



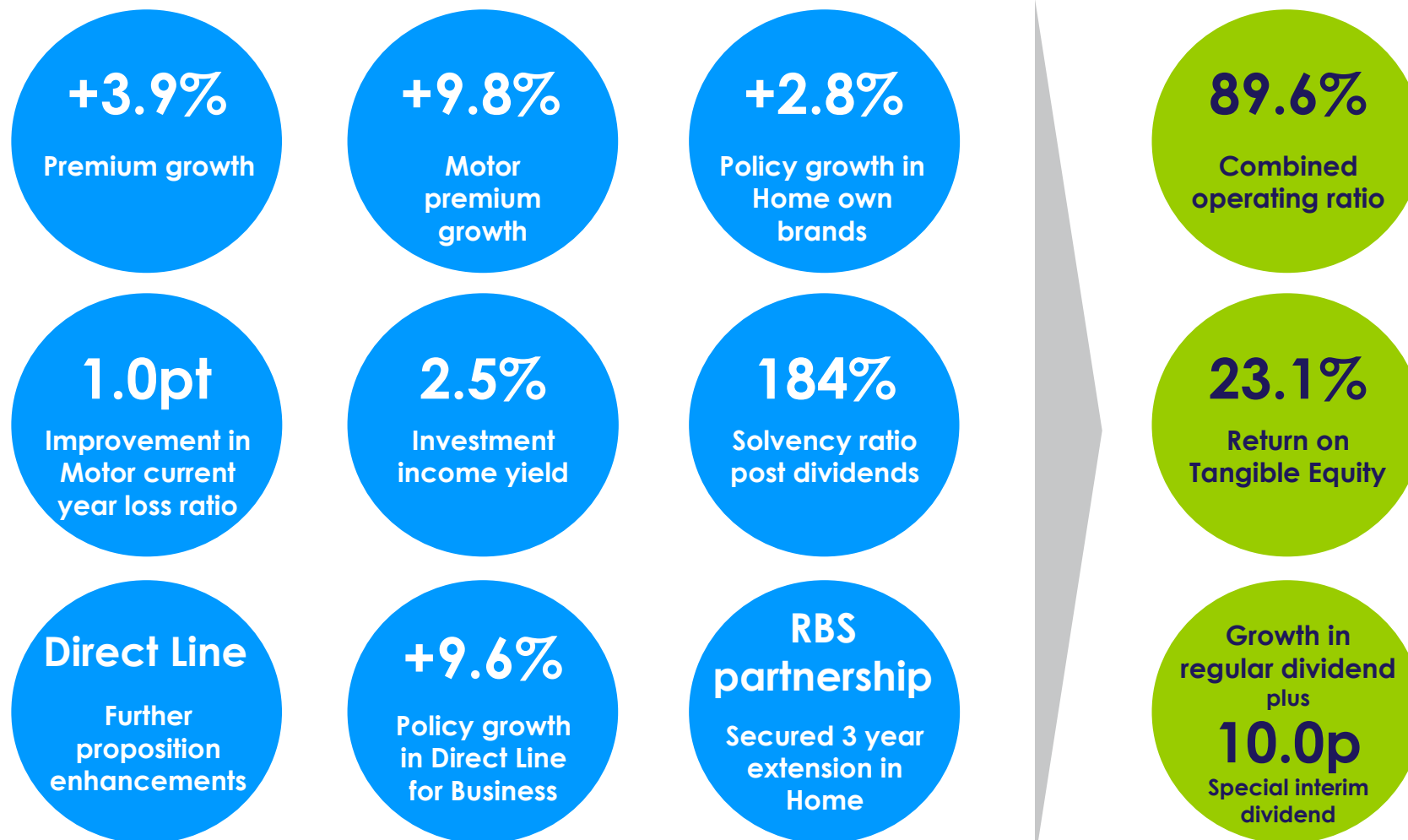
**Results for the first half 2016
2 August 2016**



Today's agenda

- 1. First half highlights:** Paul Geddes - CEO
- 2. Financial results:** John Reizenstein - CFO
- 3. Closing remarks:** Paul Geddes – CEO
- 4. Q&A**

1H 2016 highlights



Making insurance much easier and better value for our customers

Financial results

John Reizenstein - CFO

Strong underwriting result in the first half

Observations

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

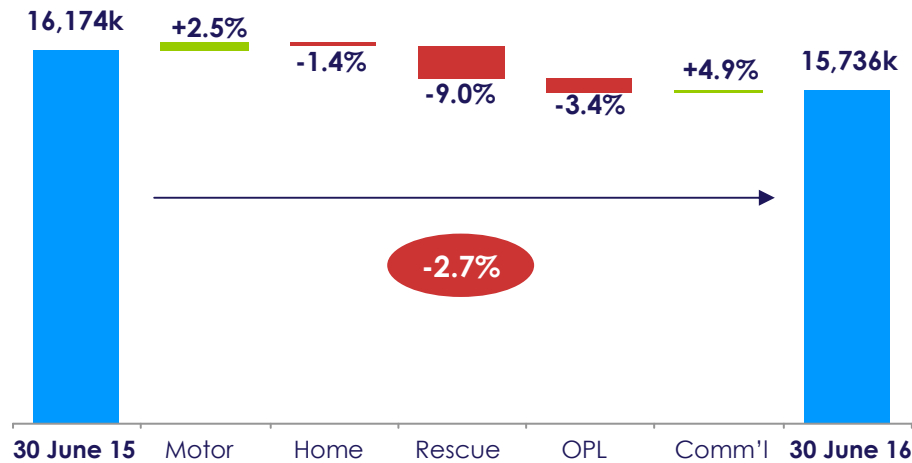
(£m unless stated)	1H 16	1H 15
Ongoing operations¹		
Gross written premium	1,613.1	1,552.0
Underwriting profit	154.2	153.2
Instalment and other income	78.4	72.8
Investment return	91.0	109.8
Operating profit – ongoing operations	323.6	335.8
Profit before tax - continuing operations	298.5	315.0
Profit after tax	235.9	427.8
<i>Of which Ongoing operations</i>	244.2	252.9
Combined operating ratio ¹	89.6%	89.4%
Total costs ¹	461.6	438.3
RoTE ¹	23.1%	21.2%

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

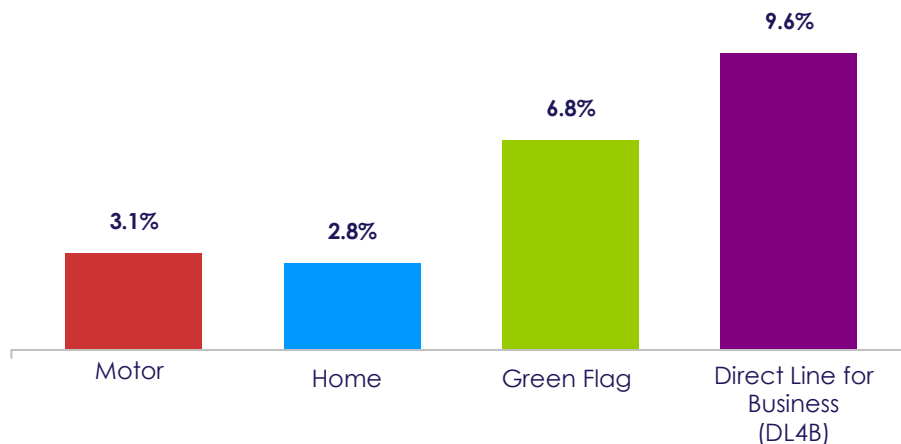
¹. See Glossary on slide 50 for definition

Continued growth in own brands and direct policies

In force policies (IFPs)



Key own brands IFPs



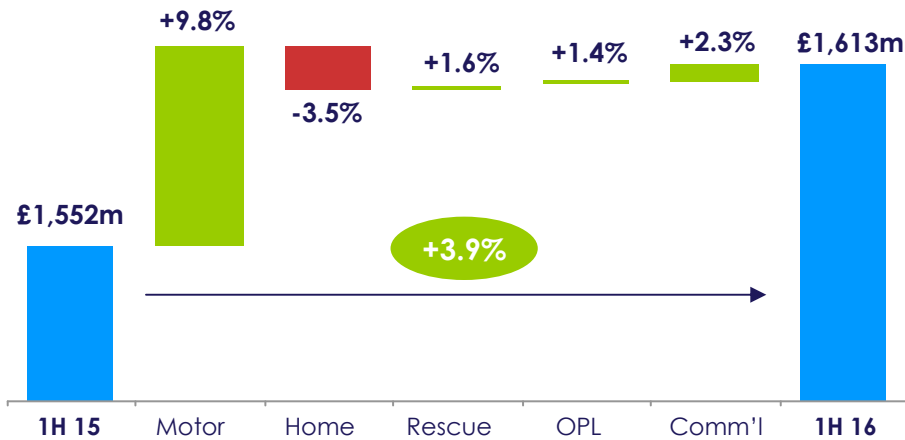
Observations

Fewer in force policies, but mix improved

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

3.9% Premium growth driven by Motor

Gross written premiums (GWP)

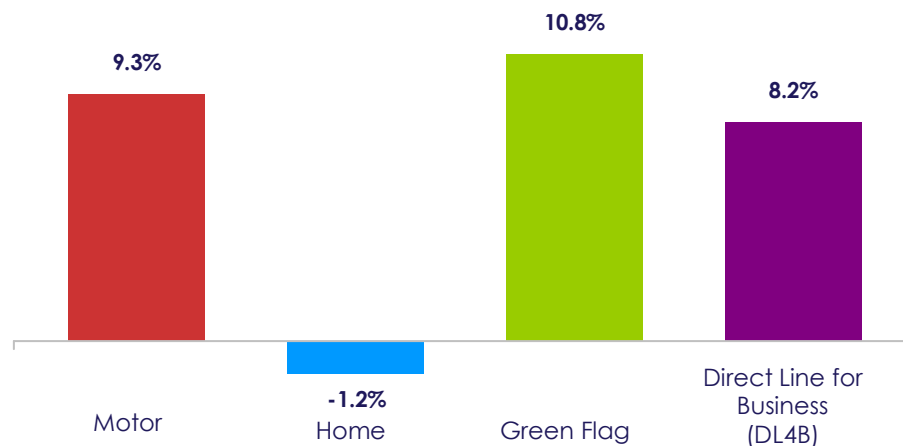


Observations

GWP up 3.9% largely due to Motor

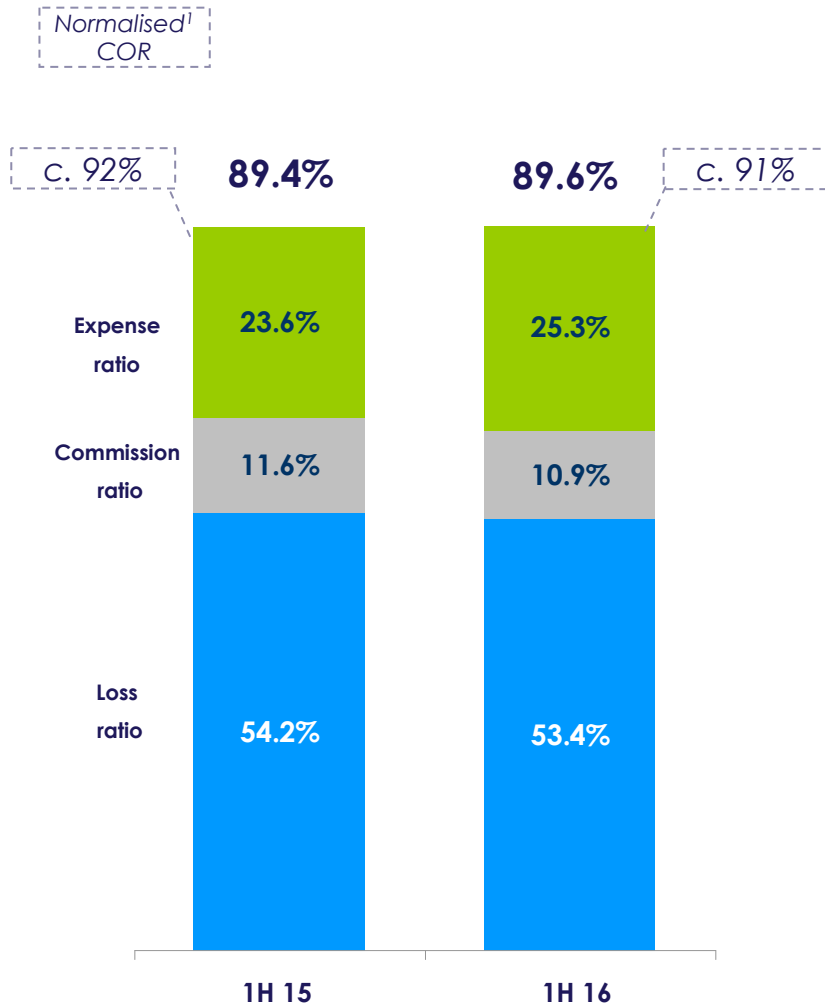
- Motor GWP up 9.8% due to price increases and IFP growth
- Home premiums down 3.5% reflect lower risk mix and reduction in partnership IFPs
- Rescue GWP up 1.6% due to strong growth in Green Flag direct offset by lower partnership volumes
- Commercial GWP grew 2.3% and DL4B premiums were up 8.2%

Key own brands GWP

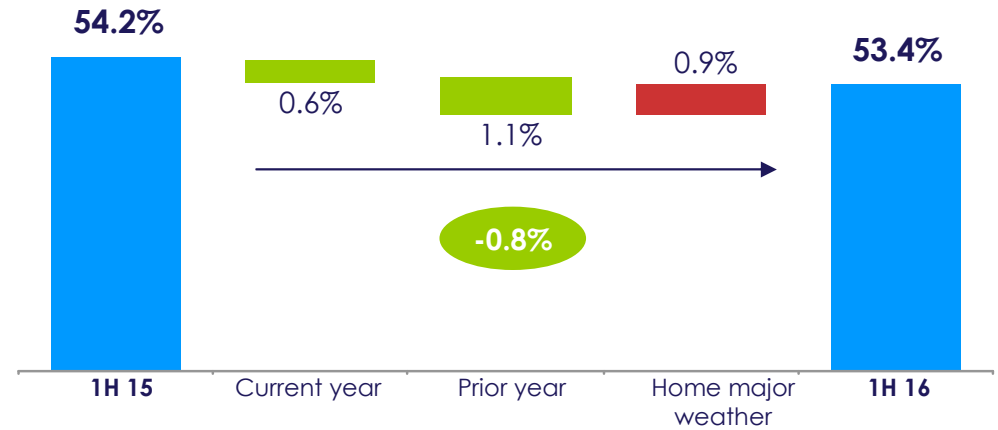


Combined ratio broadly stable

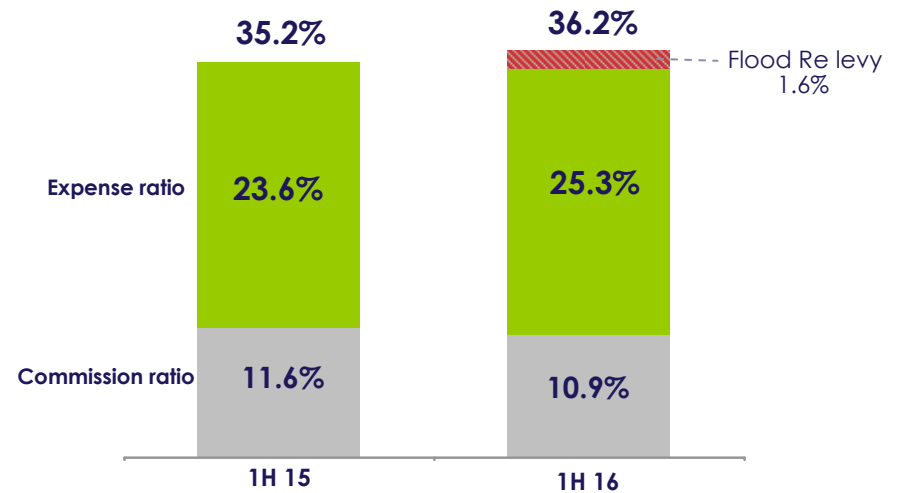
Combined operating ratio



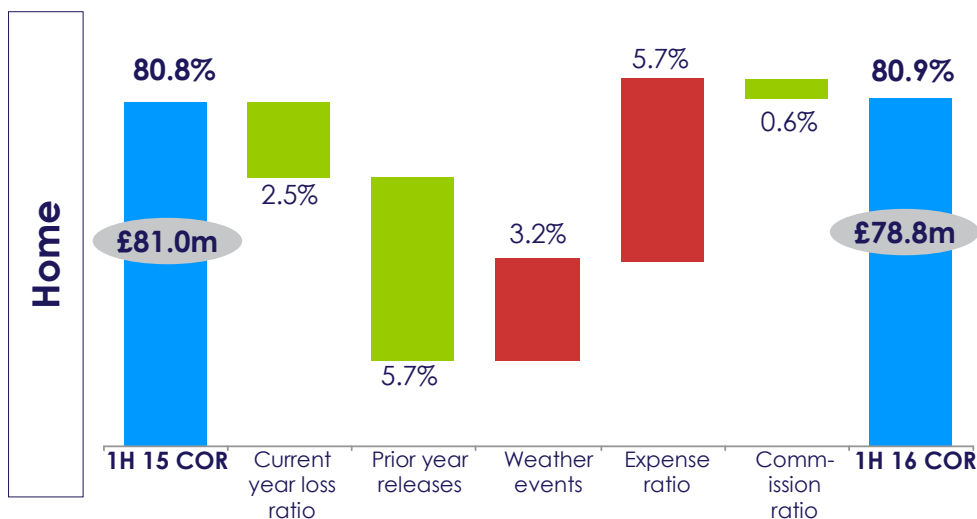
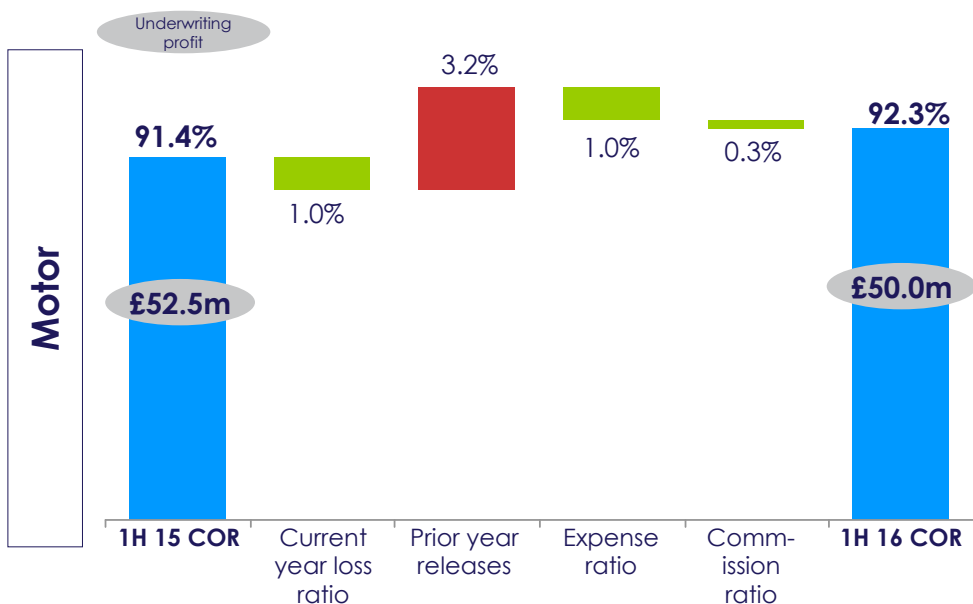
Loss ratio analysis



Expense and commission ratio analysis



Segmental performance: Motor and Home



Observations

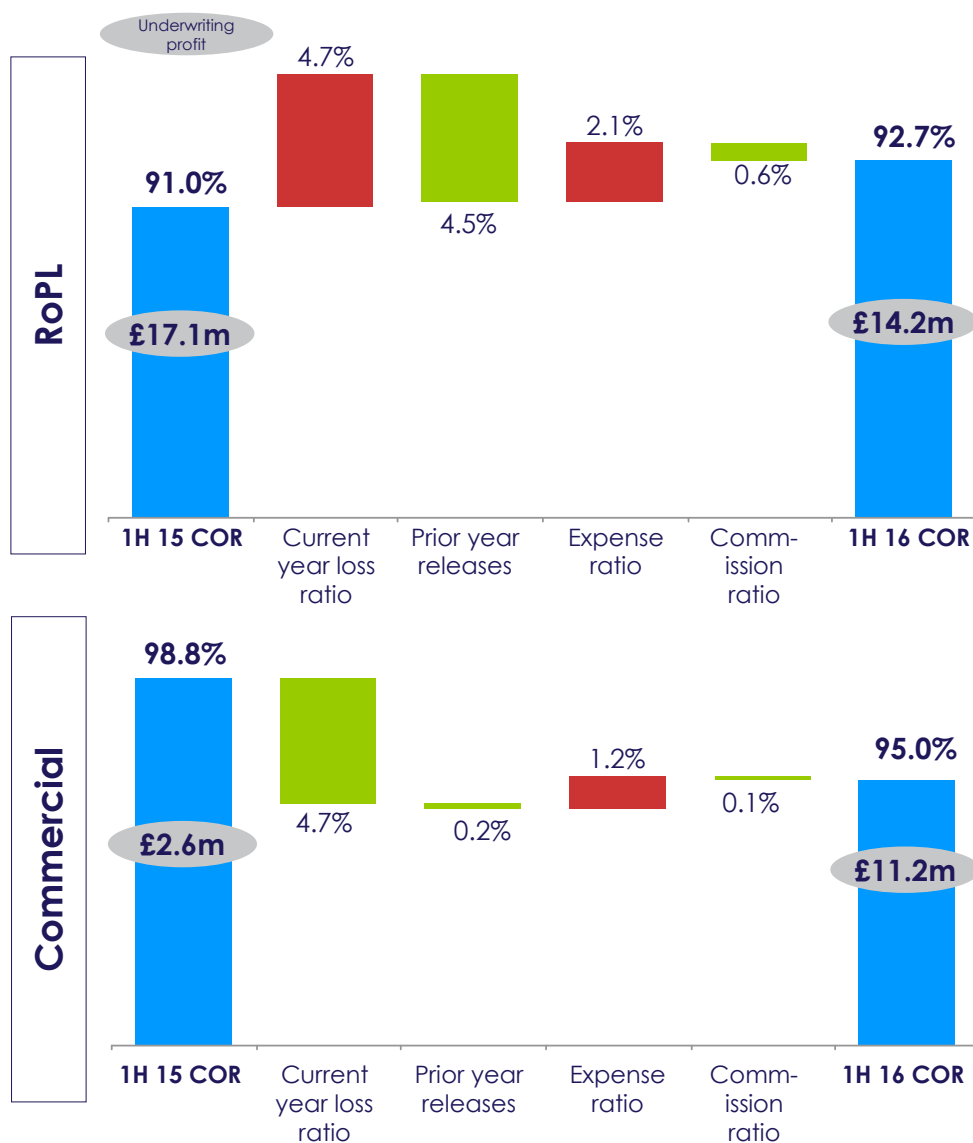
Motor COR increased by 0.9pts to 92.3%

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

Home COR broadly flat despite Flood Re levy

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

Segmental performance: RoPL and Commercial



Observations

RoPL COR increased by 1.7pts to 92.7%

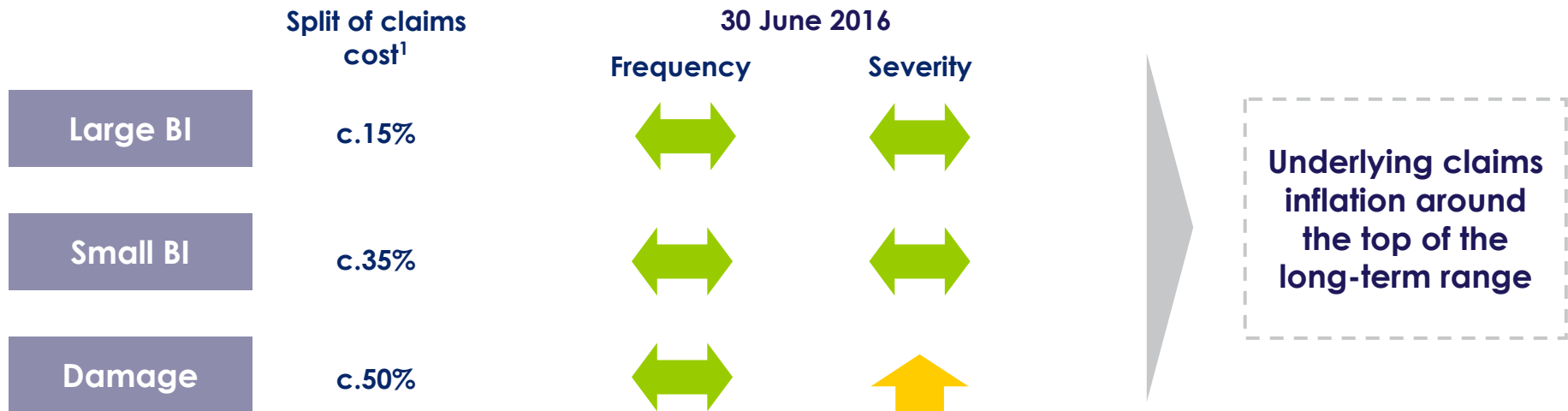
- Increase in current year loss ratio due to a premium adjustment in Pet
- Higher contribution from prior year releases (£7.5m in 1H 2016 versus £1.2m strengthening in 1H 2015)
- Higher expense ratio due to phasing of marketing spend in Rescue

Commercial COR improved by 3.8pts to 95.0%

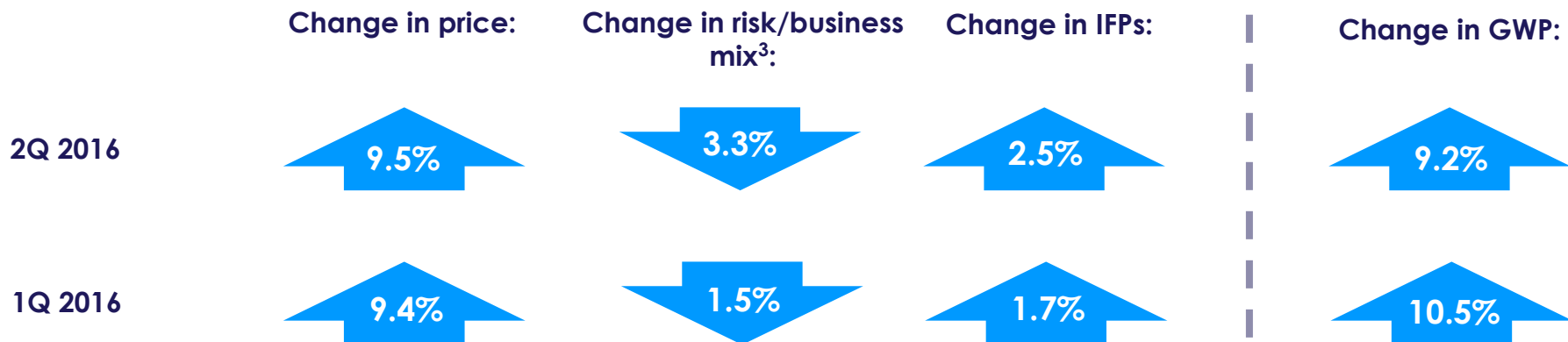
- 4.7pt improvement in current year loss ratio mainly due to better large claims experience
- Expense ratio increase due to timing of marketing spend and one-off costs
- Normalising for weather and other large claims Commercial COR was c.98%

Motor - higher premiums reflecting claims trends

Claims by peril vs. expectations



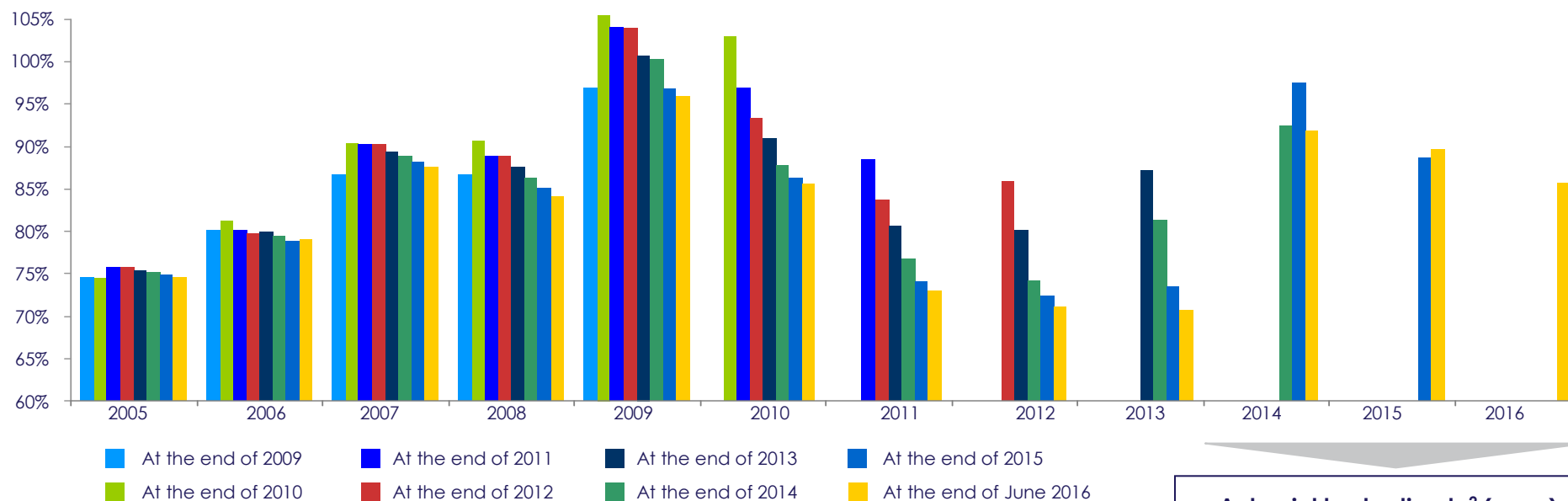
Motor premium movement²



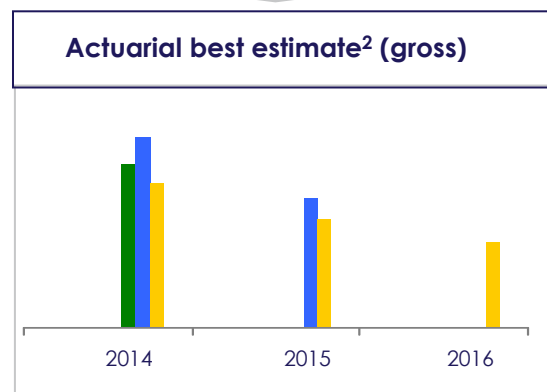
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 1. Gross
 2. Excludes IPT
 3. See glossary on slide 50 for definition

Motor - Conservative reserving leading to prior year releases

Motor booked loss ratio development (gross¹)



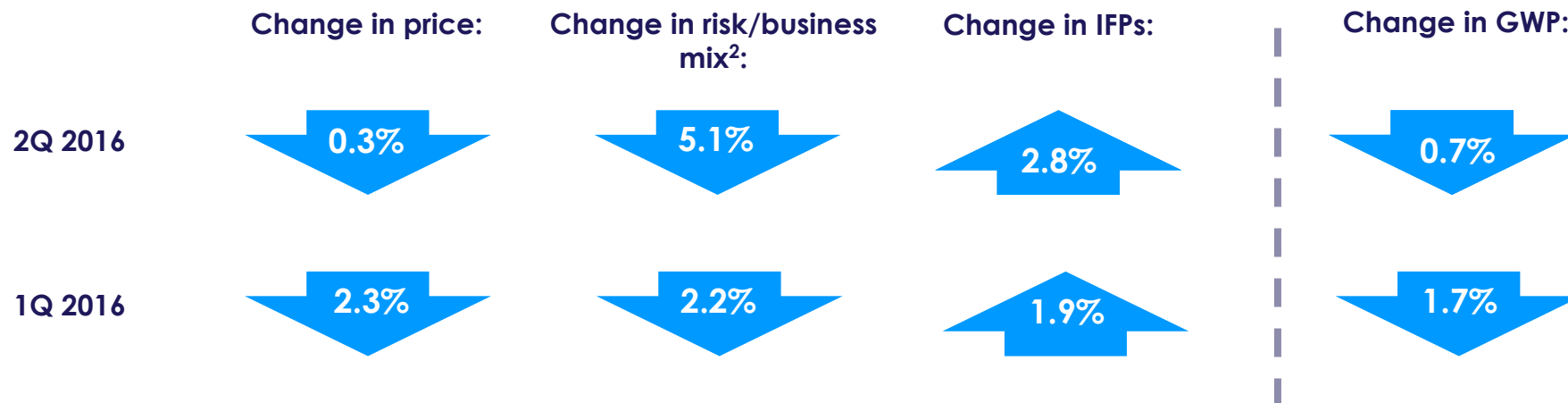
Prior year releases	1H 16	1H 15	FY 15
£m	134.0	145.5	266.8
% NEP	20.6%	23.8%	21.4%



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

Home – Market premiums stabilised in H1

Home own brand premium movement¹



Market observations

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

Experience

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

13
 1. Excludes IPT
 2. See glossary on slide 50 for definition

Stable investment income yield, lower gains reflected in overall return

Investment assets by type

30 June 16: £6,597m



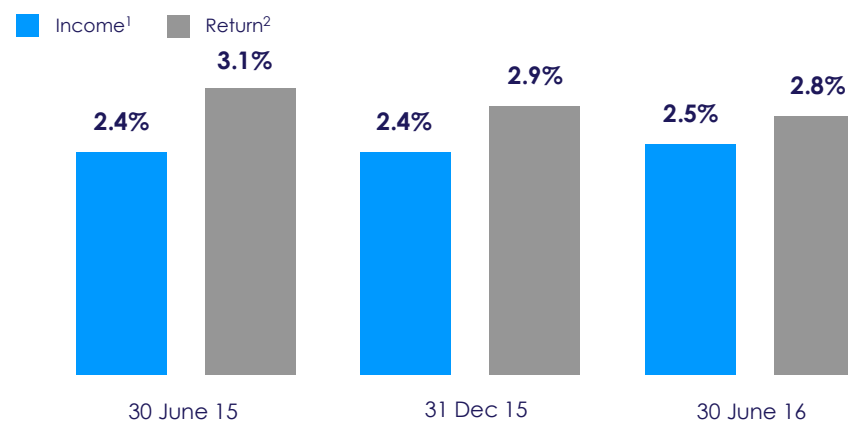
Observations

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

Investment return – Ongoing operations

£m	1H 16	1H 15
Investment income	82.7	83.0
Net realised and unrealised gains	8.3	26.8
<i>Of which property</i>	0.5	14.6
Total	91.0	109.8

Investment yields

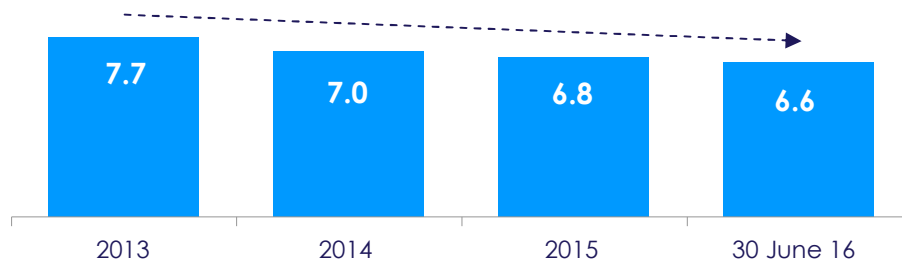


Investments outlook

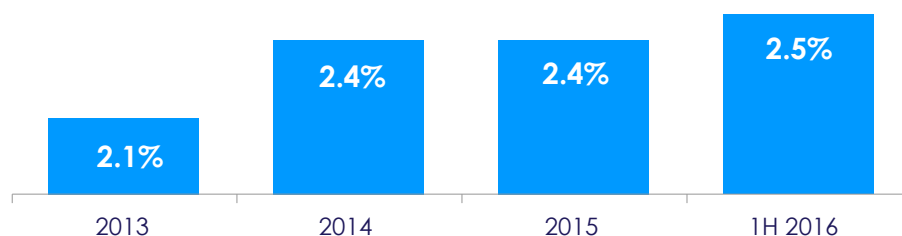
Recent performance

Outlook

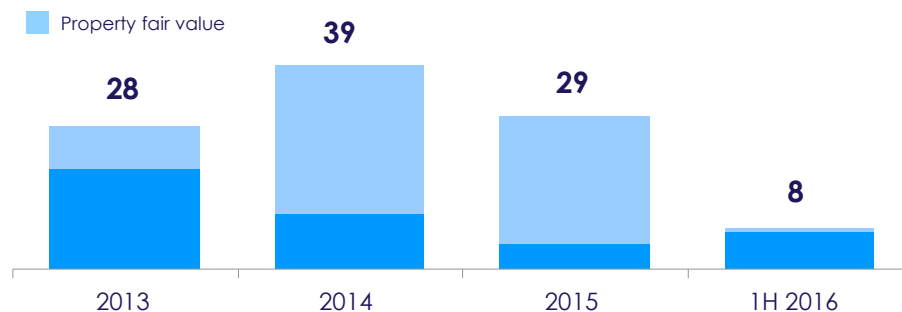
AUM¹ £bn



Income yield²



Net gains £m



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

Ongoing operating profit reconciliation

Observations

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

Outlook

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

Operating profit

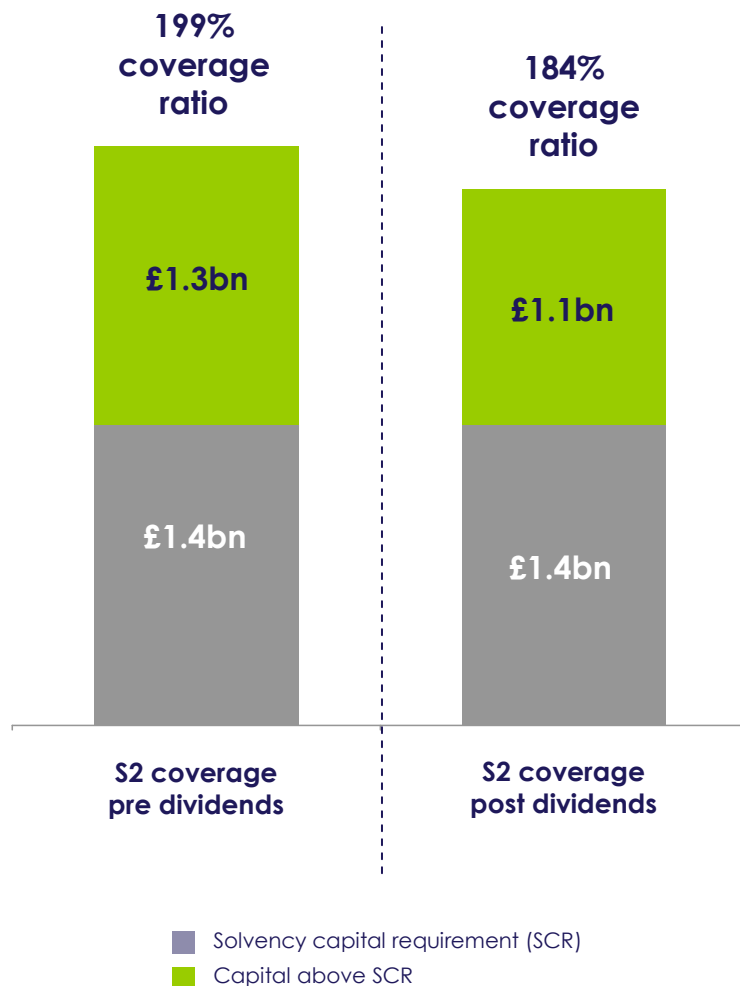
(£m unless stated)	1H 16	1H 15
Operating profit – ongoing operations	323.6	335.8
Run-off 1	23.6	38.3
Restructuring and other one-off costs 2	(30.3)	(40.4)
Operating profit – continuing operations	316.9	333.7
Finance costs 3	(18.4)	(18.7)
Gain on disposal of subsidiary	-	-
Profit before tax – continuing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

1. See glossary on slide 50 for definition

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

Capital position as at 30 June 2016¹

Solvency II internal model



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

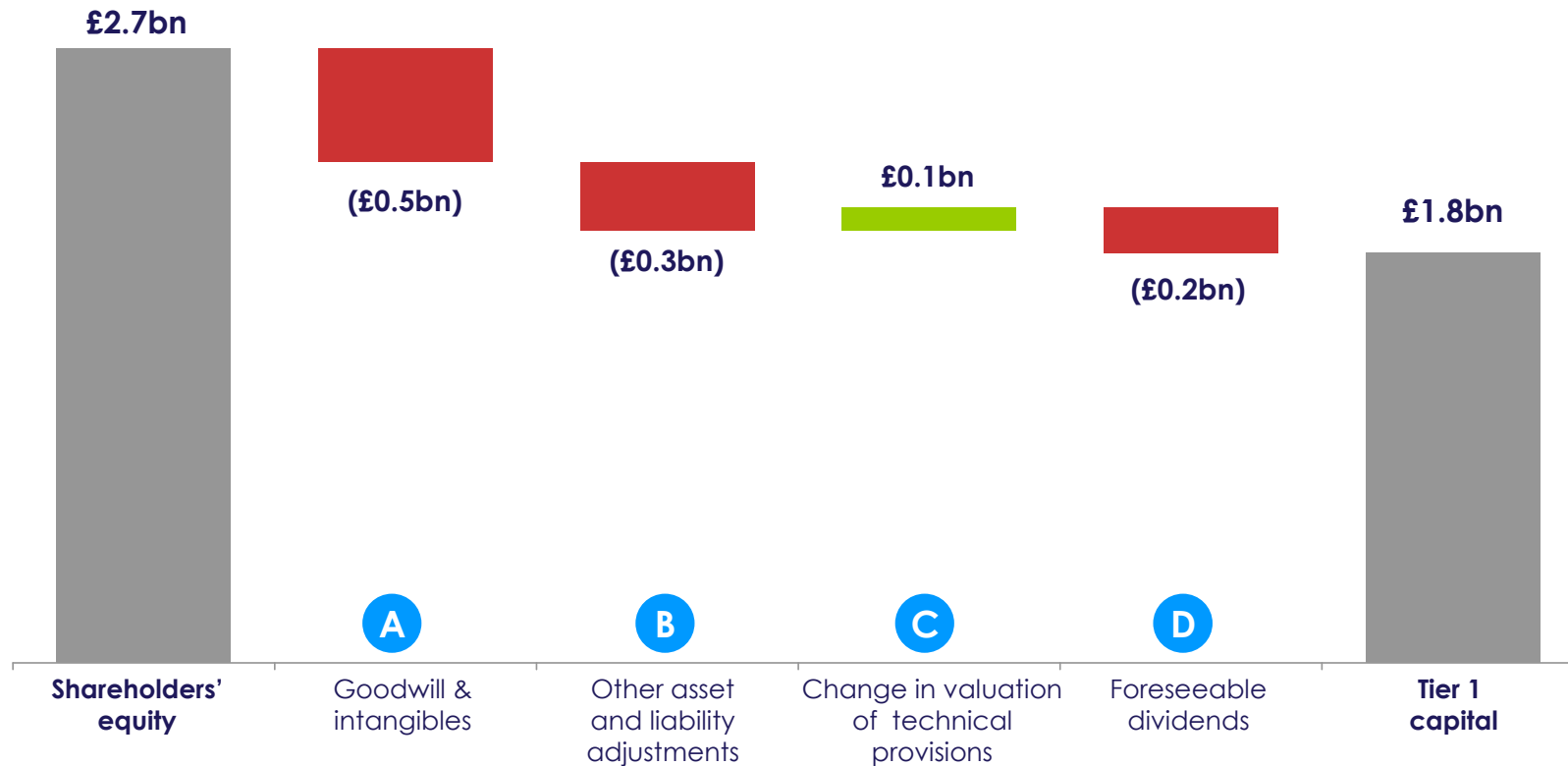
1. Figures are estimated and based on partial internal model (PIM) output for 30 June 2016

Solvency 2 risk appetite range of 140%-180%

Solvency II risk appetite range ¹	Observations
<p>184% Solvency ratio</p> <p>30 June 2016 post dividends</p> <p>140% - 180% Target range</p> <p>■ Solvency capital requirement (SCR) ■ Capital above SCR</p>	<p>Policy</p> <ul style="list-style-type: none"> Objective of ensuring appropriate level of capitalisation and solvency with respect to operating, regulatory and rating agency requirements Capital management set with reference to the Group's eligible own funds and solvency capital requirements (SCR) Capital risk appetite consistent with maintaining credit ratings within the 'A' range <p>SCR</p> <ul style="list-style-type: none"> The Group's partial internal model (PIM) is used to determine solvency capital requirements (SCR) Direct Line Group seeks to hold capital coverage in the range of 140% -180% of the SCR <p>Credit Ratings</p> <ul style="list-style-type: none"> Credit ratings on U K Insurance Ltd (principal UK underwriter) S&P 'A' (strong) with a stable outlook Moody's 'A2' (good) with a stable outlook

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

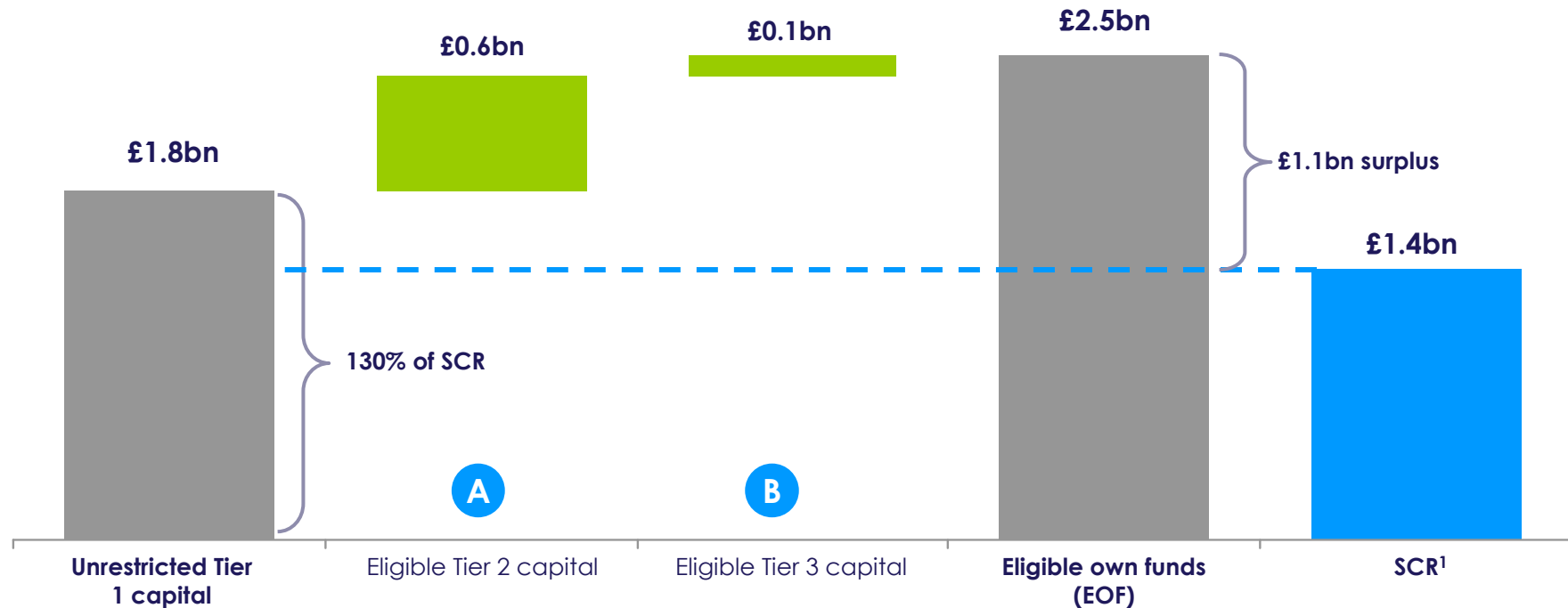
Bridge of shareholders' equity under IFRS to Solvency II PIM¹ Tier 1



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

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

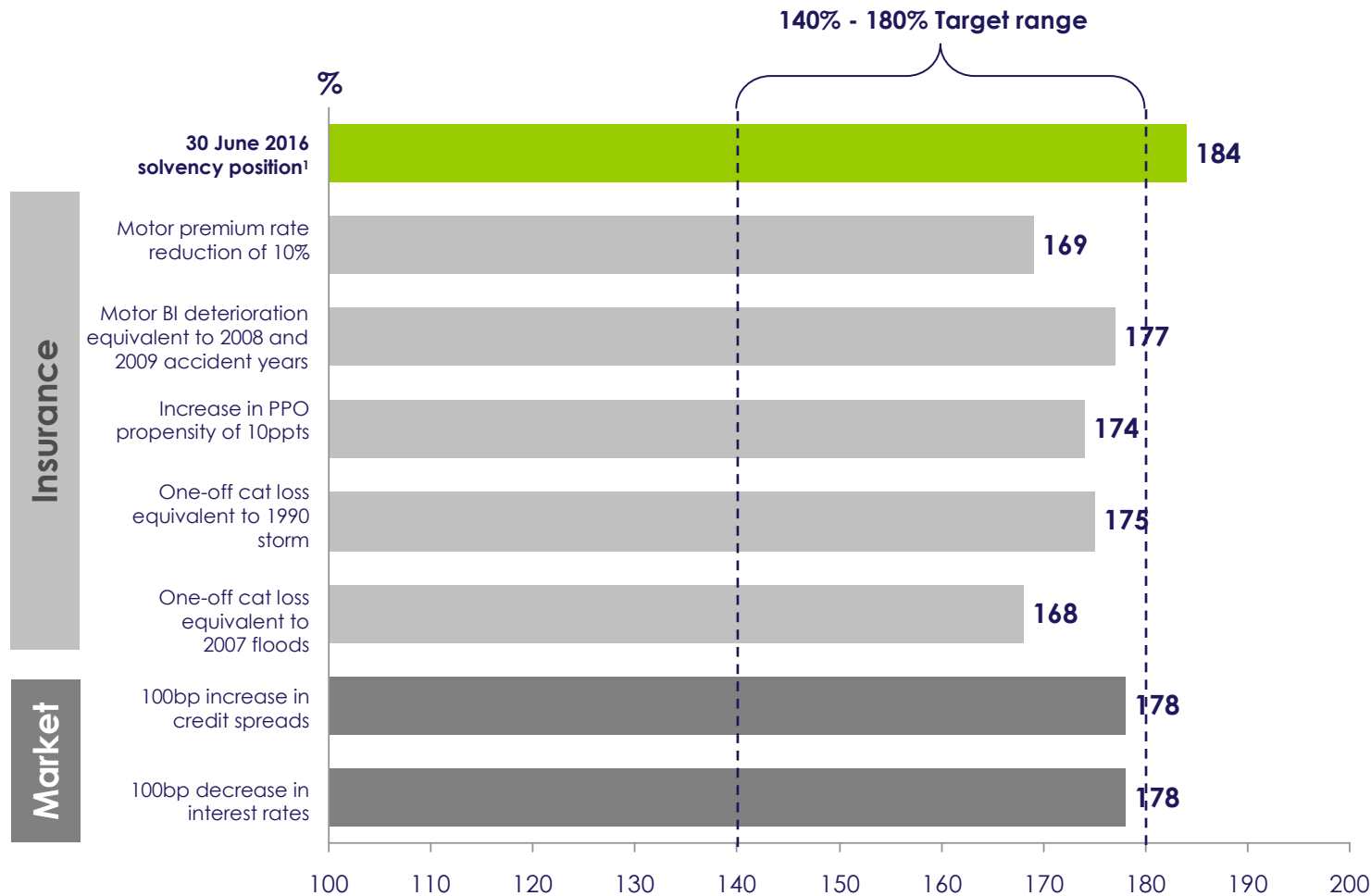
Unrestricted Tier 1 – 130% of solvency capital requirement (SCR)¹



- A** Eligible Tier 2 is the Group's subordinated debt
- B** Eligible Tier 3 is the Group's deferred tax asset
- A + B** < 50% of SCR, and the Group currently has no ineligible capital

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

Sensitivity analysis – modest sensitivity to financial market moves^{1,2}



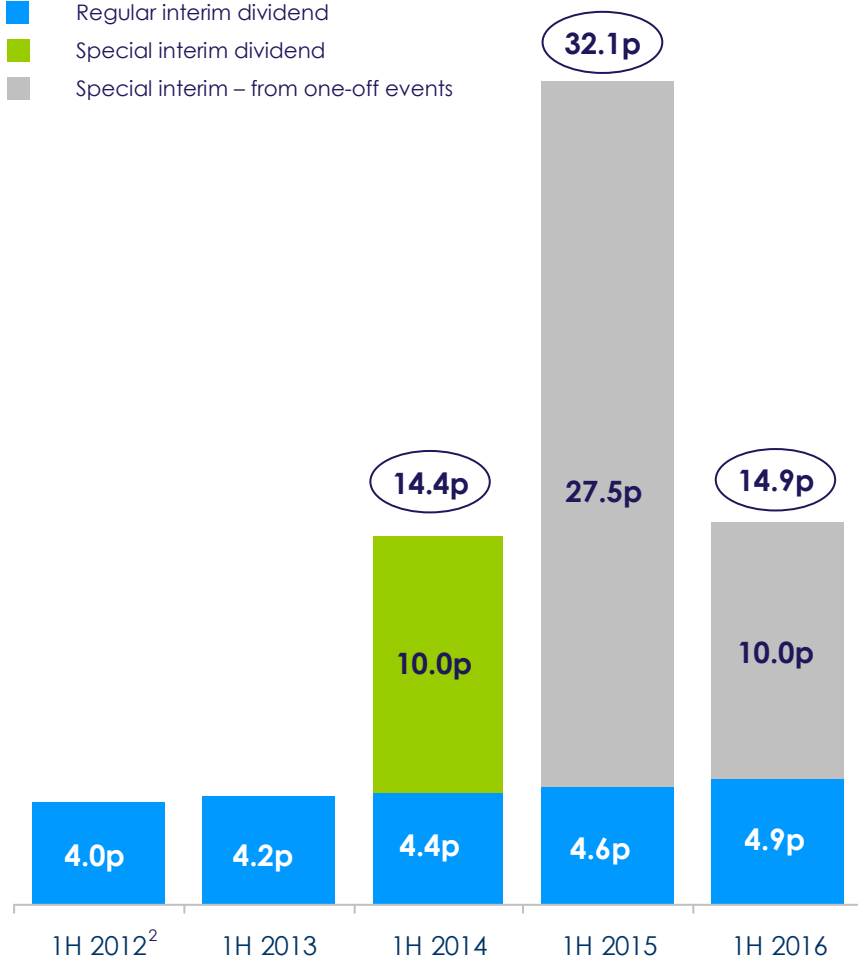
- Sensitivities selected to show a range of impacts on base case solvency ratio
- Main risk types – insurance risk and market risk
- Modest exposure to market risks

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

Dividend growth and special dividend following transition to Solvency II¹

Interim dividends

- Regular interim dividend
- Special interim dividend
- Special interim – from one-off events



Commentary

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

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

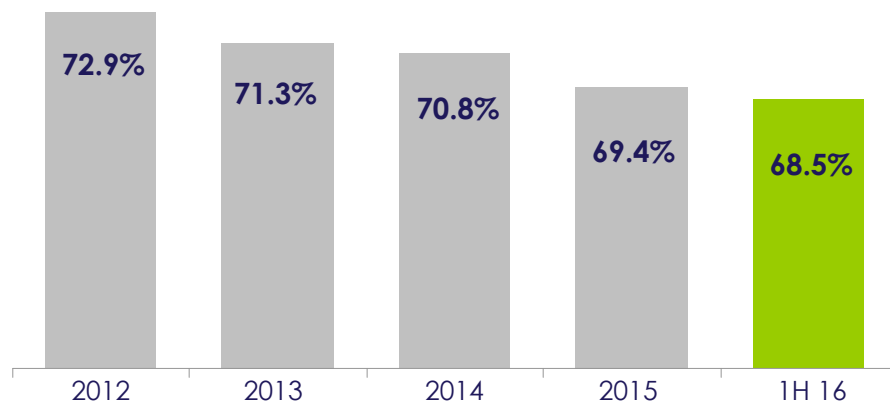
1. Figures are estimated and based on partial internal model (PIM) output for 30 June 2016
 2. 2012 pro-forma dividend

Capital summary

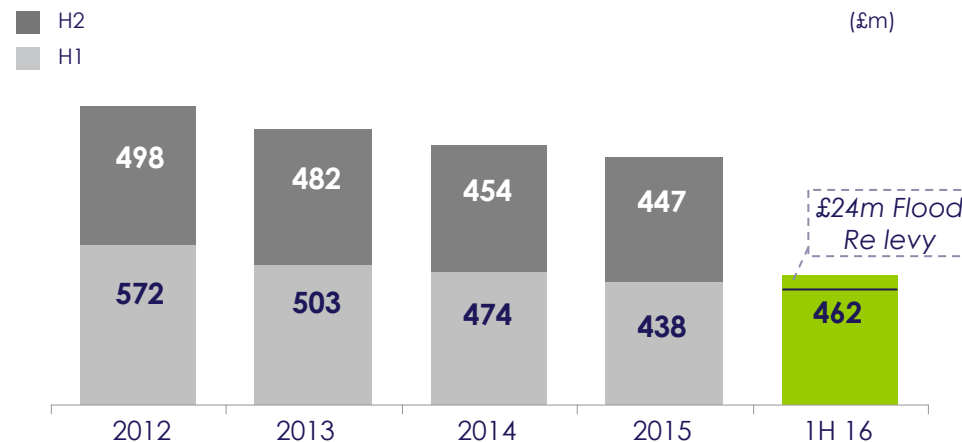
- 1 Strong solvency ratio; 184% post dividends**
- 2 Risk appetite range of 140% to 180% of SCR**
- 3 Delivered 6.5% growth in the regular interim dividend**
- 4 10.0 pence special interim dividend following transition to PIM and removal of model approval uncertainty**
- 5 Harmonising major capital,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

Further progress on key financials

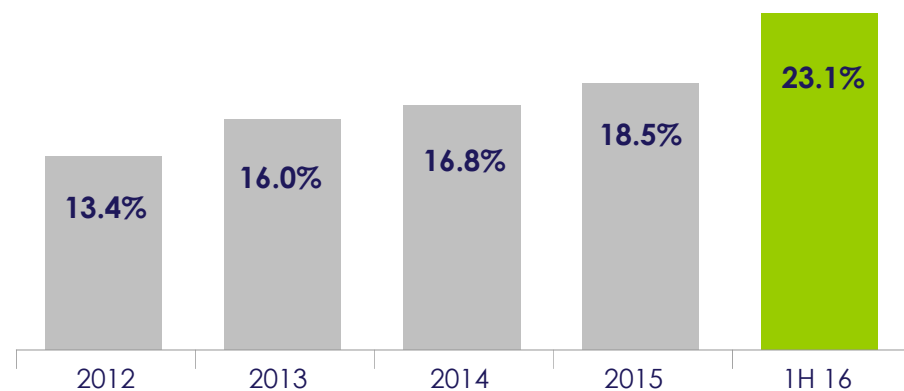
Current year attritional loss ratio¹



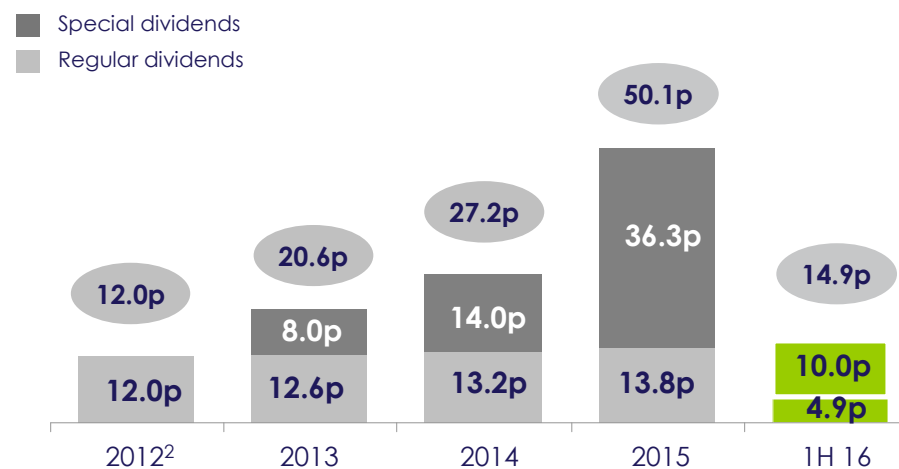
Total costs¹



RoTE¹



Dividends



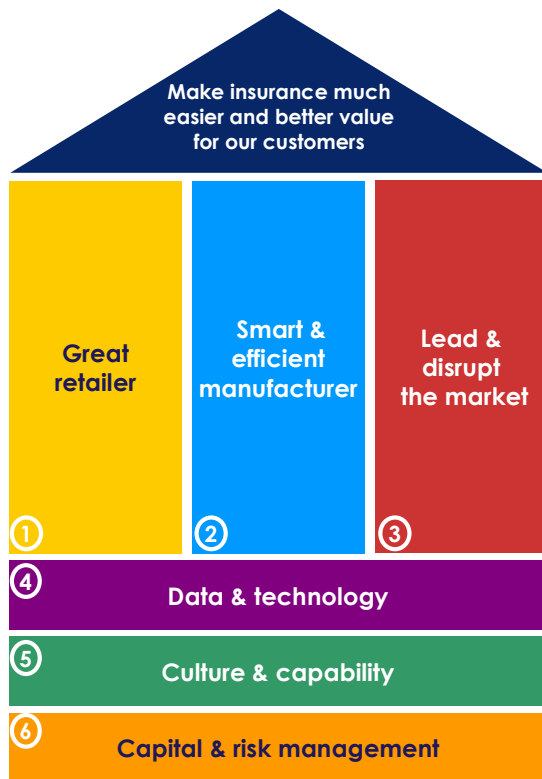
1. See glossary on slide 50 for definition
2. 2012 pro-forma dividend

Closing remarks

Paul Geddes – CEO

Reminder of our strategy and 2016 deliverables

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



① Great retailer	② Smart & efficient manufacturer	③ Lead & disrupt the market	④ Data & technology	⑤ Culture & capability	⑥ Capital & risk management
Compelling brands, propositions and customer experience to meet diverse, long term customer needs	Efficiency and flexibility to deliver better claims and customer service at lower cost	Maximise existing growth opportunities while creating and driving future areas of value	Harness the power of technology and scale of our data	Unlock and accelerate our people potential	Sound foundation of capital and risk management
<ul style="list-style-type: none"> • Improve customer experience with focus on cross channel distribution • Reduce customer complaints and improve the customer renewal process 	<ul style="list-style-type: none"> • Continue to build technical pricing excellence • Beat market claims inflation via further claims programmes • Develop a market leading partner proposition 	<ul style="list-style-type: none"> • Grow eTrade and direct Commercial SME • Develop enhanced Telematics propositions • Become insurer of choice for new safety tech in cars 	<ul style="list-style-type: none"> • Improve level, performance, and cost effectiveness from our IT systems • Get ready to launch the next generation of customer systems for Motor and Rescue 	<ul style="list-style-type: none"> • Improve efficiency and effectiveness across the organisation • Sustain high performance and engagement while building capability for the future 	<ul style="list-style-type: none"> • Implement Solvency II internal model • Recalibrate risk appetite

1H 2016 strategic actions

Great Retailer

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

Smart and Efficient Manufacturer

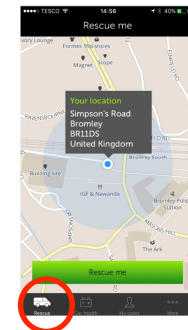
- ✓ Improved our partnership proposition
 - ✓ RBS - secured a three year extension with RBS for Home and Private Insurance
 - ✓ Nationwide - agreed a contract extension for Nationwide travel agreement until 2018

Lead & Disrupt the market

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



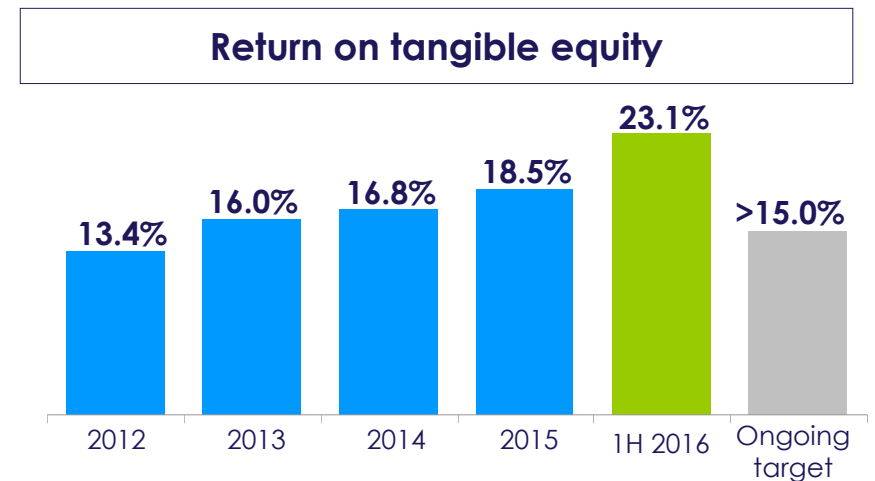
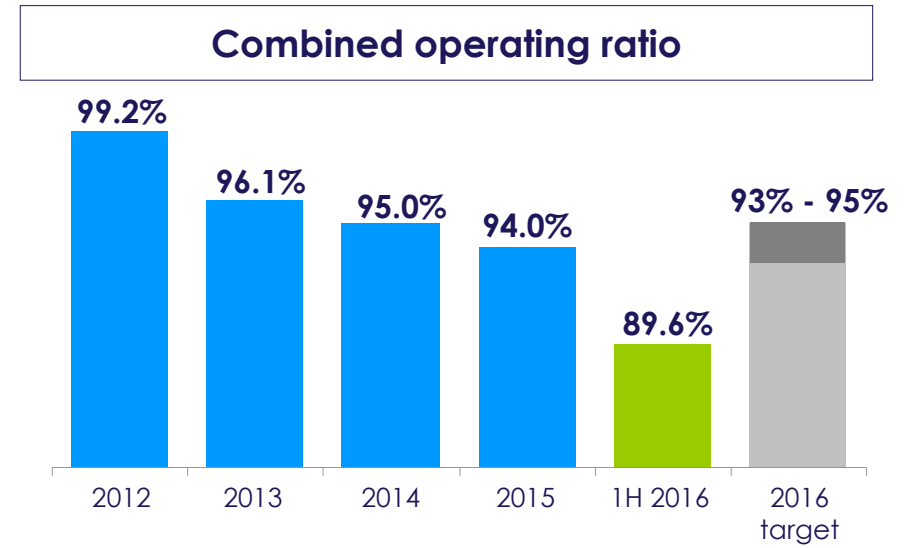
direct line®
Emergency Plumber



churchill®
Lollipopers campaign

Outlook for 2016

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



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

Key messages

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

Making insurance much easier and better value for our customers

Q&A

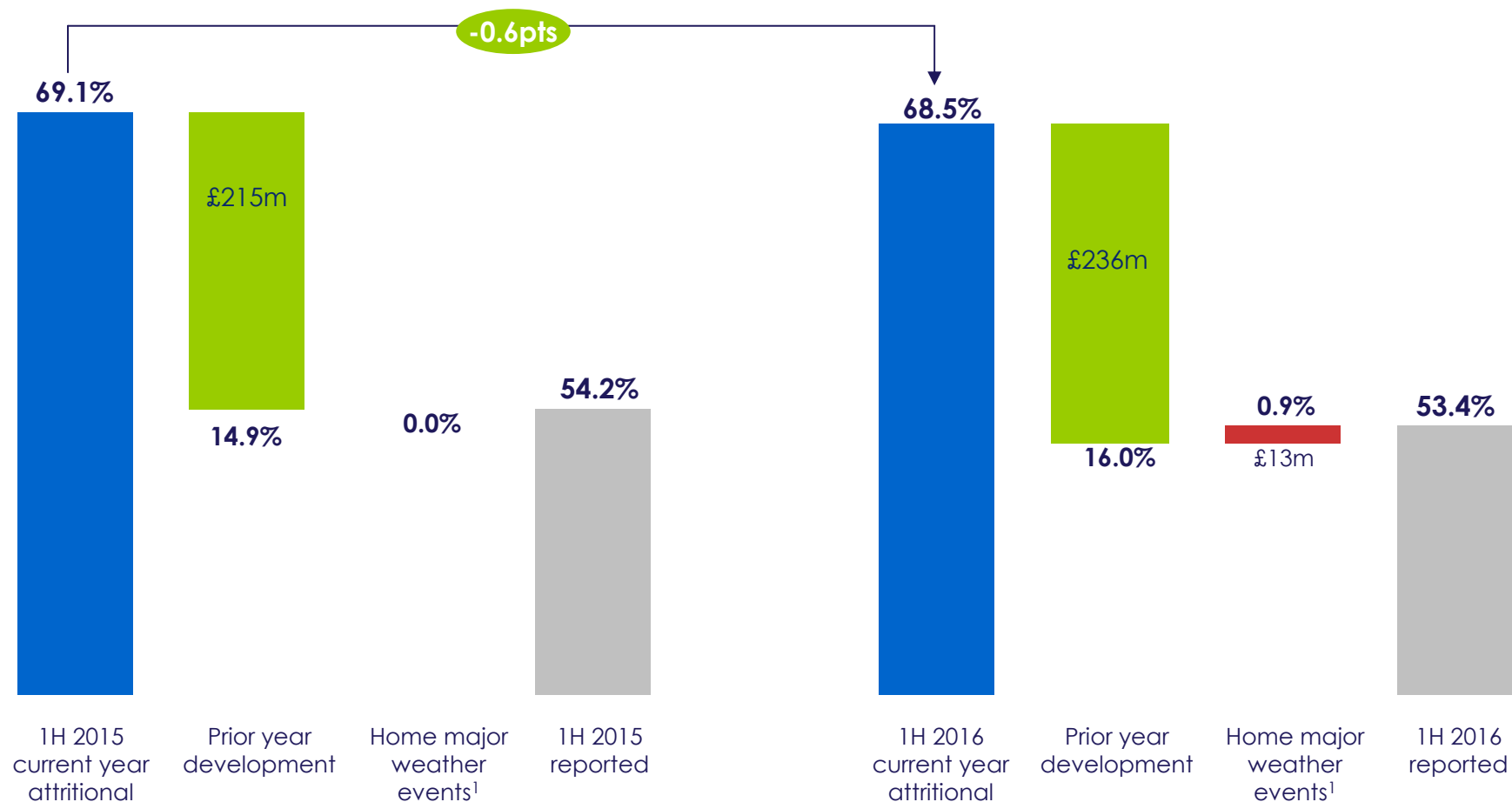
Appendix

Improvement in current year underwriting performance

Loss ratio analysis - ongoing operations

1H 2015

1H 2016



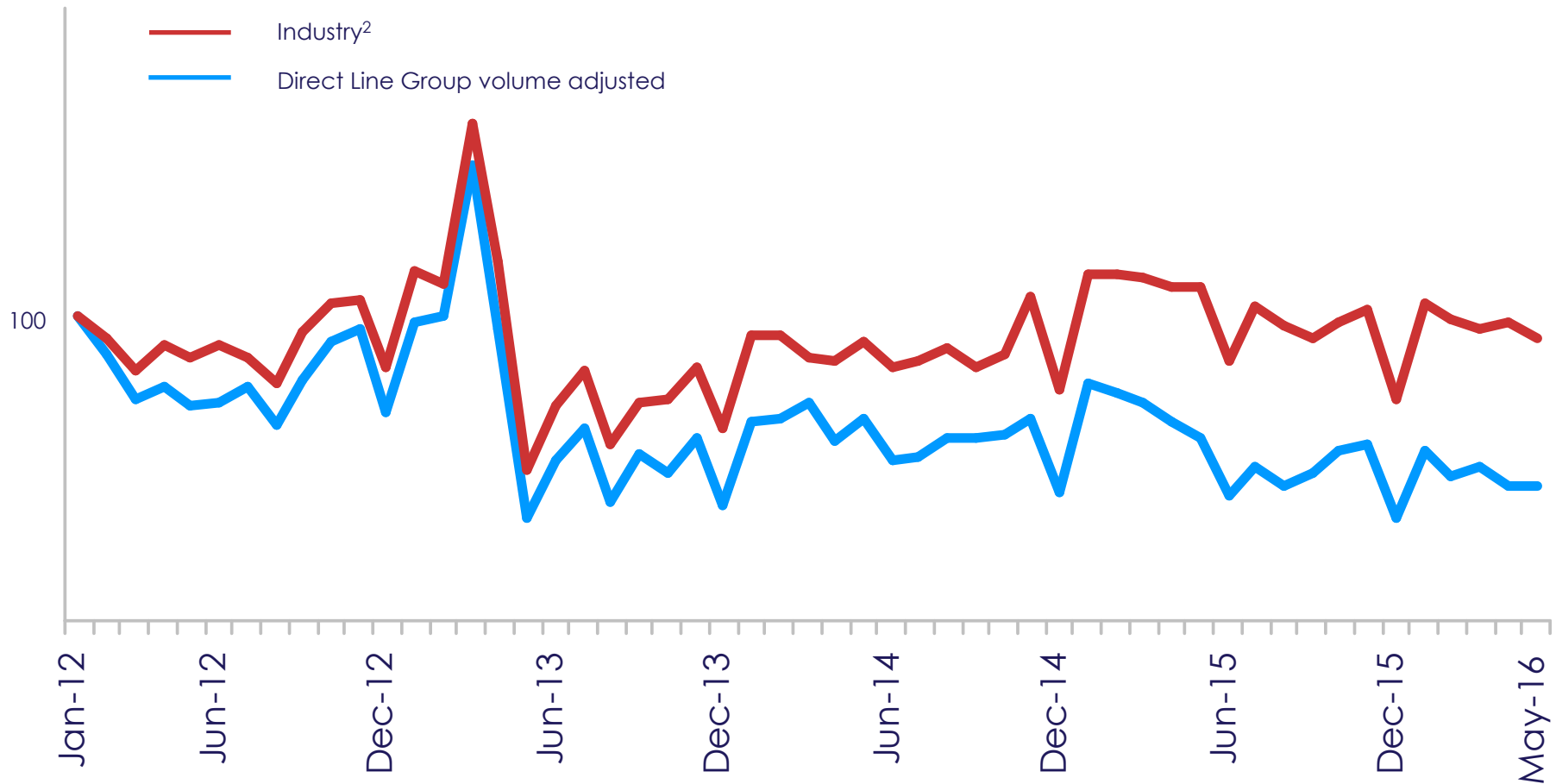
Motor highlights

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

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

Small BI claims trends

RTA Portal¹ claims notifications forms by working day (indexed to Jan 12)



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

Home highlights

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

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

Rescue and other personal lines highlights

Results

Observations

(£m unless stated)

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

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

- 1 GWP up 1.6% due to growth in direct, IFPs down 9.0% due to partners
 - 2 COR of 85.2%, 5.6ppts higher than prior year due to higher marketing and other costs
 - 3 Profit of £19.4m, £2.6m lower than prior year
-
- 1 IFPs 6.1% lower than prior year mainly due to lower partnership travel policies
 - 2 1.4% growth in GWP versus prior year due to re-pricing in Travel and Rescue growth
 - 3 Operating profit of £23.4m, £3m lower than prior year mainly due to Rescue

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

Commercial highlights

Results

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

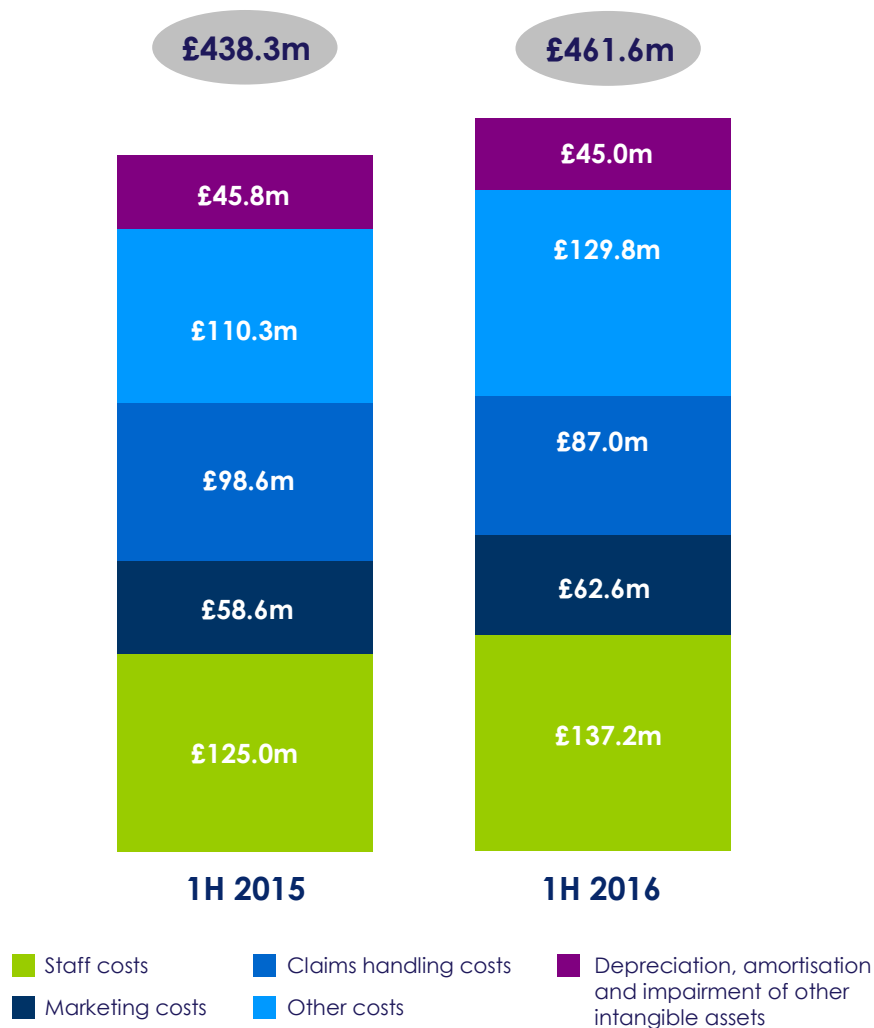
Observations

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

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

Analysis of cost base

Analysis of total cost base



Observations

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

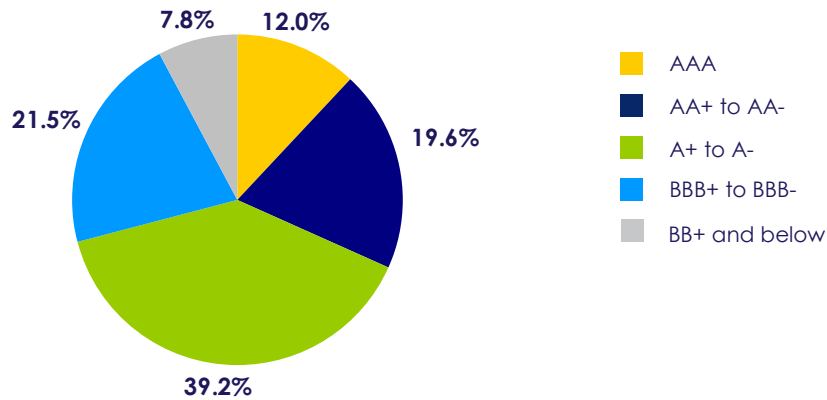
Working towards target asset allocations

Income yield					Observations
30 June 16	Target allocation ¹	Current holding	Income yield	Interest rate duration (years)	
Investment grade (incl private placements)	58.0%	57.1%	2.7%	2.8	<ul style="list-style-type: none"> Continuing to work towards target asset allocations Corporate, supranational and local government debt accounts for 55.8% of portfolio 70.7% of debt securities rated 'A' or above Diversified investment property portfolio with no exposure to sub-prime Allocation to Commercial Real Estate loans only just begun
High yield	6.0%	5.4%	4.8%	1.0	
Credit	64.0%	62.5%	2.9%	2.7	
Securitised credit ²	5.0%	4.8%	1.6%	0.1	
Sovereign	9.0%	6.9%	2.1%	1.4	
Total debt securities	78.0%	74.2%	2.7%	2.4	
Infrastructure debt	6.0%	5.2%	2.4%	n.m ³	
Commercial real estate loans ⁴	3.0%	0.3%	-	-	
Investment property	6.0%	5.3%	4.9%	n.m	
Cash and cash equivalents	7.0%	15.0%	0.5%	0.0	
Total	100.0%	100.0%	2.5%	1.8⁵	

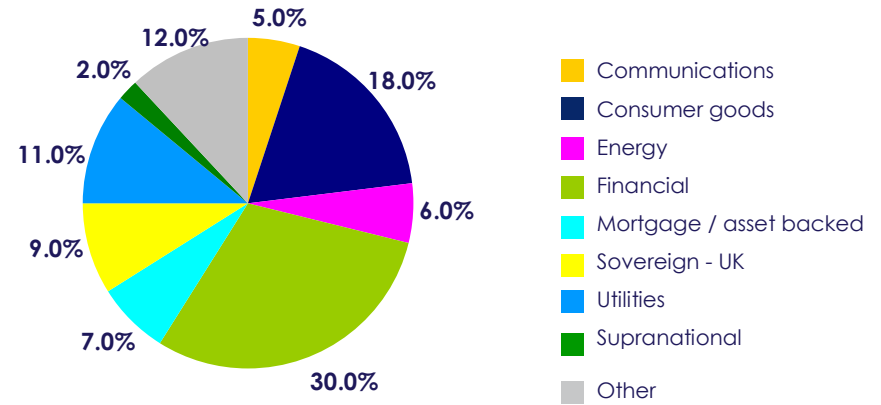
1. Strategic asset benchmarks for the Group
 2. Securitised credit is all in the form of prime mortgage backed securities, collateralised loan obligations, securitised student loans and commercial mortgage backed securities
 3. Weighted average life c. 14 years
 4. Commercial real estate loans commenced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

Investment portfolio

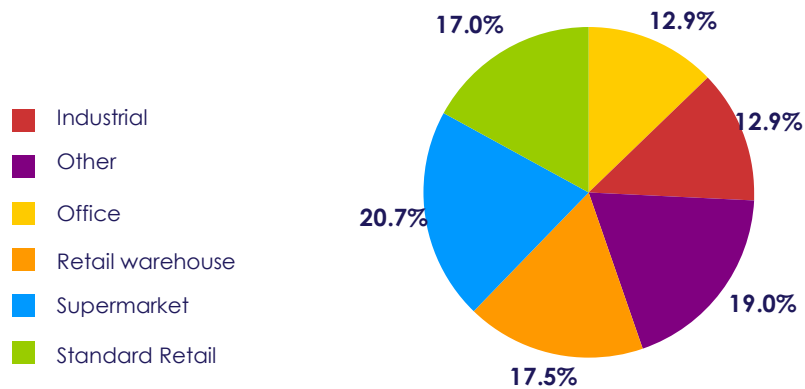
Debt securities credit quality



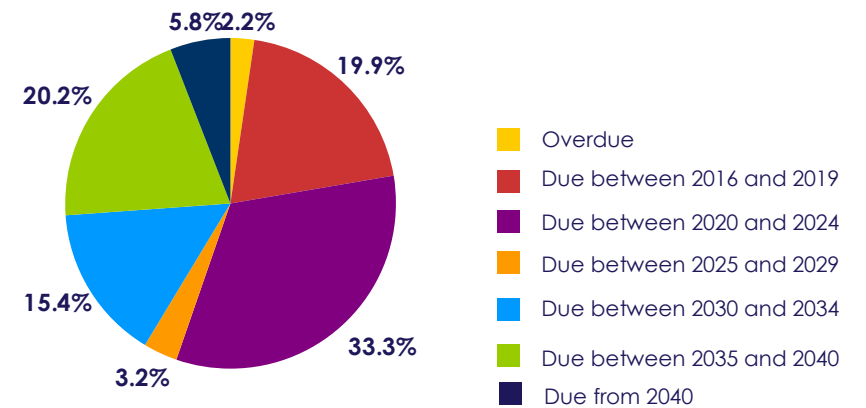
Debt securities by industry sector



Investment property by type¹



Investment property lease durations



1. Analysis excludes owner occupied property

Instalment and other operating income

Observations

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

Instalment and other operating income

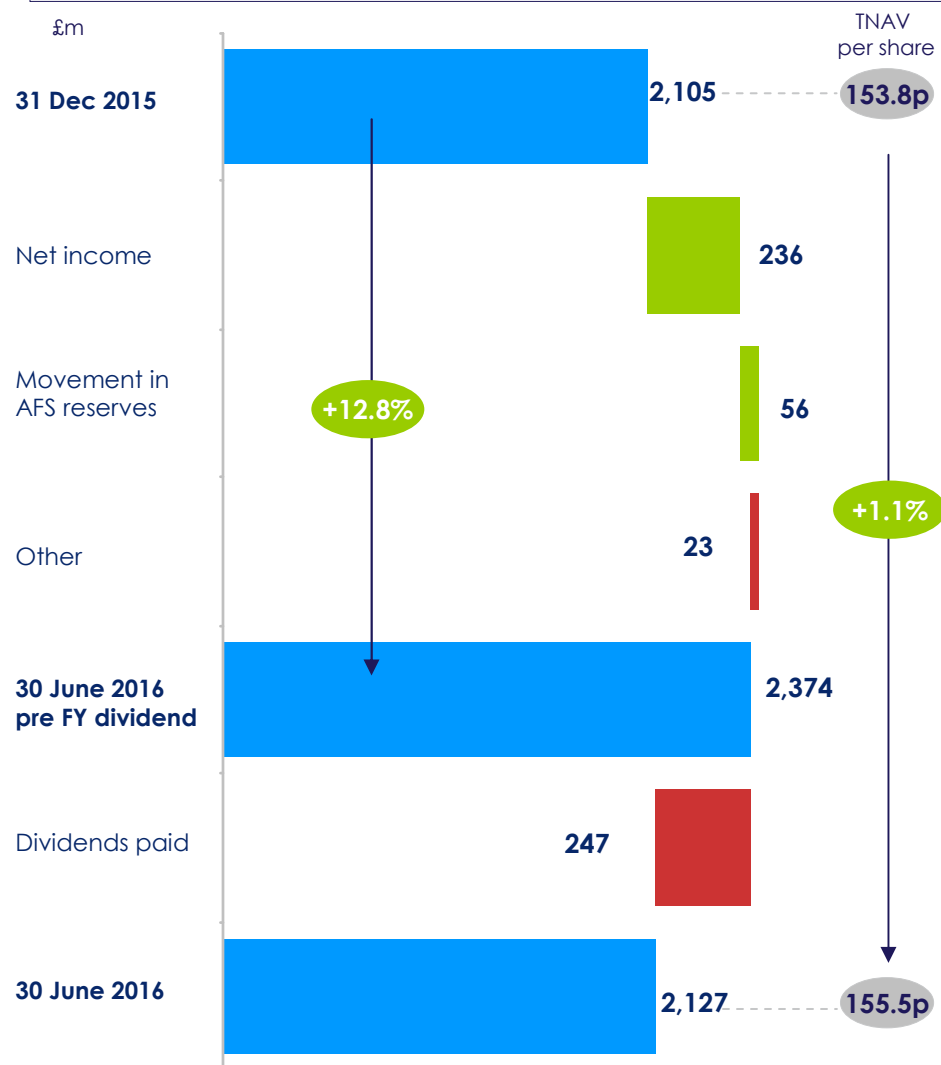
(£m)	1H 2016	1H 2015
Instalment income	51.4	48.4
Other operating income	27.0	24.4
Total – ongoing operations	78.4	72.8

Breakdown of other operating income

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

Book value and TNAV

Movement in tangible net asset value



NAV and TNAV per share

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

Observations

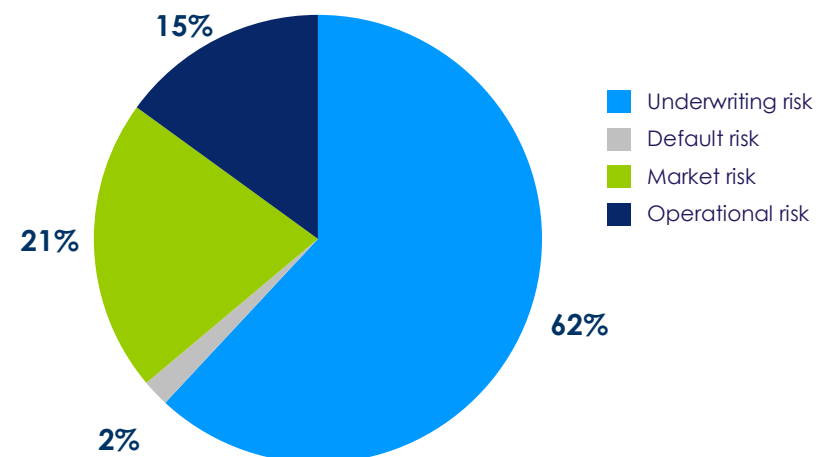
- 1.1% increase in TNAV per share post payment of 2015 final regular and second special dividend
- Total unrealised AFS reserves of £61.6m (net of tax)

SCR by risk type

Split of SCR by risk type¹

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

Underwriting risk is the largest element



All figs stated post diversification

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

Reinsurance

Motor excess of loss reinsurance

(£m)	2012	2013	2014	2015	2016
Limit	Unlimited				
Deductible	3	3 ¹	1 ¹	1	1

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

Property catastrophe reinsurance

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

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

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

RoTE calculation

RoTE calculation

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

Adjusted EPS calculation

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

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

Segmental performance - 2015

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

Segmental performance - 2014

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

Segmental performance - 2013

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

Balance sheet overview

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

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

Glossary of terms

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

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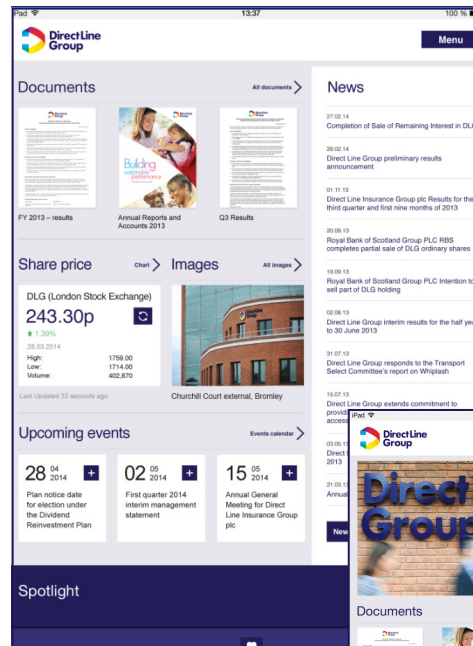
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Forward-looking statements

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