts to 92.4%
- 7** Operating profit up 13.8% to £338.0m

# Improvement in current year motor loss ratio

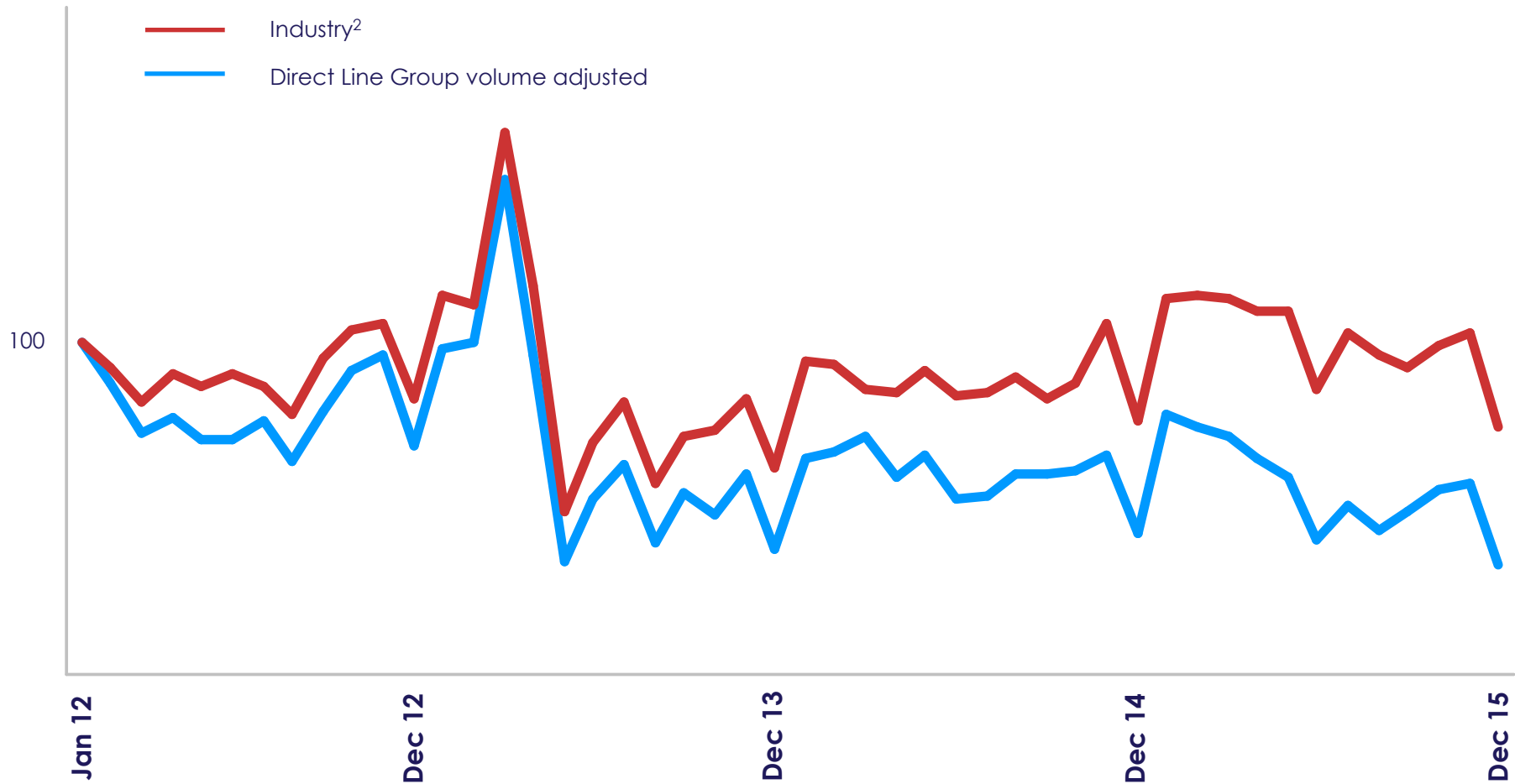
## Current year loss ratio analysis - Motor



- Current year loss ratio improved by 3.5ppts
- Change in current year margin recognition accounted for 2.0ppts
- Reduction of 1.5ppts due to better experience on large BI

# Small BI claims trends

RTA Portal<sup>1</sup> 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)		FY 15	FY 14
<b>In-force policies (000s)</b>	<b>1</b>	<b>3,418</b>	<b>3,526</b>
Own brand in-force policies (000s)		1,719	1,693
Partnerships in-force policies (000s)		1,699	1,833
Gross written premium	<b>2</b>	866.3	898.6
Net earned premium		845.0	875.3
Loss ratio – current year attritional	<b>3</b>	45.8%	49.3%
Major weather	<b>4</b>	10.7%	7.2%
Loss ratio – current year incl. weather		56.5%	56.5%
Loss ratio – prior years		(5.0%)	(5.7%)
Loss ratio		51.5%	50.8%
Commission ratio		20.9%	21.7%
Expense ratio		19.8%	20.2%
<b>Combined operating ratio</b>	<b>5</b>	<b>92.2%</b>	<b>92.7%</b>
Underwriting profit / (loss)		65.6	63.5
<i>Of which prior year releases</i>		41.9	49.8
Instalment and other income		23.8	24.7
Investment return		20.5	25.7
<b>Operating profit</b>	<b>6</b>	<b>109.9</b>	<b>113.9</b>

Observations	
<b>1</b>	<b>IFPs reduced by 3.1% since December 2014 as growth in own brands more than offset by lower Partner IFPs</b>
<b>2</b>	<b>GWP down 3.6% due to lower IFPs and price deflation</b>
<b>3</b>	<b>Current year attritional loss ratio improved by 3.5ppts</b>
<b>4</b>	<b>2015 weather related claims of £90m all in Q4 compared with £63m in 2014</b>
<b>5</b>	<b>0.5ppt improvement in the combined operating ratio despite higher weather costs</b>
<b>6</b>	<b>Operating profit of £109.9m, broadly stable on 2014</b>

# Rescue and other personal lines highlights

## Results

## Observations

(£m unless stated)

Rescue		FY 15	FY 14
In-force policies (000s)		3,932	3,976
Gross written premium	1	163.3	156.9
Combined operating ratio	2	82.3%	81.5%
Operating profit	3	42.2	41.5

- 1 GWP was up 4.1% due to growth in direct, IFPs down 1.1% due to partners
- 2 COR of 82.3%, 0.8ppts higher than prior year
- 3 Profit of £42.2m, up 1.7% versus prior year

Rescue and other personal lines <sup>1</sup>		FY 15	FY 14
In-force policies (000s)	1	8,288	8,493
Gross written premium	2	394.1	371.8
Net earned premium		386.4	369.1
Combined operating ratio		91.2%	92.0%
Underwriting profit		33.9	29.6
Of which prior year releases		13.6	15.7
Operating profit	3	52.0	48.0

- 1 IFPs 2.4% lower than December 2014 mainly due to lower partnership travel policies
- 2 6.0% growth in GWP versus prior year due to re-pricing in Travel and Rescue growth
- 3 Operating profit of £52.0m, 8.3% higher than 2014

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

# Commercial highlights

## Results

(£m unless stated)		FY 15	FY 14
<b>In-force policies (000s)</b>	<b>1</b>	<b>655</b>	<b>611</b>
Gross written premium	<b>2</b>	485.3	487.0
Net earned premium		440.1	446.8
Loss ratio – current year	<b>3</b>	75.5%	69.2%
Loss ratio – prior years	<b>4</b>	(12.8%)	(12.1%)
Loss ratio		62.7%	57.1%
Commission ratio		19.6%	19.7%
Expense ratio		22.2%	22.0%
<b>Combined operating ratio</b>	<b>5</b>	<b>104.5%</b>	<b>98.8%</b>
Underwriting profit/(loss)		(19.8)	5.2
<i>Of which prior year releases</i>		56.6	53.7
Instalment and other income		9.1	7.8
Investment return		31.5	34.0
<b>Operating profit</b>	<b>6</b>	<b>20.8</b>	<b>47.0</b>

## Observations

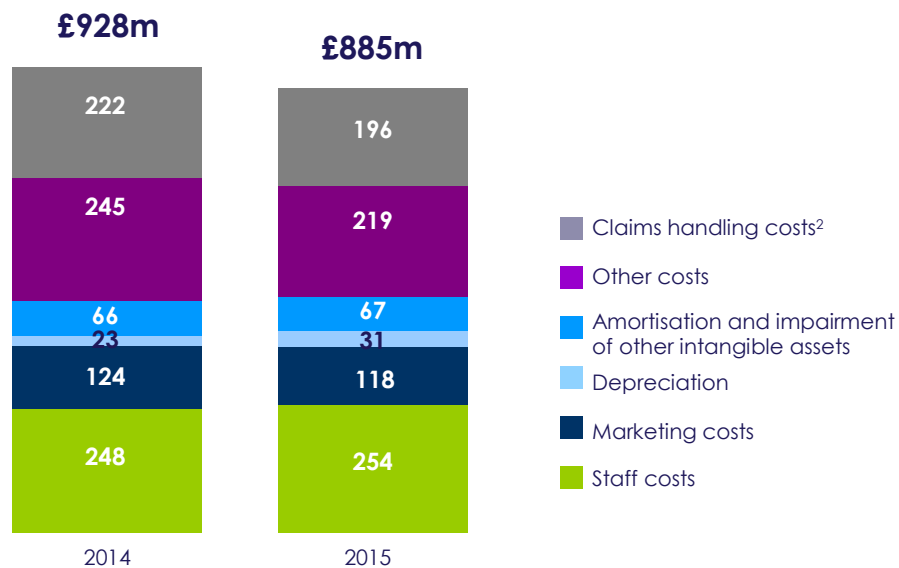
- 1** 7.2% growth in IFPs since Dec 2014
- 2** GWP broadly flat year on year, with growth in direct and eTrade offset by reductions in the regional channel
- 3** Current year loss ratio increased to 75.5% reflecting weather in Q4 of c. £40m
- 4** Prior year releases increased slightly to £56.6m
- 5** Combined operating ratio of 104.5%  
  
COR normalised for weather and other large losses was approximately 99%
- 6** Lower operating profit reflects weather in Q4

# Further reduction in our cost base

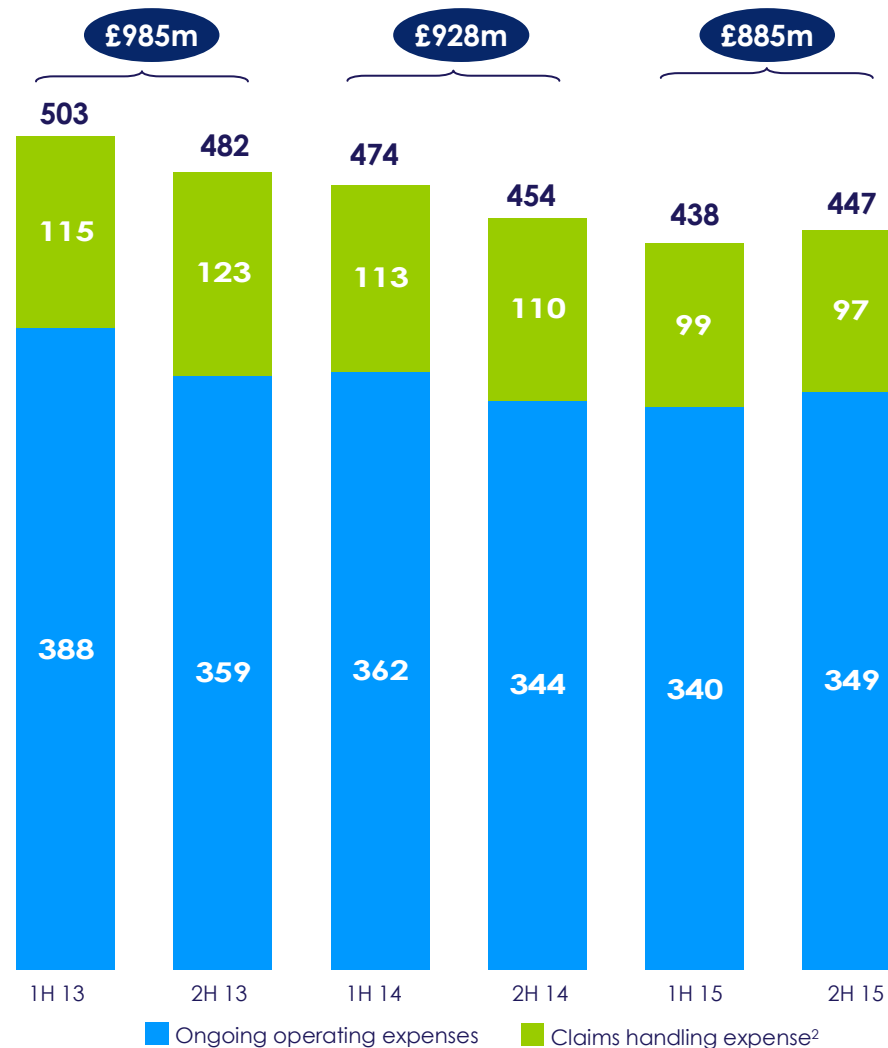
## Observations

- Total costs of £885m, down 4.6% versus 2014
- Improved marketing efficiency
- Increased depreciation and amortisation costs reflecting investment in the business
- Aim to reduce costs in absolute terms in 2016 despite Flood Re levy

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



## Cost base<sup>1</sup> (£m)



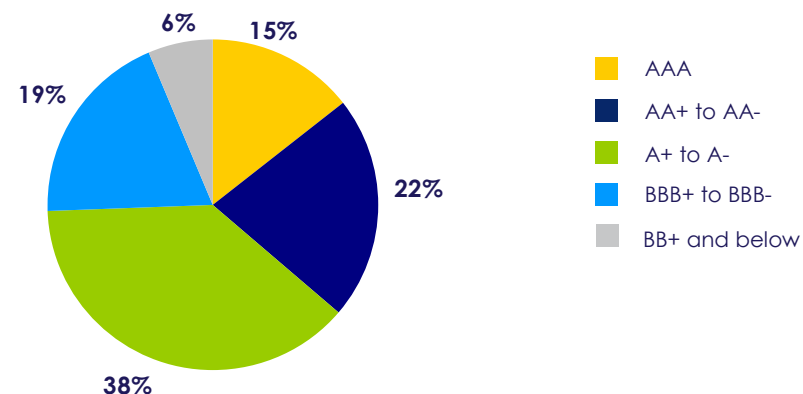
1. See note 2 page 5  
2. Included in loss ratio



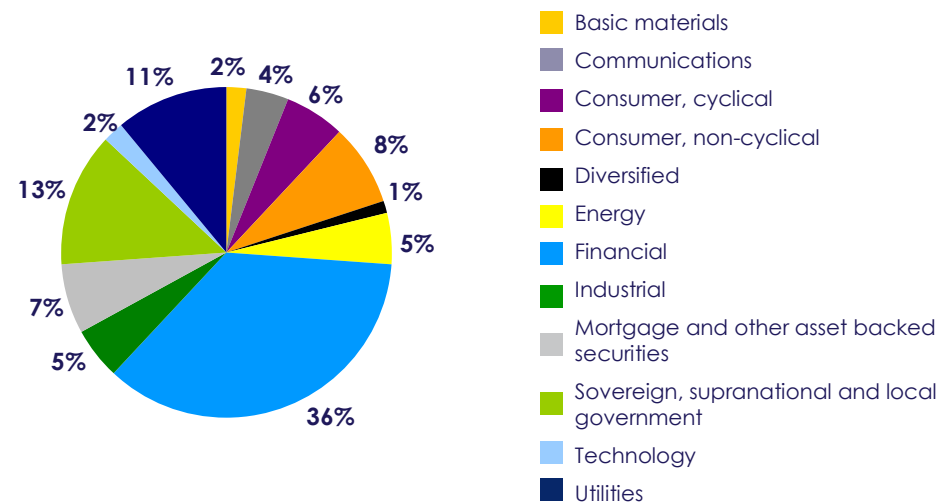
# Further portfolio actions to offset yield pressures

Income yield				
31 Dec 15	Target allocation <sup>1</sup>	Current holding	Income yield	Interest rate duration (years)
Investment grade (incl private placements)	58.0%	59.7%	2.7%	2.7
High yield	6.0%	4.8%	4.0%	1.0
<b>Credit</b>	<b>64.0%</b>	<b>64.5%</b>	<b>2.8%</b>	<b>2.5</b>
Securitised credit <sup>2</sup>	5.0%	5.2%	1.6%	0.1
Sovereign	9.0%	6.5%	1.8%	1.8
<b>Total debt securities</b>	<b>78.0%</b>	<b>76.2%</b>	<b>2.6%</b>	<b>2.3</b>
Infrastructure debt	6.0%	4.8%	2.2%	0.0 <sup>5</sup>
Commercial real estate loans	3.0%	-	-	-
Investment property	6.0%	5.1%	5.4%	n.m. <sup>3</sup>
Cash and cash equivalents	7.0%	13.9%	0.8%	0.0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>2.4%</b>	<b>1.8<sup>4</sup></b>

Debt securities credit quality



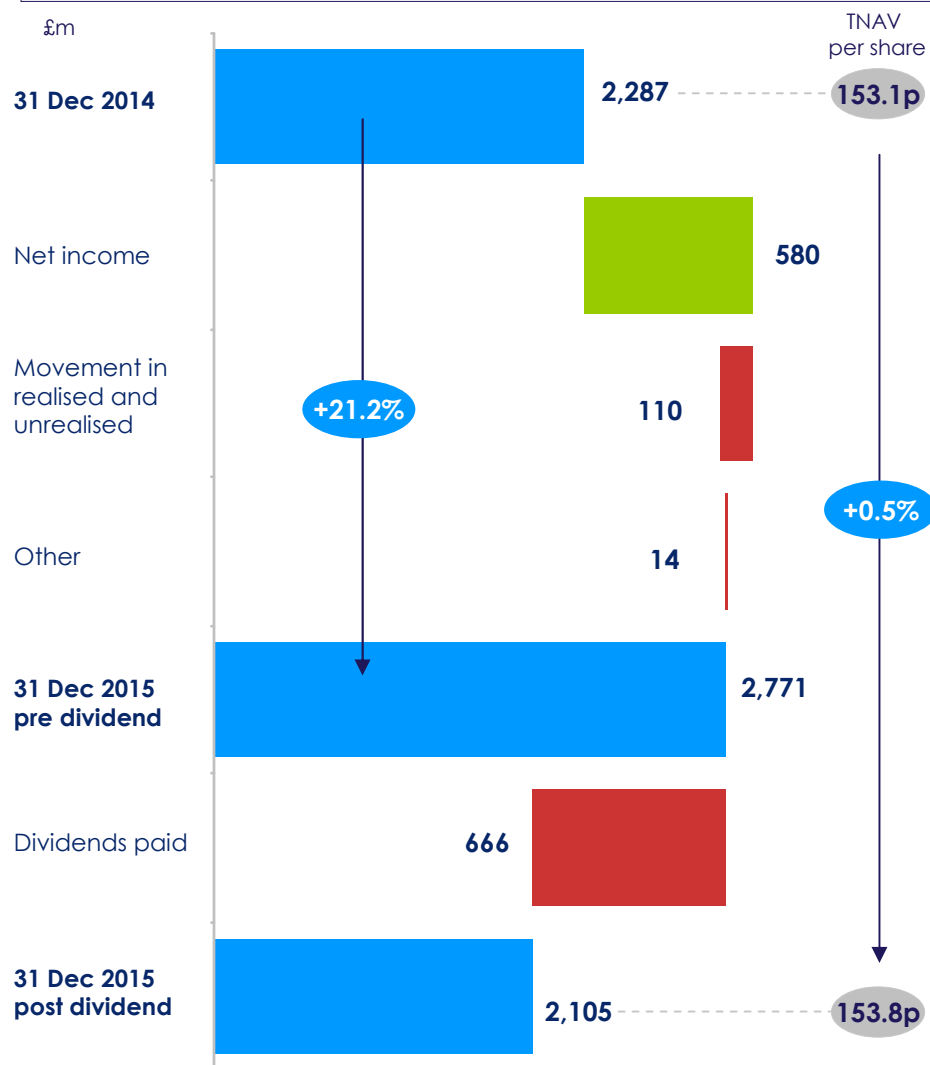
Debt securities by industry sector



1. Strategic asset benchmarks for the Group  
 2. Securitized credit is all in the form of prime mortgage backed securities, collateralised loan obligations, securitised student loans and commercial mortgage backed securities  
 3. Not meaningful  
 4. Excludes investment property  
 5. Weighted average life c. 14 years

# Post dividends book value and TNAV

## Movement in tangible net asset value



## NAV and TNAV per share

Pence	2015	2014
Net asset value per share	192.2	188.2
Tangible net asset value per share	153.8	153.1

## Observations

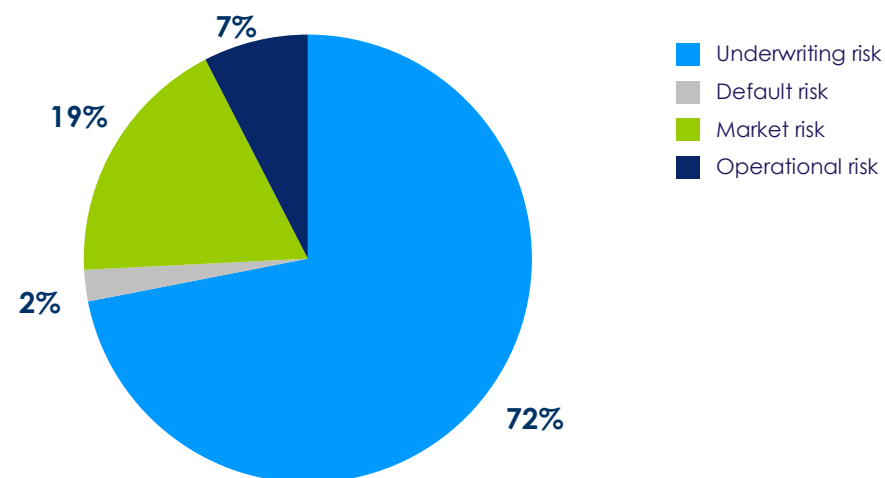
- 11 for 12 share consolidation with effect from 30 June 2015
- 0.5% increase in TNAV per share post dividend
- Total unrealised AFS reserves of £5.4m (net of tax)

## The Group is operating under Standard Formula from 1 Jan 2016

### Split of capital requirement by risk type

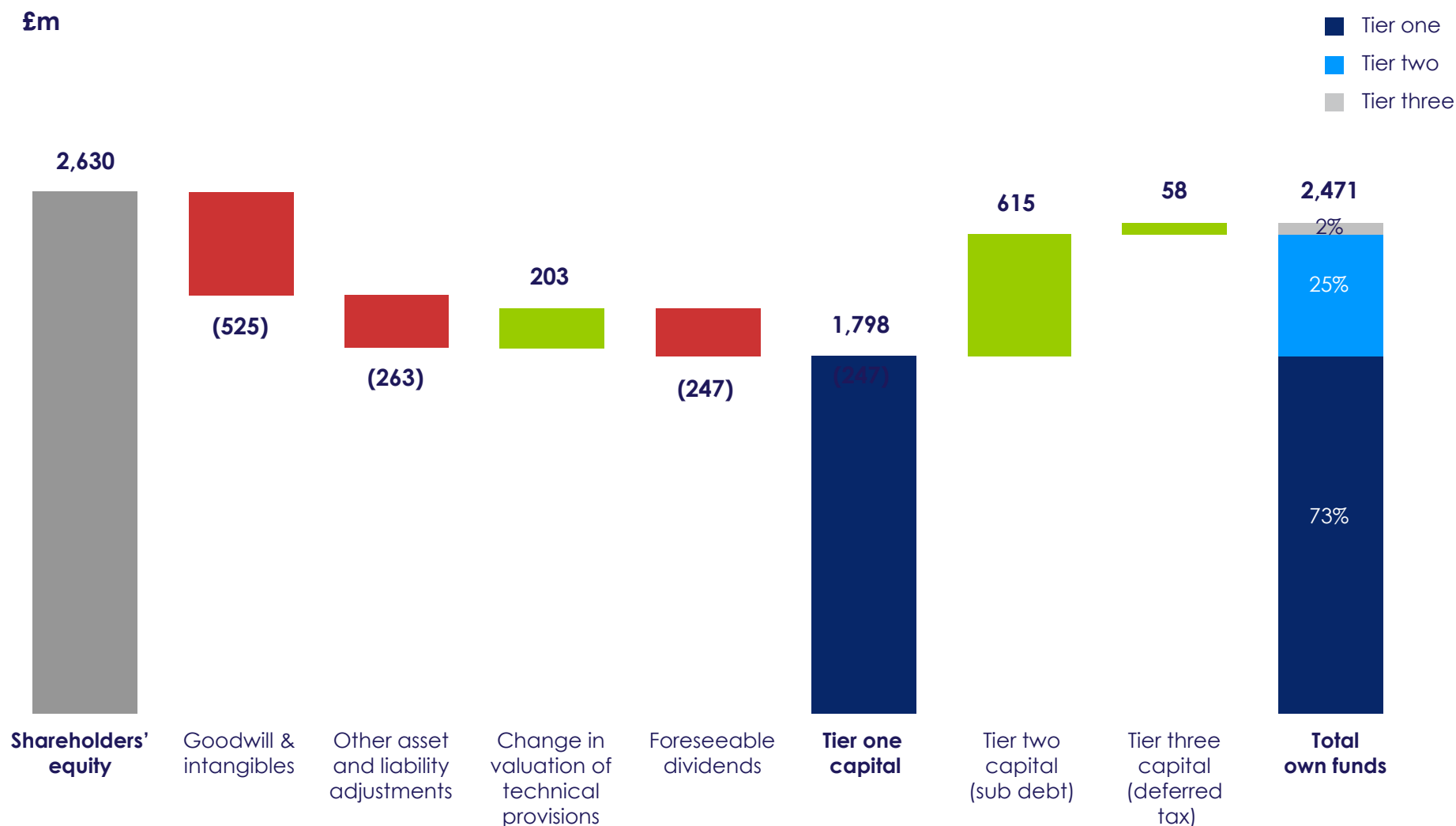
(£m)	2015	Comments
Non-life u/w risk	1,239	
- Premium risk	385	Dominated by Motor category
- Reserve risk	559	Includes run-off book
- Catastrophe risk	295	Home and Commercial mainly
Other underwriting	3	
Default risk	40	Mainly credit risk from RI
Market risk	320	Largest element is spread followed by property
Operational risk	128	
<b>Sub-total</b>	<b>1,730</b>	
Pension risk	5	
Deferred tax	(59)	Tax carry back only
<b>Solvency Capital Requirement (SCR)</b>	<b>1,676</b>	

### Underwriting risk is the largest element



All figs stated post diversification

# Shareholders' equity to Solvency II standard formula own funds bridge



# Reinsurance

## Motor excess of loss reinsurance

(£m)	2012	2013	2014	2015	2016
Limit	Unlimited				
Deductible	3	3 <sup>1</sup>	1 <sup>1</sup>	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
Limit	1,300	1,400	1,350
Deductible	150	150	150

- Cover renews on 1 July
- Retained deductible is £150 million
- Cover is £1.35 billion, equivalent to a 1 in 200 year modelled loss
- Cover has one full reinstatement
- Placed with a panel of 73 reinsurers who are all at least 'A-' rated

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

# RoTE calculation

## RoTE calculation

(£m)	FY 15	FY 14
Ongoing operating profit	520.7	506.0
International profit	-	21.0
Less: Finance costs	(37.6)	(37.2)
Profit before tax	483.1	489.8
Less: tax <sup>1</sup>	(97.8)	(105.3)
<b>Profit after tax</b>	<b>385.3</b>	<b>384.5</b>
Tangible equity b/f	2,052.0 <sup>2</sup>	2,289.9
Tangible equity c/f	2,105.2	2,287.4
Average tangible equity	2,078.6	2,287.7
<b>Return on tangible equity</b>	<b>18.5%</b>	<b>16.8%</b>

## Adjusted EPS calculation

(£m)	FY 15	FY 14
Ongoing operating profit	520.7	506.0
International profit	-	21.0
Less: Finance costs	(37.6)	(37.2)
Profit before tax	483.8	489.8
Less: tax <sup>1</sup>	(97.8)	(105.3)
<b>Profit after tax</b>	<b>385.3</b>	<b>384.5</b>
Weighted average number of ordinary shares (diluted)	1,449.0	1,507.9
<b>EPS – Adjusted diluted (pence)</b>	<b>26.6</b>	<b>25.5</b>

1. UK standard tax rate of 20.25% (2014: 21.5%)
2. Tangible equity for the Group less disposal group net assets of £241.0m

# Segmental performance - 2015

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

# 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>

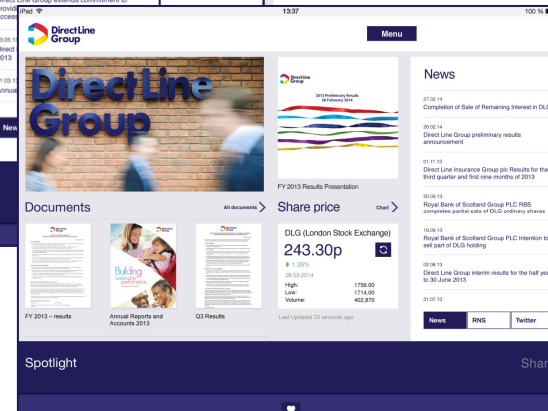
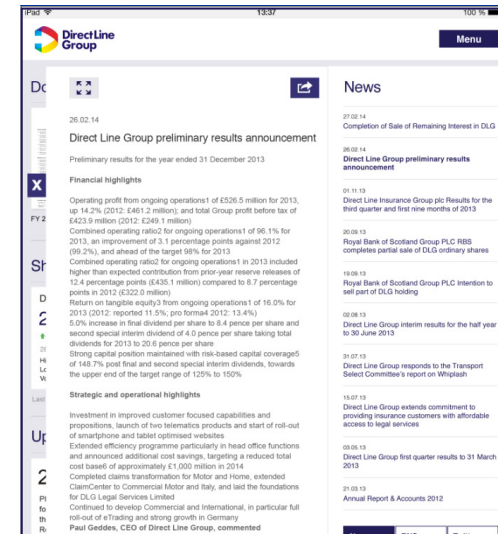
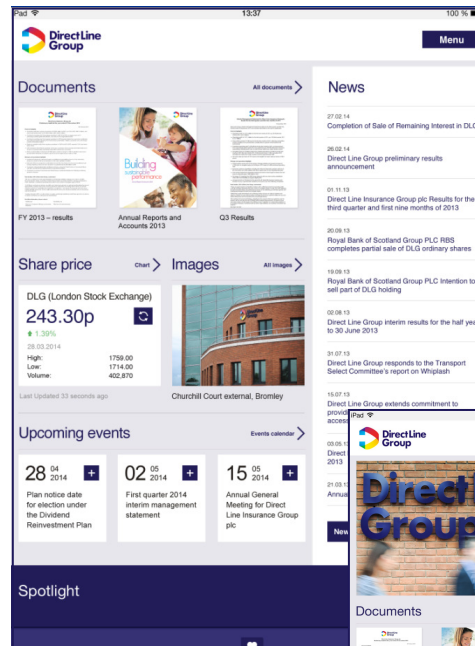
# Balance sheet overview

(£m)	31 Dec 2015	31 Dec 2014
<b>Assets</b>		
Goodwill and other intangible assets	524.8	517.5
Financial investments	5,614.6	5,961.2
Cash and cash equivalents	963.7	880.4
Assets held for sale	5.1	1,208.4
Other assets	2,848.4	2,658.1
<b>Total assets</b>	<b>9,956.6</b>	<b>11,225.6</b>
<b>Liabilities</b>		
Subordinated liabilities	521.1	526.3
Insurance liabilities and unearned premium reserve	6,001.1	6,108.3
Borrowings	61.3	69.8
Other liabilities	743.1	1,710.7
<b>Total liabilities</b>	<b>7,326.6</b>	<b>8,415.1</b>
<b>Equity</b>	<b>2,630.0</b>	<b>2,810.5</b>
Net asset value per share (pence) <sup>1</sup>	<b>192.2</b>	<b>188.2</b>
Net tangible asset value per share (pence)	<b>153.8</b>	<b>153.1</b>

# Investor relations contacts

## Investor relations app

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# General disclaimer

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## 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", "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: return on tangible equity, the Group's combined operating ratio, and cost reduction. By their nature, all forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Group's control.

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

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

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