Direct Line Group

2016 Preliminary results
7 March 2017

Today’s agenda

1. 2016 Highlights
2. 2016 Financial results
3. 2017 Outlook and guidance
4. Strategic updates
5. Q & A

Paul Geddes - CEO

2016 Highlights

Great Retailer

+200k	9.4%	Direct Line
Additional Motor and Home own brand policies	Motor premium growth	No.1 most preferred brand

Smart and Efficient

Claims	Costs	Partners
3 new garages; 19 in total. 75k repairs in 2016	Underlying costs flat; absorbed Flood Re levy	3 year extensions agreed with RBS (Home) and Nationwide (Travel)

Lead & Disrupt

6.4%	Telematics	ADS
Direct Line for Business policy growth	4 year extension with PSA; 'Just add fuel', & 'Simplydrive'	Working with MOVE_UK and Tesla on connected cars

Reported

97.7% COR

14.2% RoTE

Pre-Ogden

91.8% COR

20.2% RoTE

Reported

5.8%

Regular dividend growth

165% SCR

Making insurance much easier and better value for our customers

1. *See glossary on slide 65 for definitions*

2016 Financial results

John Reizenstein - CFO

Strong results in competitive markets

Observations

1. **GWP of £3,274.1m, up 3.9% versus prior year**
2. **Ongoing operating profit increased by 11.1% to £578.6m (reported £403.5m)**
3. **COR of 91.8% is 2.2ppts better than 2015 (reported 97.7%); normalised for major weather 93.5%**
4. **Total costs of £923.7m. Excluding impairments, underlying costs in line with 2015 after absorbing Flood Re costs and supporting growth**
5. **RoTE of 20.2%, ahead of the 15% target (reported 14.2%)**
6. **Significant increase in operating profit in Home and Commercial principally due to weather partially offset by reduction in Motor and RoPL**

(£m unless stated)	2016 Reported	2016 Pre-Ogden	2015
Ongoing operations[1]			
Gross written premium (1)	*3,274.1*	3,274.1	3,152.4
Underwriting profit	*70.1*	245.2	175.2
Instalment and other income	*165.3*	165.3	150.8
Investment return	*168.1*	168.1	194.7
Operating profit – ongoing operations (2)	***403.5***	**578.6**	**520.7**
Profit before tax – continuing operations	*353.0*	570.3	507.5
Profit after tax	*278.8*	452.6	580.4
Of which Ongoing operations	*293.0*	*433.1*	*385.3*
Combined operating ratio[1] (3)	***97.7%***	**91.8%**	**94.0%**
Total costs[1] (4)	*923.7*	923.7	884.7
RoTE[1] (5)	***14.2%***	**20.2%**	**18.5%**

Operating profit – ongoing operations (£m)	2016 Headline	2016 Pre Ogden	2015
Motor	*149.1*	299.4	338.0
Home (6)	*166.7*	166.7	109.9
Rescue and other personal lines	*45.9*	45.9	52.0
Commercial	*41.8*	66.6	20.8

1. *See glossary on slide 65 for definition*

Ogden Summary – minimal impact on 2017

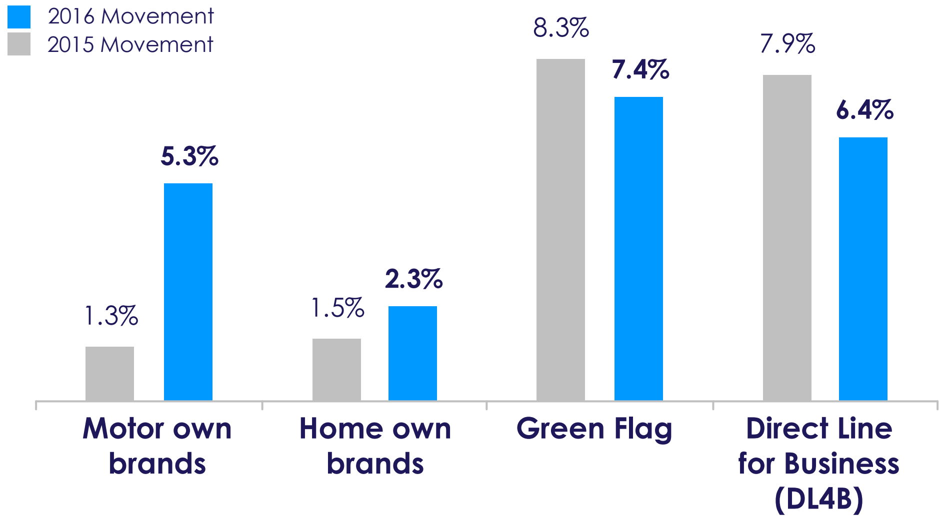
Impact of moving from 1.5% to -0.75%	2016 Financial year	2017 Financial year and beyond
Profit and Loss	£217.3m[1] Reduction in profit before tax • £205.1m[2] Prior year impact • £12.2m[3] Current year impact	Small earned effect in 2017 Small net impact from: • Lower PY releases partly offset by • Removal of lower discount provision in CY
Balance sheet	Reserve strength maintained Reduction in retained earnings	No impact expected
Solvency 2[4]	£0.19bn reduction in Own Funds £0.08bn increase to Solvency capital requirement (SCR)	No impact expected

N.B. no further Ogden rate change risk assumed

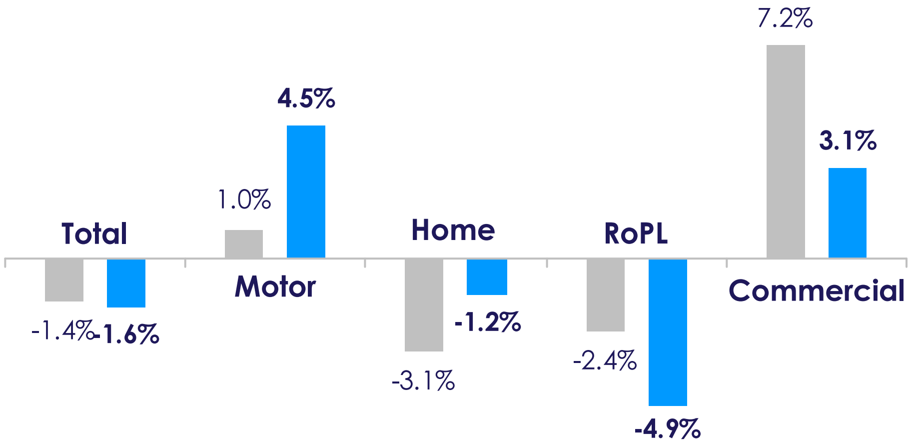
1. Of which £150.3m Motor, £24.8m Commercial and £42.2m Run-off
2. Of which, £139.8m Motor, £23.1m Commercial and £42.2m Run-off
3. £10.5m Motor, £1.7m Commercial
4. Figures are estimated and based on partial internal model (PIM) output for 31 December 2016

Continued growth in own brands and direct policies

Key own brands in force policy (IFP) growth



Group in force policy (IFP) movements



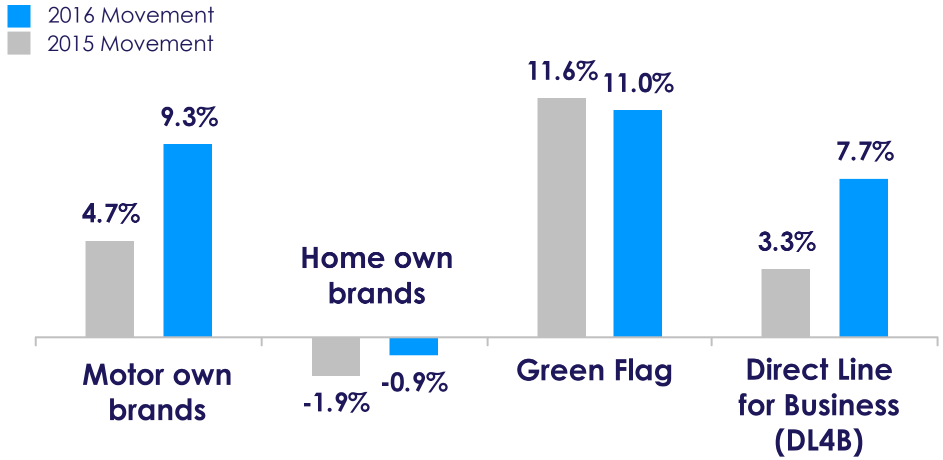
Observations

Fewer in force policies, but mix improved

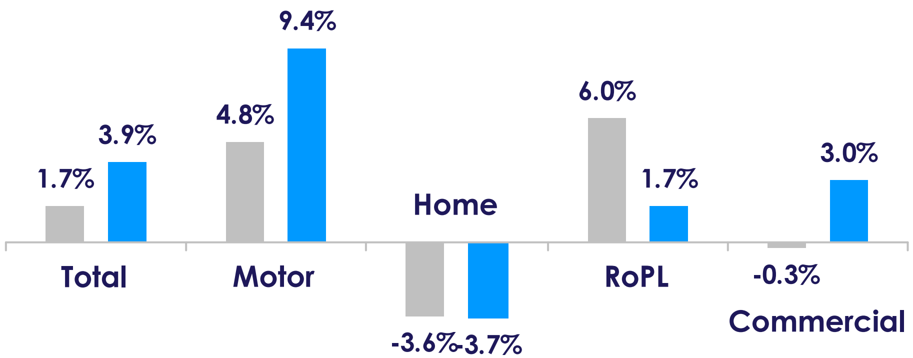
- Strong new business growth in **Motor,** particularly in Direct Line, accelerating own brands growth to 5.3%. Total Motor IFPs grew by 4.5%
- 2.3% growth in **Home** own brands supported by good performance across direct and PCW channels. Small reduction in total Home IFPs due to partnerships
- **Green Flag** IFPs grew 7.4%, overall Rescue volumes impacted by partnerships
- **Commercial** IFPs increased by 3.1% supported by continued strong growth in DL4B of 6.4%

3.9% Premium growth driven by Motor

Key own brands gross written premiums (GWP)



Group gross written premium (GWP)



Observations

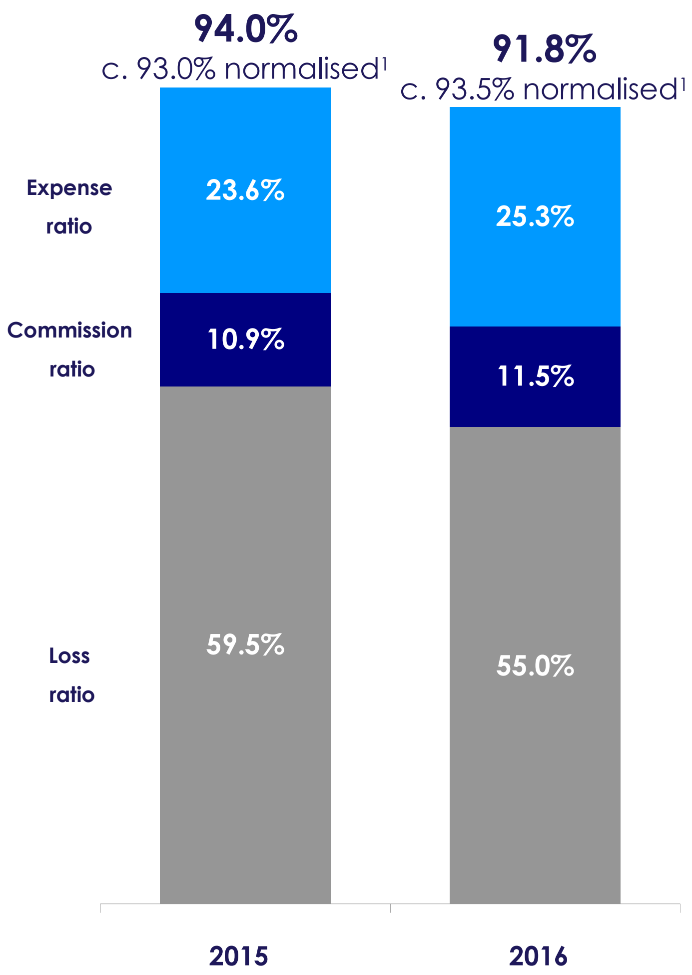
GWP growth largely due to Motor

- **Motor** GWP increased by 9.4% largely due to price increases and IFP growth, particularly across own brands
- **Home** premiums reduced by 3.7% in 2016 mainly due to partnerships
- **Home** own brands premiums were 0.9% lower than 2015 although some signs of premium stability in Q4 2016
- **Rescue** GWP broadly stable. Strong growth in Green Flag direct (+11.0%) offset by lower partnership and linked volumes
- **Commercial** grew GWP 3.0% due to strong growth in DL4B which grew premiums by 7.7%

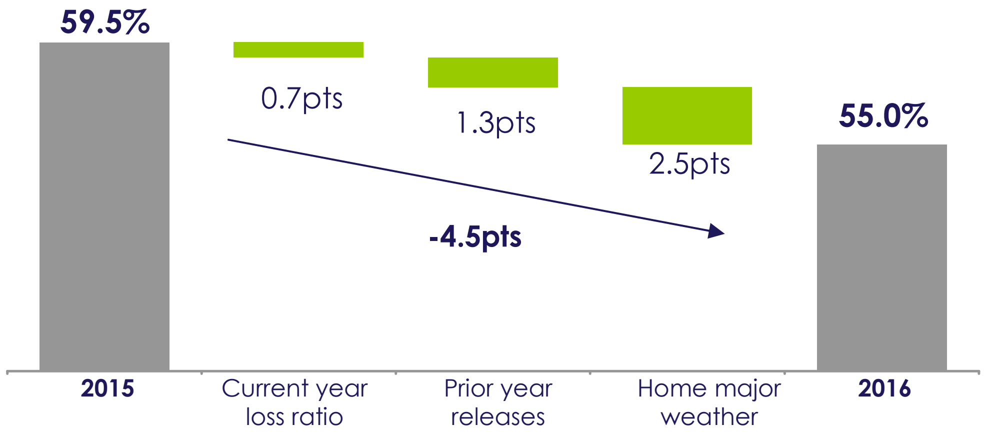
Underwriting discipline reflected in COR

Pre-Ogden

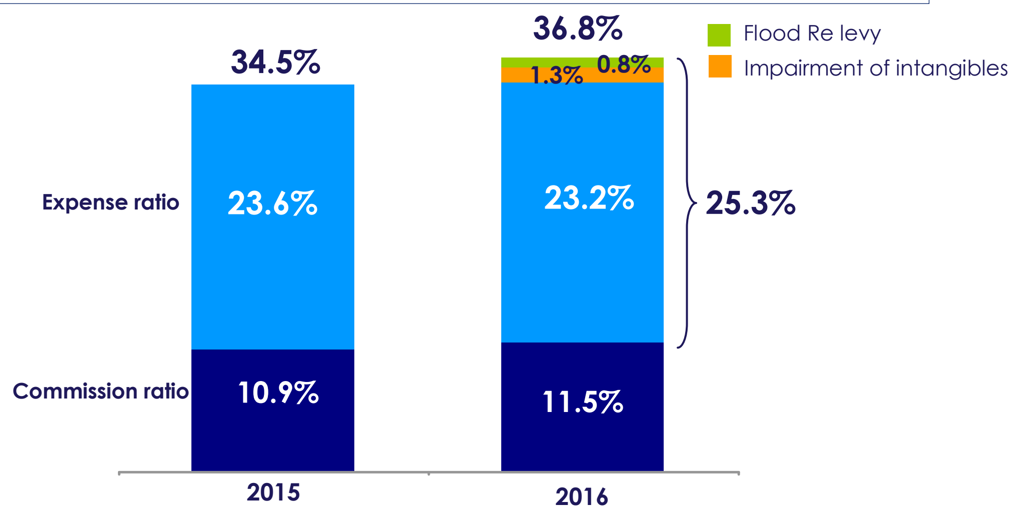
Combined operating ratio



Loss ratio analysis



Expense and commission ratio analysis

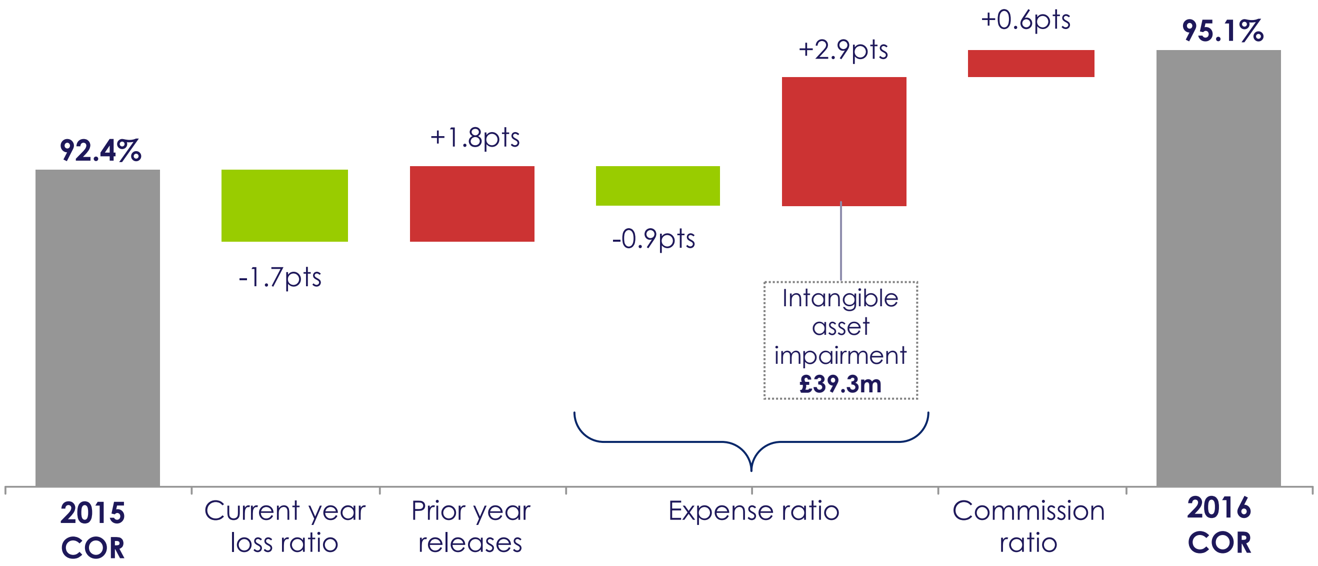


1. *Normalised for Home and Commercial weather*

Direct Line Group

Motor – improved current year profitability

Pre-Ogden



2016	**83.3%**	**(19.6%)**	**28.2%**	**3.2%**	**95.1%**
2015	85.0%	(21.4%)	26.2%	2.6%	92.4%

	2015	2016
Underwriting profit	**£95.5m**	**£65.5m**
Instalment and other income	£103.6m	£117.0m
Investment return	£138.9m	£116.9m
Operating profit	**£338.0m**	**£299.4m**

Motor COR increased by 2.7pts to 95.1%

- Improvement in current year loss ratio reflects improved trading
- Lower contribution from prior year releases (£263m in 2016 versus £267m in 2015)
- Expense ratio higher due to impairments, underlying expense ratio 0.9ppts better than 2015
- Underwriting profit of £65.5m, £30m lower than 2015 due to impairments

Motor – disciplined underwriting

Pre-Ogden

Premiums and policy growth

	2015	2016
AVP change[1]	↑ **+5.2%**	↑ **+6.3%**
Risk and business mix[2]	↓	↓
IFP growth	↑ +1.0%	↑ +4.5%
GWP growth	↑ +4.8%	↑ +9.4%

- Average written premiums increased by 6.3% in 2016
- Improvement in margin due to a combination of price increases and lower risk mix
- 4.5% increase in IFPs as a result of strong new business growth and stable retention during 2016

Claims by peril vs. expectations

	30 June 2016		31 December 2016	
	Frequency	Severity	Frequency	Severity
Large BI	↔	↔	↔	↔
Small BI	↔	↔	↔	↔
Damage	↔	↑	↔	↑

Overall claims inflation at the top end of the long-term range of 3-5%

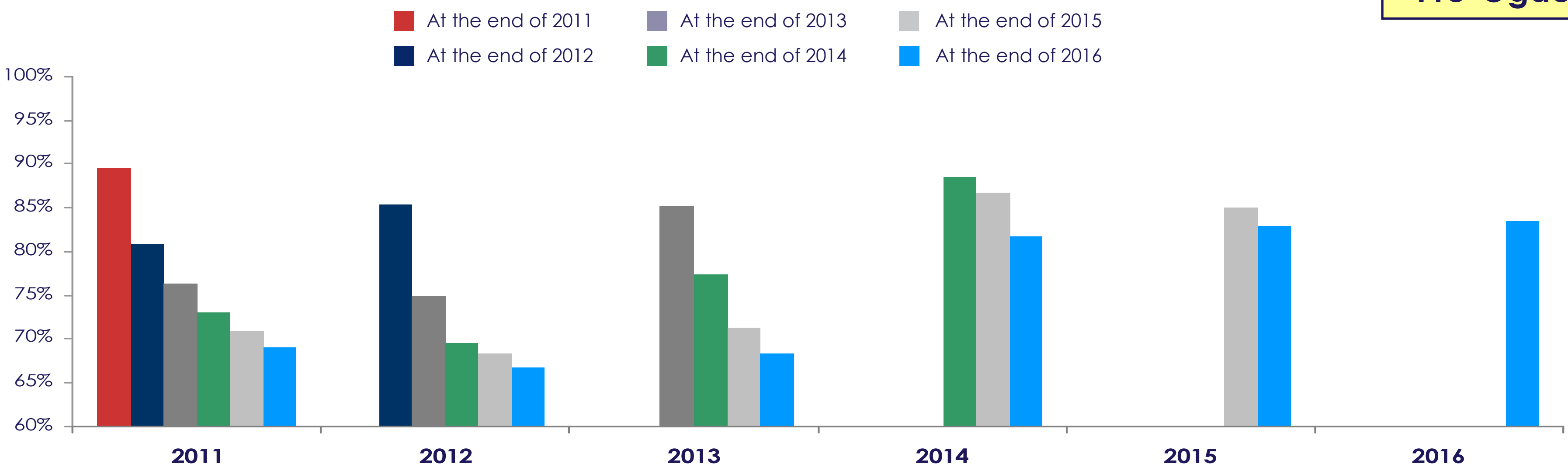
1. *Average incepted written premium (new business and renewals). Excludes IPT*
2. *Risk and business mix reflects the expected level of claims from the portfolio. It measures the estimated movement based on risk models used in that period and is revised when risk models are updated*

Direct Line Group

Motor - conservative reserving leading to prior year releases

Motor booked loss ratio development (net[1])

Pre-Ogden



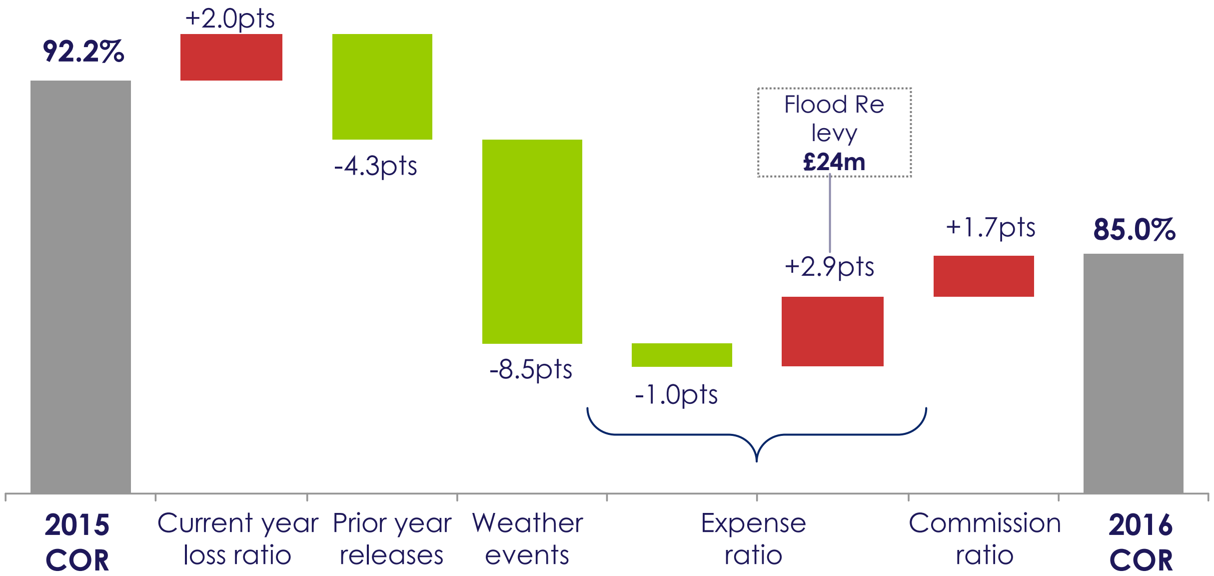
Excess of Loss reinsurance deductible[2] (1 January renewal)

£3m	£3m	£3m[3]	£1m[3]	£1m	£1m

Prior year releases	1H 16	2H16	2016	2015
£m	134.0	129.3	**263.3**	266.8
% NEP	20.6%	18.8%	**19.7%**	21.4%

1. *Group view based on management best estimate, net of reinsurance, includes claims handling costs and add-ons*
2. *Reinsurance is on a treaty year basis. Cover renews 1 January and is unlimited. Unlimited amount of cover reinstatements*
3. *Partial placement on lower layers up to £5m*

Home – results helped by benign weather



2016	**47.8%**	**(9.3%)**	**2.2%**	**21.7%**	**22.6%**	**85.0%**
2015	45.8%	(5.0%)	10.7%	19.8%	20.9%	92.2%

	2015	2016
Underwriting profit	**£65.6m**	**£122.5m**
Instalment and other income	£23.8m	£24.3m
Investment return	£20.5m	£19.9m
Operating profit	**£109.9m**	**£166.7m**

Home COR improvement largely due to weather

- 2.0pt increase in current year attritional loss ratio to 47.8% due to higher claims inflation
- Higher contribution from prior years; £76m in 2016 versus £42m in 2015
- Weather related costs of £18m in 2016 (2015: £90m)
- Expense ratio increase as a result of the £24m Flood Re levy in Q2 2016 (2.9ppts)
- Underwriting profit of £122.5m, £56.9m ahead of 2015

Home – pricing to optimise own brand portfolio

Own brands premiums and policy growth

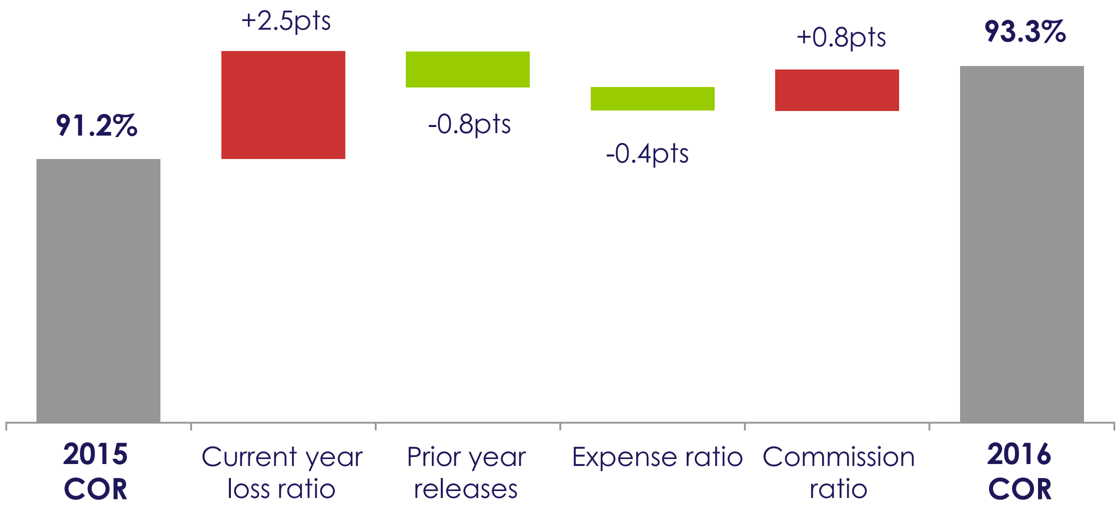
	2015	2016
AVP change[1]	↓ **-3.6%**	↓ **-3.9%**
Risk and business mix[2]	↓	↓
IFP growth	↑ +1.5%	↑ +2.3%
GWP movement	↓ -1.9%	↓ -0.9%

- **Own brand average written premiums 3.9% lower in 2016 largely reflecting changes in channel and tenure as PCWs continued to grow market share**
- **Following a long period of price deflation, the home market began to stabilise in 2016**
- **Increased own brands new business prices in Q4 and retention remained strong throughout the year**
- **Underlying claims inflation increased in H2 2016 leading to some pressure on margins**

1. *Average incepted written premium (new business and renewals). Excludes IPT*
2. *Risk and business mix reflects the expected level of claims form the portfolio. It measures the estimated movement based on risk models used in that period and is revised when risk models are updated*

Direct Line Group

RoPL – results driven by Rescue



						Rescue
2016	**66.0%**	**(4.4%)**	**24.5%**	**7.2%**	**93.3%**	**83.4%**
2015	63.5%	(3.6%)	24.9%	6.4%	91.2%	82.3%

	2015	2016
Underwriting profit	**£33.9m**	**£26.6m**
Instalment and other income	£14.3m	£15.4m
Investment return	£3.8m	£3.9m
Operating profit	**£52.0m**	**£45.9m**

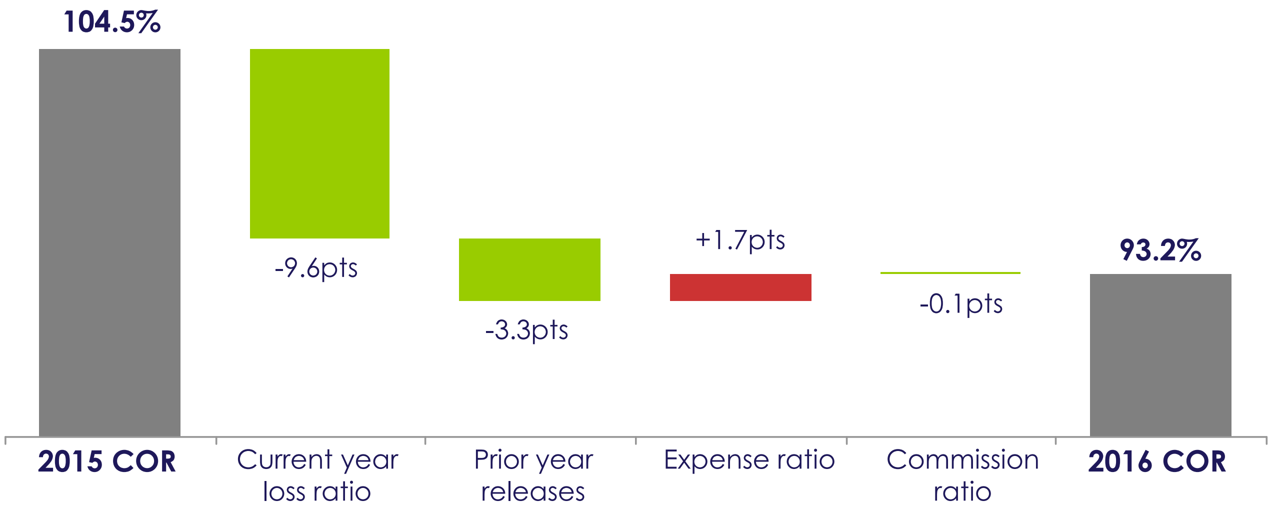
RoPL COR increased by 2.1pts to 93.3%

- Increase in current year loss ratio due to an adjustment to Pet earned premiums
- Higher contribution from prior year releases (£17.5m in 2016 versus £13.6m in 2015)
- Lower expense ratio due to phasing of marketing spend in Rescue
- Underwriting profit of £26.6m was £7.3m lower than 2015
- Rescue COR increased by 1.1pts to 83.4%

Direct Line Group

Commercial – improved underlying profitability

Pre-Ogden



2016	**65.9%**	**(16.1%)**	**23.9%**	**19.5%**	**93.2%**
2015	75.5%	(12.8%)	22.2%	19.6%	104.5%

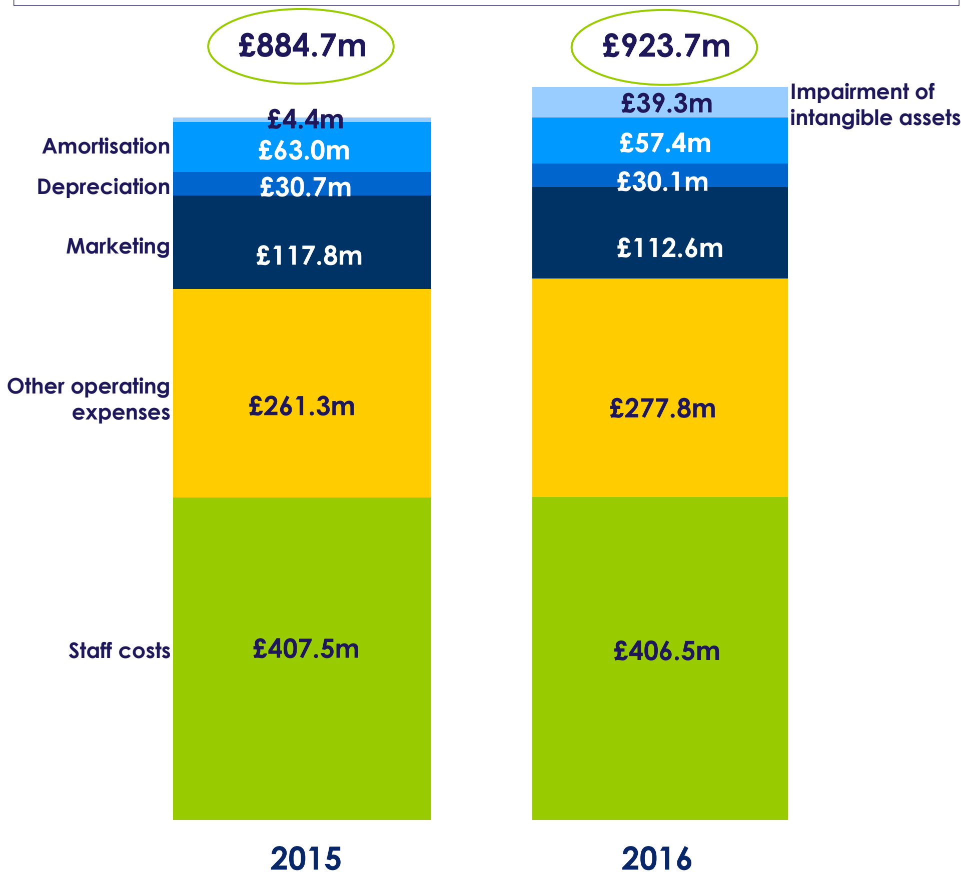
	2015	2016
Underwriting profit / (loss)	**(£19.8m)**	**£30.6m**
Instalment and other income	£9.1m	£8.6m
Investment return	£31.5m	£27.4m
Operating profit	**£20.8m**	**£66.6m**

Commercial COR improved by 11.3pts to 93.2%

- Normalising for weather and large losses, COR would have been c. 3ppts better than 2015
- 9.6pt improvement in current year loss ratio mainly due to better weather related claims experience and c.1ppt of underlying improvement in the attritional loss ratio
- Higher contribution from prior year releases (£72.9m in 2016 versus £56.6m in 2015)
- Expense ratio increase due to timing of marketing spend and one-off costs
- Underwriting profit of £30.6m in 2016 versus a loss in 2015

Total costs - efficiencies offsetting headwinds

Analysis of total cost base[1]



	2015	2016
Operating expenses	**£689.1m**	**£759.3m**
Claims handling	£195.6m	£164.4m

Observations

- **Excluding impairment, total costs flat despite Flood Re levy**
- **Staff costs flat, absorbing inflation and business growth**
- **Marketing costs 4% lower than 2015**
- **Other operating expenses reduced by 3% (before Flood Re levy)**
- **Impairment of £39.3m related to IT projects aimed at enhancing digital offering, customer experience and operational efficiency**
- **H2 costs 5% lower vs prior year (ex-impairment), partially due to lower claims handling expenses**
- **Operating expense ratio 24.0% excluding impairment (2015: 24.4% adjusted for Flood Re)**

Outlook

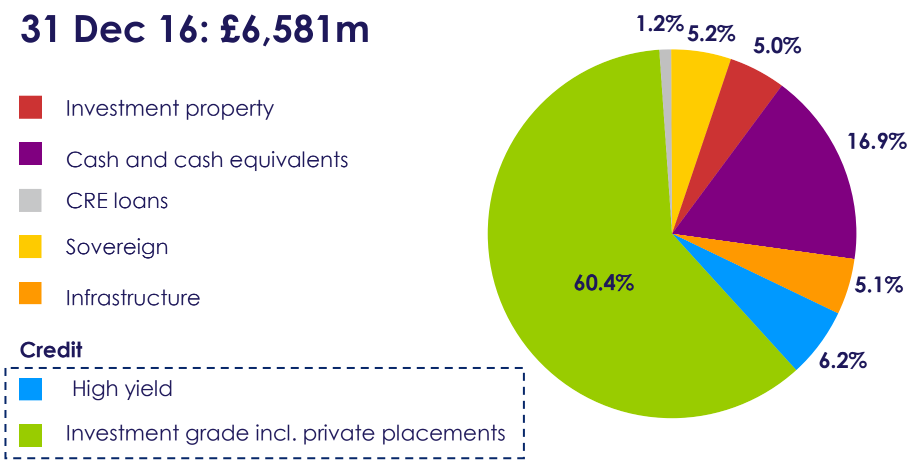
- **Aim to improve the expense[1] and commission ratios[1] in 2017 and longer term**

1. See glossary on slide 66 for definition

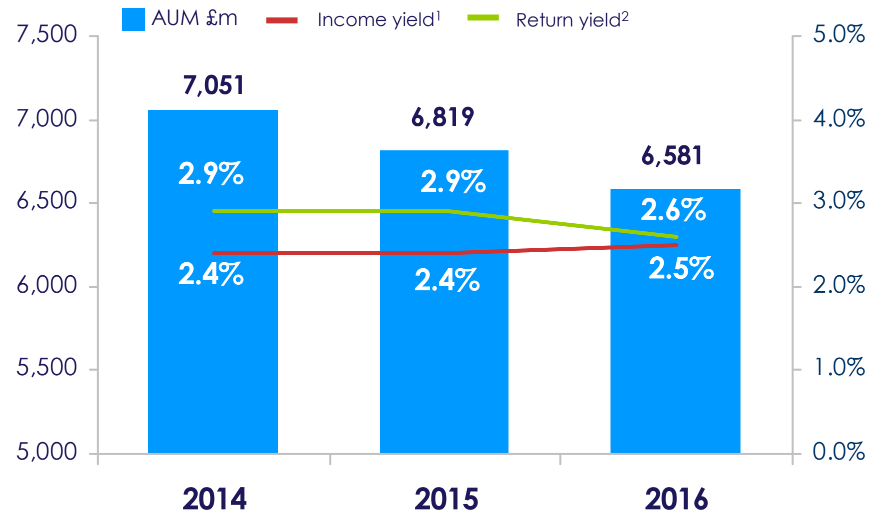
Direct Line Group

Lower investment return, reflecting lower gains

Investment assets by type



AUM and investment yields



Investment return – Ongoing operations

£m	2016	2015
Investment income	164.5	165.6
Net realised and unrealised gains	3.6	29.1
Of which unrealised property gains	*4.1*	*24.2*
Total	**168.1**	**194.7**

Observations

- **3.5% reduction in AUM in 2016 reflects dividends paid and lower claims**
- **Income yield of 2.5% in 2016, in line with management guidance**
- **Net realised and unrealised gains lower in 2016 primarily due to lower unrealised property gains**

1. *Investment income excluding net gains divided by average AUM based on opening and closing balance for total Group*
2. *Investment return including unrealised and realised gains and losses, divided by average AUM based on opening and closing balance for total Group*

Investments outlook

Income yield

31 Dec 16	Target allocation[1]	Current holding	Income yield	Interest rate duration (years)
Investment grade (incl private placements)	62.0%	60.4%	2.6%	2.4
High yield	6.0%	6.2%	4.8%	1.2
Credit	**68.0%**	**66.6%**	**2.8%**	**2.3**
Sovereign	8.0%	5.2%	2.3%	1.4
Total debt securities	**76.0%**	**71.8%**	**2.8%**	**2.3**
Infrastructure debt	6.0%	5.1%	2.4%	-
Commercial real estate loans[2]	3.0%	1.2%	2.6%	-
Investment property	6.0%	5.0%	5.1%	-
Cash and cash equivalents	9.0%	16.9%	0.4%	0.0
Total	**100.0%**	**100.0%**	**2.5%**	**1.6[3]**

Observations

- **ALM driven investment strategy**
- **Exited securitised credit during Q3 2016**
- **69.9% of debt securities rated 'A' or above**
- **Diversified investment property portfolio with no exposure to sub-prime**
- **AFS unrealised gains, net of tax of £92.1m**

Outlook

- **Continue to work towards target asset allocations**
- **Based on current market conditions, investment income yield expected to be 2.4% in 2017**

1. *Strategic asset benchmarks for the Group*
2. *Commercial real estate loans commenced 27 June 2016*
3. *Weighted average life c. 14 years*

Direct Line Group

Ongoing operating profit reconciliation

Observations

1. **Run-off segment profit £68.8m driven by positive prior year development from large bodily injury (reported £26.6m)**
2. **Restructuring and other one-off costs of £39.9m reflecting building impairment costs**
3. **Finance costs in relation to Tier 2 fixed rate debt; continue to benefit from swap to floating rate**
4. **Profit after tax of £452.6m is 13.3% higher than prior year (excluding profit from discontinued). Reported £278.8m**

Outlook

- **Over the four year period 2015-2018, the Group expects cumulative restructuring and other one-off costs to continue to be substantially offset by operating profit from the Run-off segment**

Operating profit

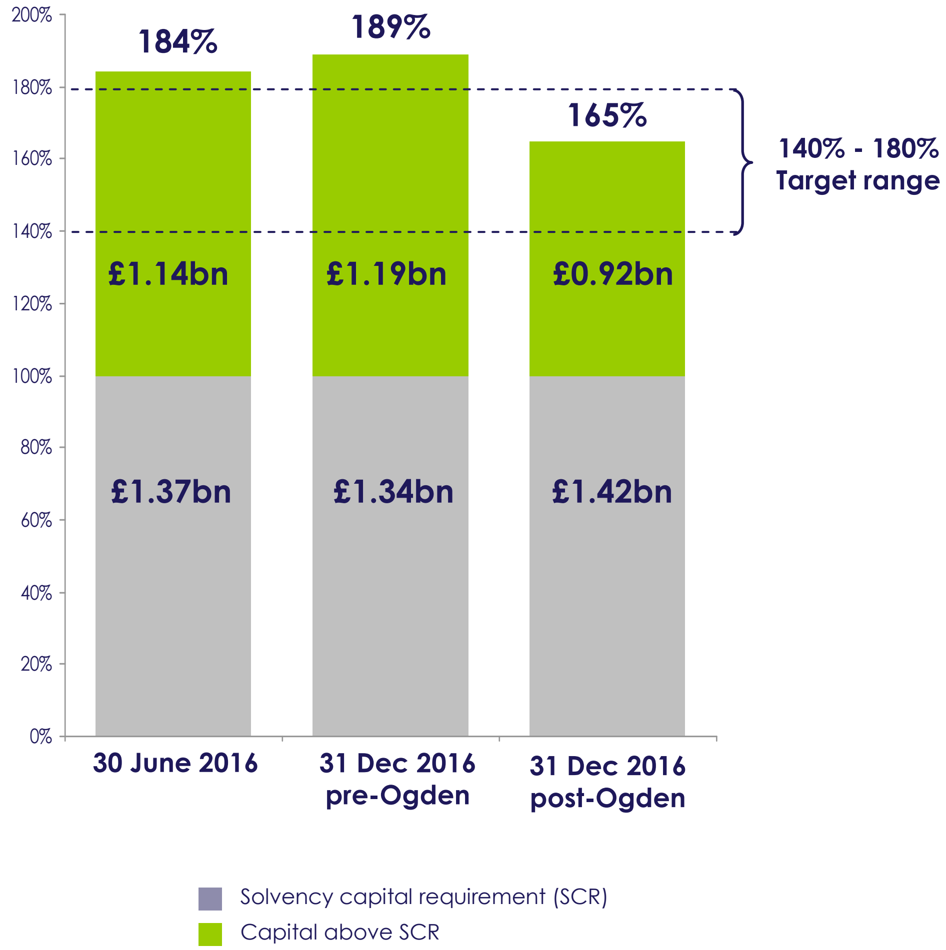
(£m unless stated)	2016 Reported	2016 Pre Ogden	2015
Operating profit – ongoing operations	*403.5*	**578.6**	**520.7**
Run-off	*26.6*	1 68.8	73.1
Restructuring and other one-off costs	*(39.9)*	2 (39.9)	(48.7)
Operating profit – continuing operations	*390.2*	**607.5**	**545.1**
Finance costs	*(37.2)*	3 (37.2)	(37.6)
Profit before tax – continuing operations	*353.0*	**570.3**	**507.5**
Tax	*(74.2)*	(117.7)	(108.3)
Profit from discontinued, net of tax[1]	-	-	181.2
Profit after tax	*278.8*	4 **452.6**	**580.4**
EPS – diluted (pence)[1]	*21.2*	**n/a**	**26.6**

1. *See glossary on slide 66 for definition*
2. *Adjusted diluted earnings per share includes ongoing operations and excludes discontinued operations, the Run-off segment, restructuring and other on-off costs and the gain on disposal of subsidiary (using UK standard tax rate 2016: 20.00%; 2015 20.25%)*

Direct Line Group

Development of capital coverage

Solvency II capital coverage post dividends[1]

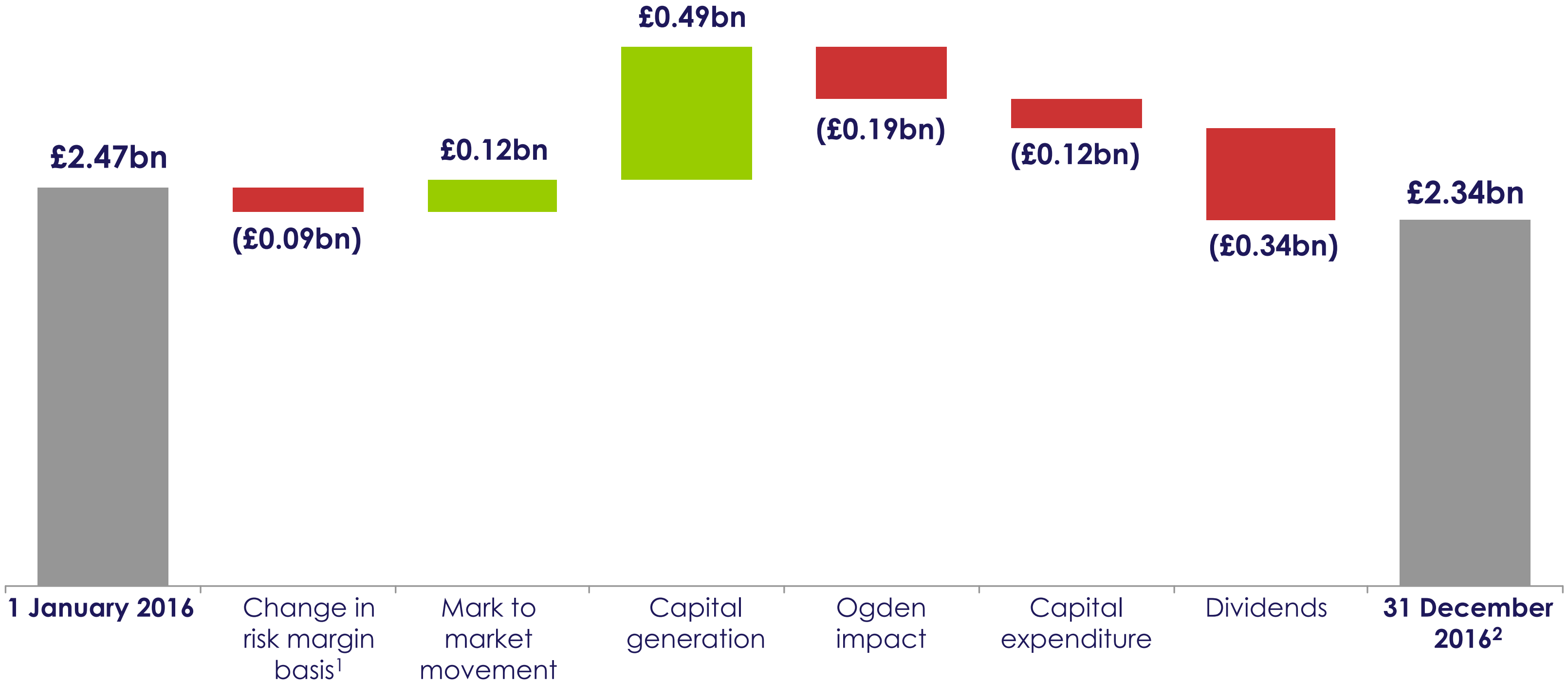


Observations

- Capital coverage of 165% post dividend, above the mid-point of the range of the Group's risk appetite range
- Ogden impact of 24ppts (£0.19bn reduction in Own Funds, £0.08bn increase in SCR)
- Internal model approved by the PRA in June 2016
- The Group's partial internal model (PIM) is used to determine the solvency capital requirement (SCR)
- The Group seeks to hold capital in the range 140% to 180% of the SCR

1. *Figures are estimated and based on partial internal model (PIM) output for 31 December 2016*

Movement in own funds



Own funds reduced by £0.13bn in 2016

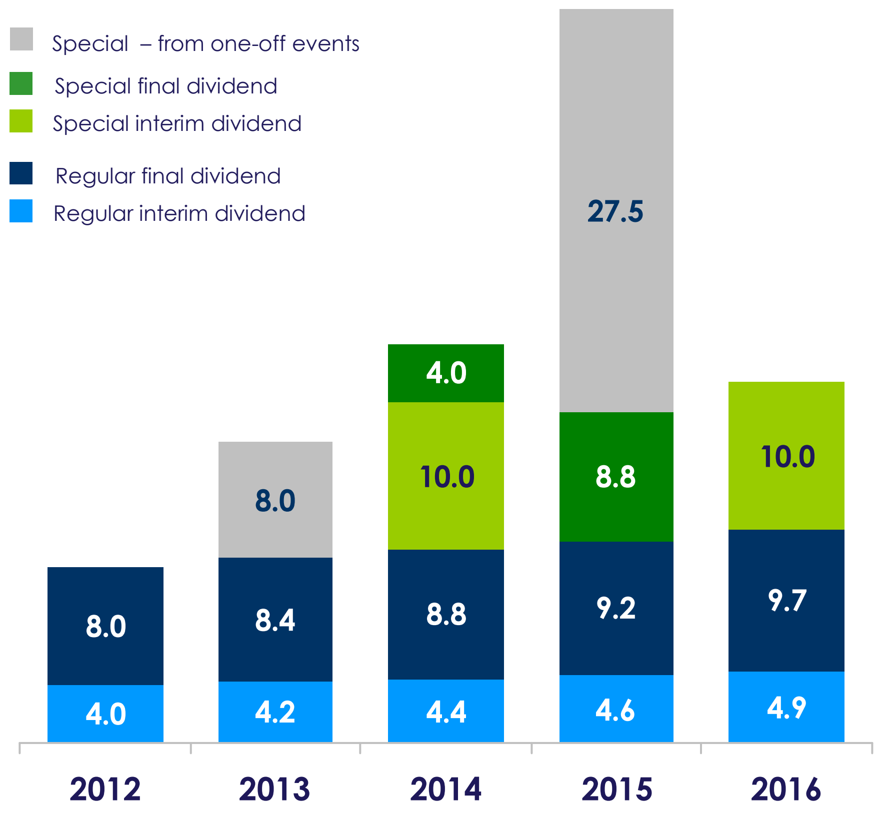
- **£0.49m of capital generated during the year largely offset by capital expenditure and capital distributions**
- **Change in the Ogden discount rate led to a reduction in own funds of £0.19bn**

1. *Change in risk margin as a result of moving from standard formula basis to Group PIM at 1 January 2016*
2. *Figures are estimated and based on partial internal model (PIM) output for 31 December 2016*

Dividends

Dividends

2012	2013	2014	2015	2016
12.0p[1]	20.6p	27.2p	50.1p	24.6p



Commentary

- **5.4% growth in final dividend to 9.7 pence per share.**
- **5.8% growth in total regular dividends in 2016 and 8.8% growth including specials and excluding proceeds from sale of International**
- **Over 120% of profit after tax distributed in 2016**
- **Total dividends since IPO of over £1.8bn, or 72.1% of IPO share price**

Date	Event
16 March 2017	Ex-dividend date
17 March 2017	Record date
18 May 2017	Payment date

1. *2012 pro-forma interim dividend*

Financial highlights summary

1. Grew premiums and improved current year profitability
2. Additional costs associated with Flood Re levy and new business growth offset by improved efficiency
3. Robust investment result given financial market volatility
4. Absorbed impact from lower Ogden discount rate while maintaining solvency above mid-point of range, 165%
5. Attractive total dividend of 24.6p in 2016

Making insurance much easier and better value for our customers

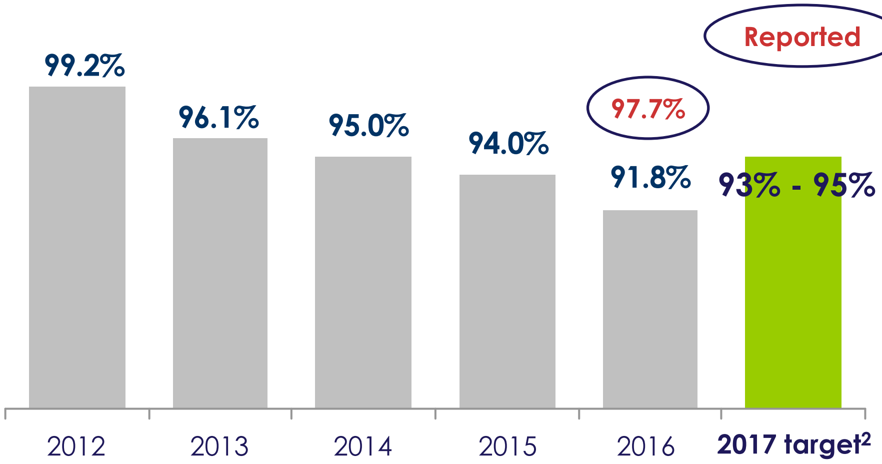
2017 Outlook and guidance

2017 Outlook by segment

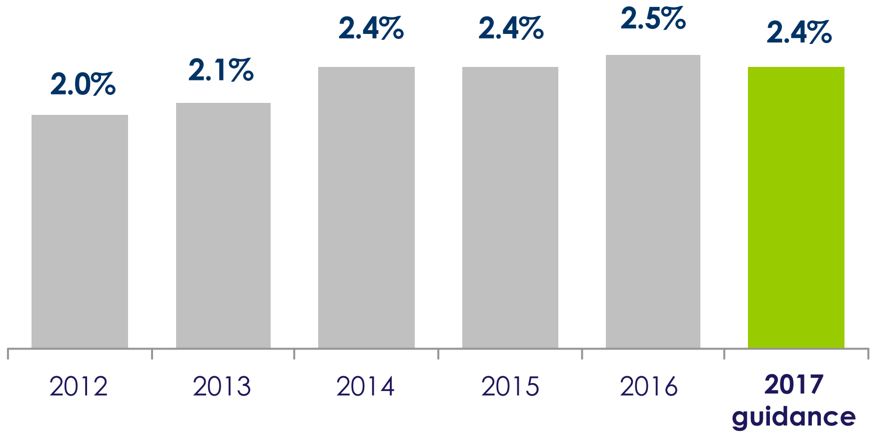
	2016 GWP and COR (pre-Ogden)	2017 Outlook
Motor	£1,539m 95.1%	• Maintain underwriting discipline against a competitive backdrop and changes in the market • Aim to continue to improve current year profitability • Prior year releases to remain significant in the short term and are likely to fall over time as current year profitability is expected to improve
Home	£834m 85.0%	• Aim to be strong in key channels and achieve target returns • Nationwide termination date currently being reviewed and may result in a later migration • Home weather load c. £65m in 2017 reflecting lower volumes
Rescue & other personal lines	£401m 93.3%	• Continue to further enhance the Green Flag customer experience • Further enhancements in Pet and Travel to enhance service and propositions whilst improving pricing capability • Prior year releases are expected to be significantly lower as creditor business runs-off
Commercial	£500m 93.2%	• DL4B: Continue to invest propositions aimed at growing share in Commercial direct • NIG: Consolidate position in market while investing in operations to deliver effortless trading to brokers

2017 Guidance

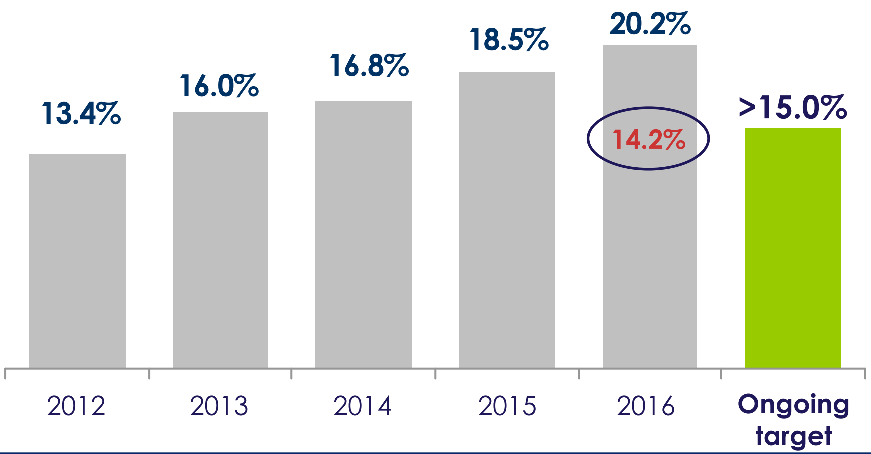
COR[1]



Investment income yield[1]



RoTE[1]



Observations

- The Group aims to reduce the expense ratio[1] in 2017 and thereafter
- The Group also aims to deliver a lower commission ratio in 2017[2]
- Targeting 2017 COR in the range 93% - 95% for Ongoing operations[2]
- Investment income yield expected to be 2.4% in 2017
- The Group's 15% RoTE target remains ongoing

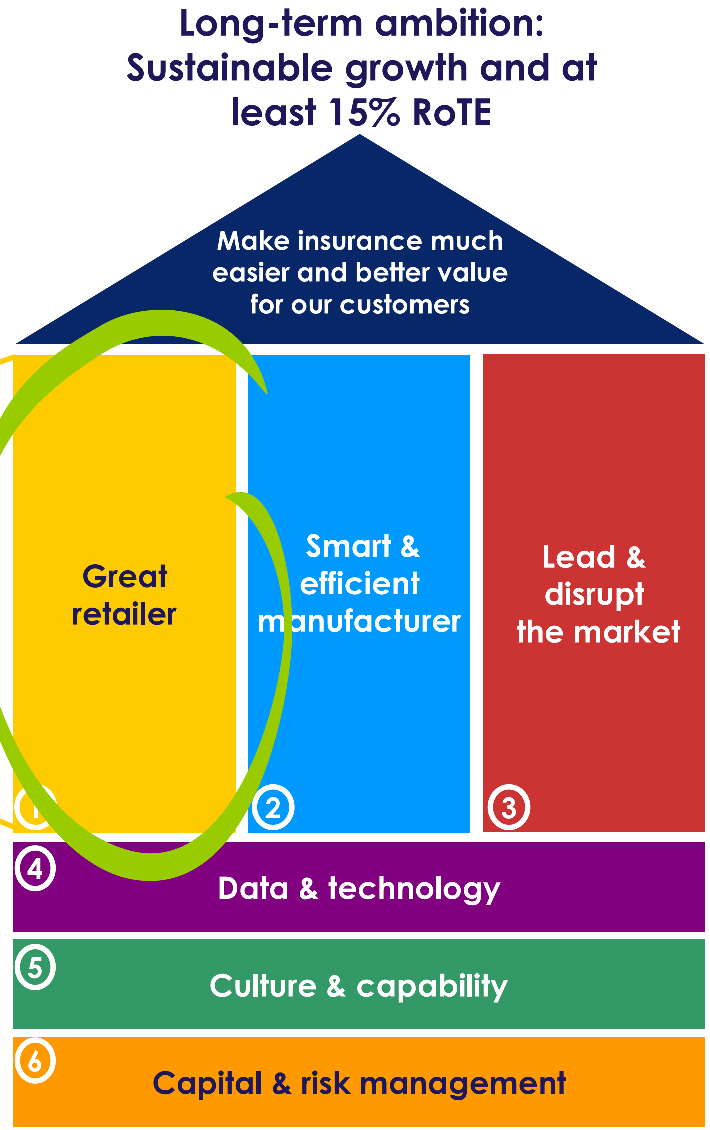
1. See glossary on slide 65 for definition
2. Assuming normal annual level of claims from major weather events and no change to the Ogden discount rate

Strategic update

Paul Geddes - CEO

Great retailer – key pillar of our strategy

Compelling brands, propositions and customer experience to meet diverse, long-term customer needs



Our multi-brand retail strategy and the journey so far

2010 2011 2012 2013 2014 2015 2016 2017

churchill™

privilege®

direct line

direct line for business

Re-tool all brands:

- Pricing
- Claims
- Costs

Optimise offer to win on PCWs

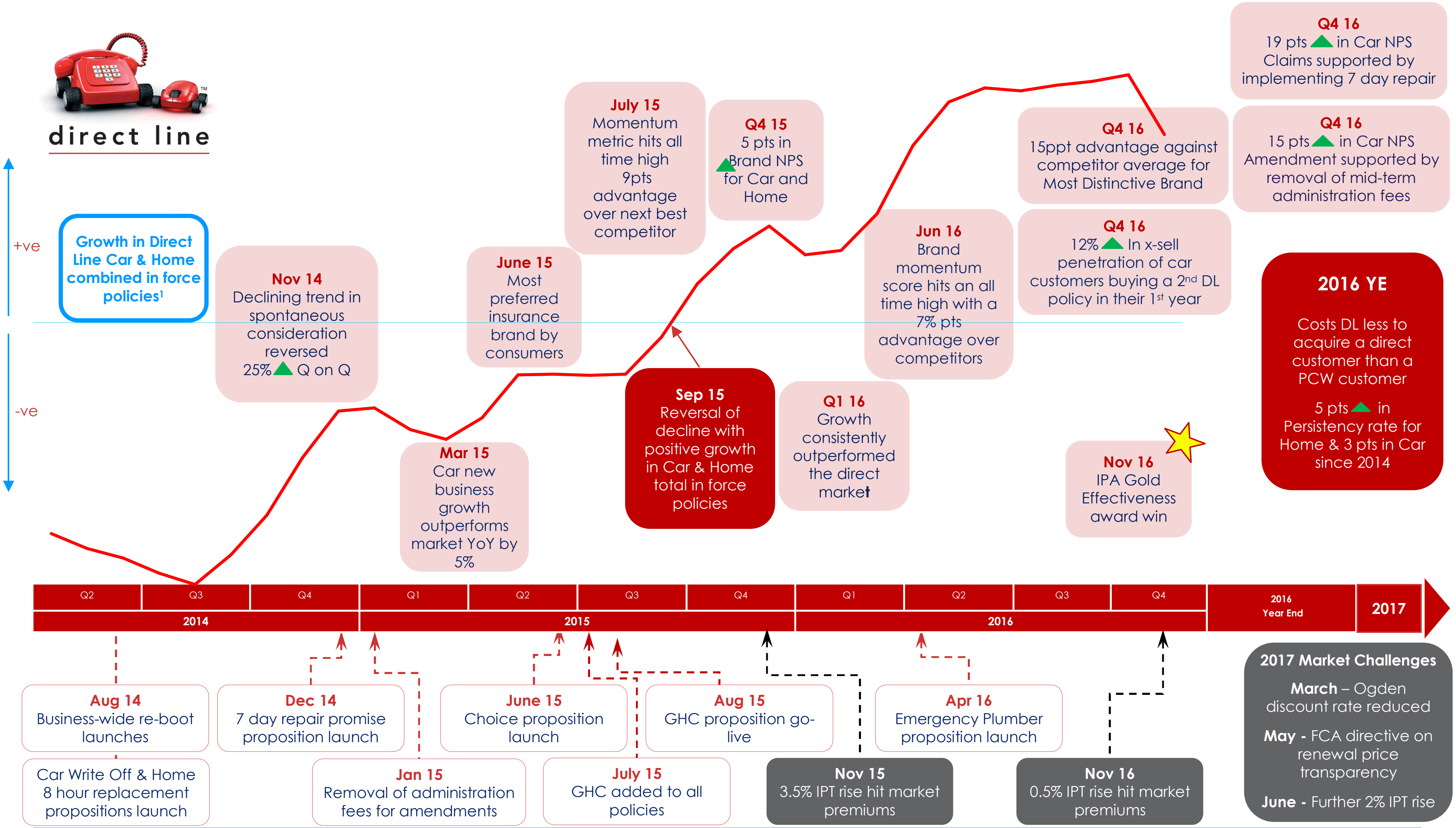
Profitable business but declining brand

Stable, profitable PCW business

Re-boot Direct Line

Direct Line Group

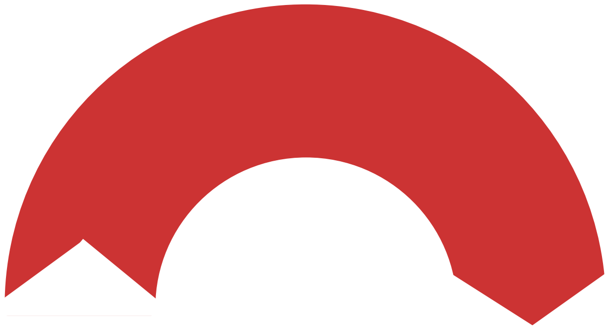
The "Fixer" effect – driving policy growth



1. *3 month average of growth in combined Home and Motor in-force policy count*

Direct Line: first we recognised the value of our customers

Re-invest additional customer value in proposition and service



More valuable customers

- Better product holding
- Better Loss Ratio
- Higher persistency

More customer value

- Strongest brand
- Direct relationship
- Superior service and proposition

Reinvesting to share the value with customers

Better Insurance

- Replacement essential household items ready to send in 8 hours
- 7 day car repair proposition
- Cash or replacement items on essential household items
- Guaranteed Hire Car as standard
- Emergency Plumber in 3 hours
- Onward taxi to continue journey after an accident

Better Value

- Removal of mid-term amendment fees
- Improved price competitiveness

Better Experience

- Innovative training of contact centre teams
- Social media support teams
- New mobile optimised websites
- Digital claims apps
- Claims tracking portal

Better Marketing

- Dramatic new “Fixer” campaign
- Integrated digital marketing
- Pipeline of world-first initiatives e.g. Fleetlights, Shotgun

Direct Line: this approach is hard to replicate

Vertical integration and scale = propositions that are hard to copy:

e.g. 7 day car repair proposition

- ✓ Customers share photos and videos of damage in portal for early parts ordering
- ✓ Our own retail network = Direct repairs fast-tracked
- ✓ UK's no.2 repair network, no.1 insurer-owned
- ✓ 19 state of the art repair centres and growing
- ✓ 75,000 own repairs and purchasing scale, technology insight and online repair tracking shared with networks

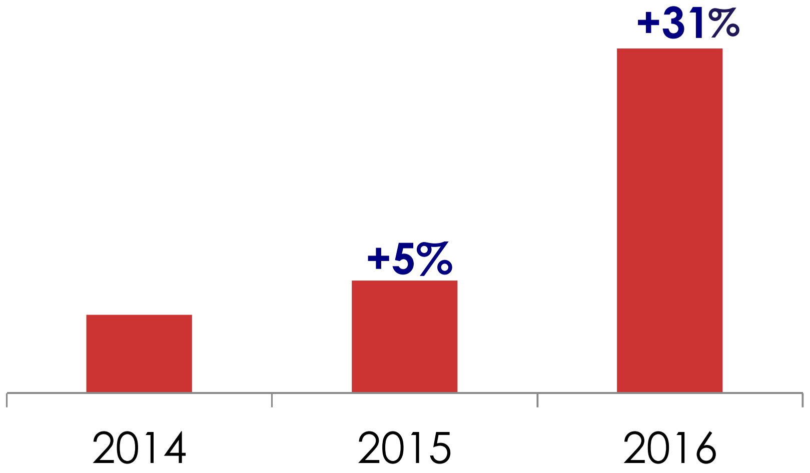
Brand investment and direct model = we can market propositions to customers

- ✓ No.1 Most Preferred Brand
  - ✓#1 Delivers on Promises
  - ✓#1 Easy to deal with
  - ✓#1 Gets things sorted
  - ✓#1 Right price for me
  - ✓#1 Acts in others interests
  - ✓#1 Brand momentum
- ✓ Award winning marketing, digital, social, customer experience
- ✓ 4.5 million quotes from our own websites and call centres

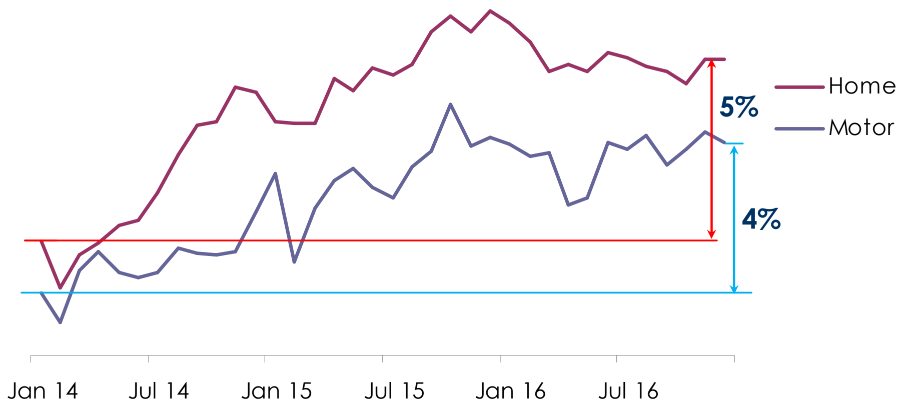
Source: Monthly Hall and Partners Brand and Ad Tracking – November 16. Rolling 4 week to 12 week period

Driving strong financial metrics

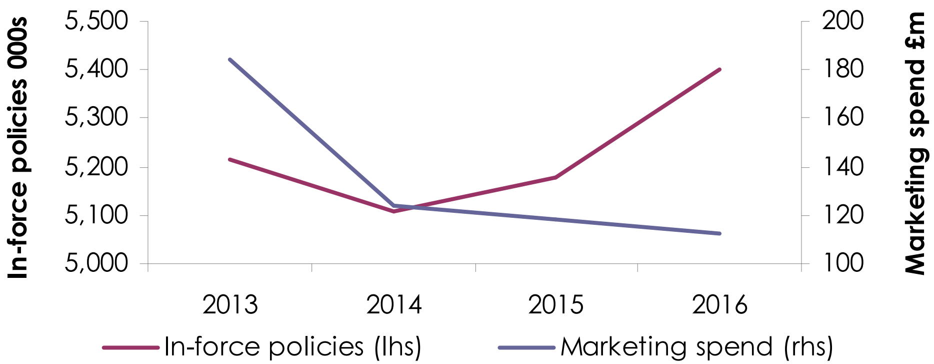
Direct Line Home and Motor New Business Sales



Direct Line Persistency



Improved marketing effectiveness



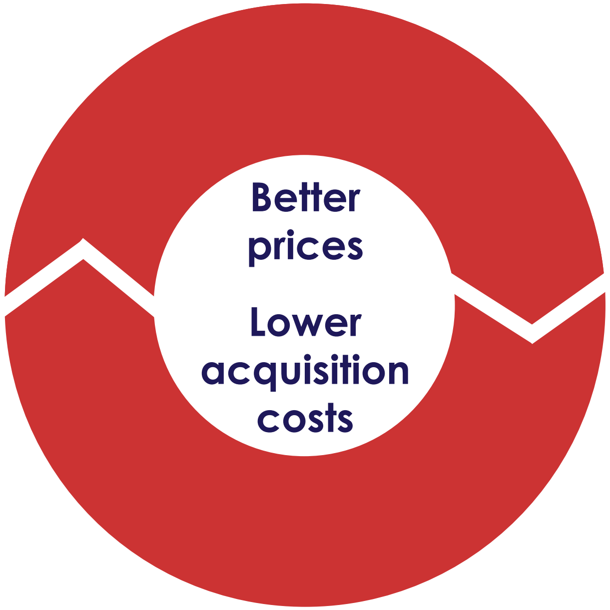
- **New business sales accelerated as reboot benefits gain traction with consumers**
- **Persistency levels increase from already high levels**
- **Consistent drive to increase marketing efficiency and effectiveness**

Direct Line: completing the virtuous circle

direct line

direct line for business

Re-invest additional customer value in proposition and service



More valuable customers

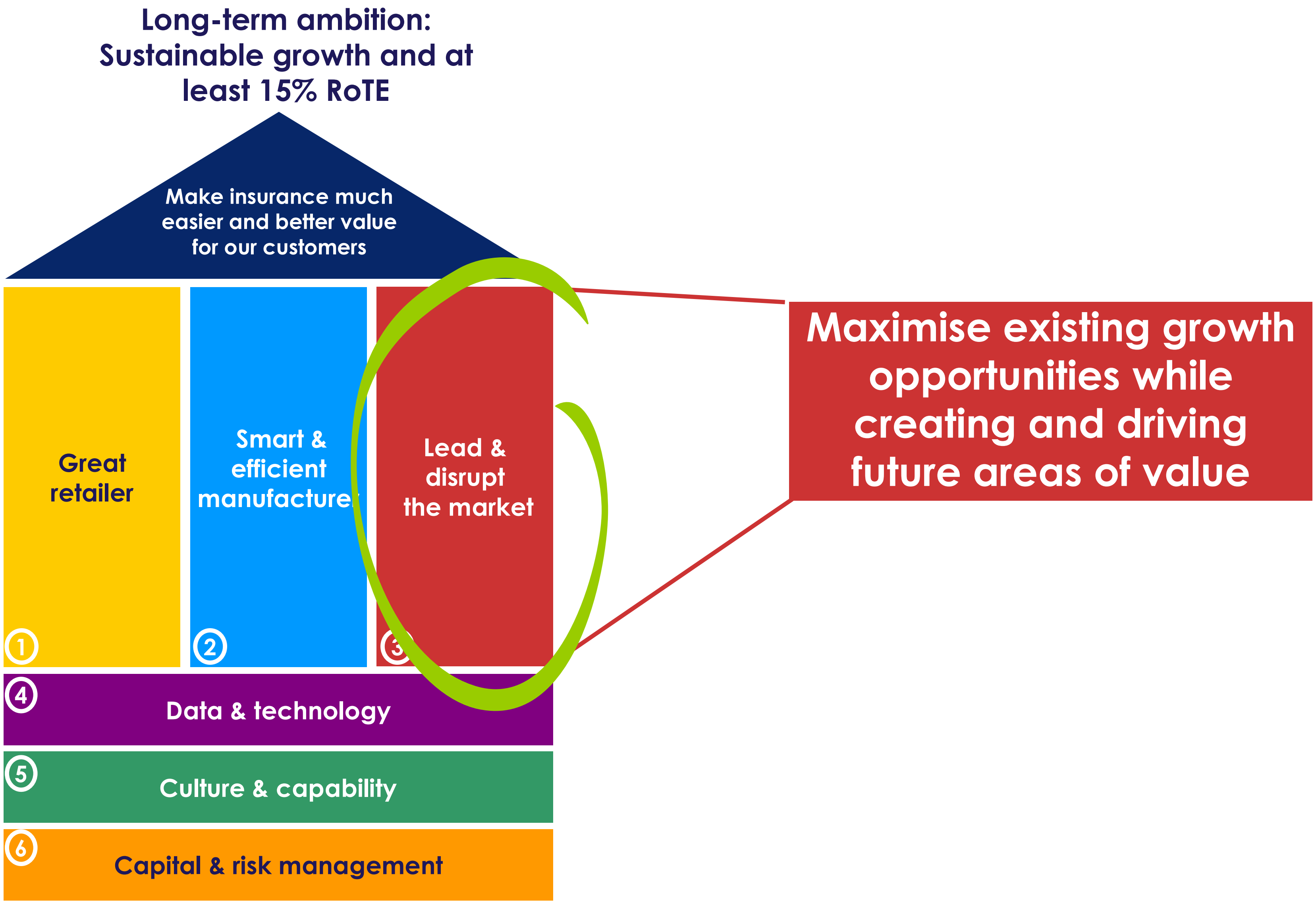
- Better product holding
- Better Loss Ratio
- Higher persistency

More customer value

- Strongest brand
- Direct relationship
- Superior service and proposition

Retain existing attractive customers and attract new ones

Great Retailer – key pillar of our strategy



Working closely with manufacturers on new technology

Continue to work with manufacturers on connected cars

Extension of Peugeot & Citroën partnership

Agreement to a Connected Car pilot with Renault and The Floow in 2017

Continue to work with manufacturers on electric and autonomous cars

New introducer arrangement with Tesla

MOVE_UK automated driving project underway

Our 2017 priorities build on 2016 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
• Continue to differentiate the Direct Line brand • Leverage 'Direct' capabilities across Commercial direct • Maintain competitiveness on PCWs	• Improve efficiency while investing in systems and capability • Continue to develop a market leading partner proposition • Invest in claims and application fraud	• Further develop telematics proposition • Leverage direct capability to disrupt the SME market • Engage with third parties to leverage capabilities in new technology	• Improve level, performance, and cost effectiveness of our current IT systems • Continue to develop and build new IT system	• Expand the diversity of the talent pool • Sustain high performance and engagement while building capability for the future	• Further embed the use of SII internal model for decision making in the business • Build competitive advantage from strong risk management and encourage ownership

Key messages

1. Multi-year investment driving strong performance
2. Strong solvency at 165% supported by strong reserves
3. Targeting Ongoing Combined Ratio 93%-95%[1] in 2017
4. Targeting >15% RoTE and sustainable growth
5. Well positioned; multi-brand, multi-channel strategy to win in disrupted markets

Making insurance much easier and better value for our customers

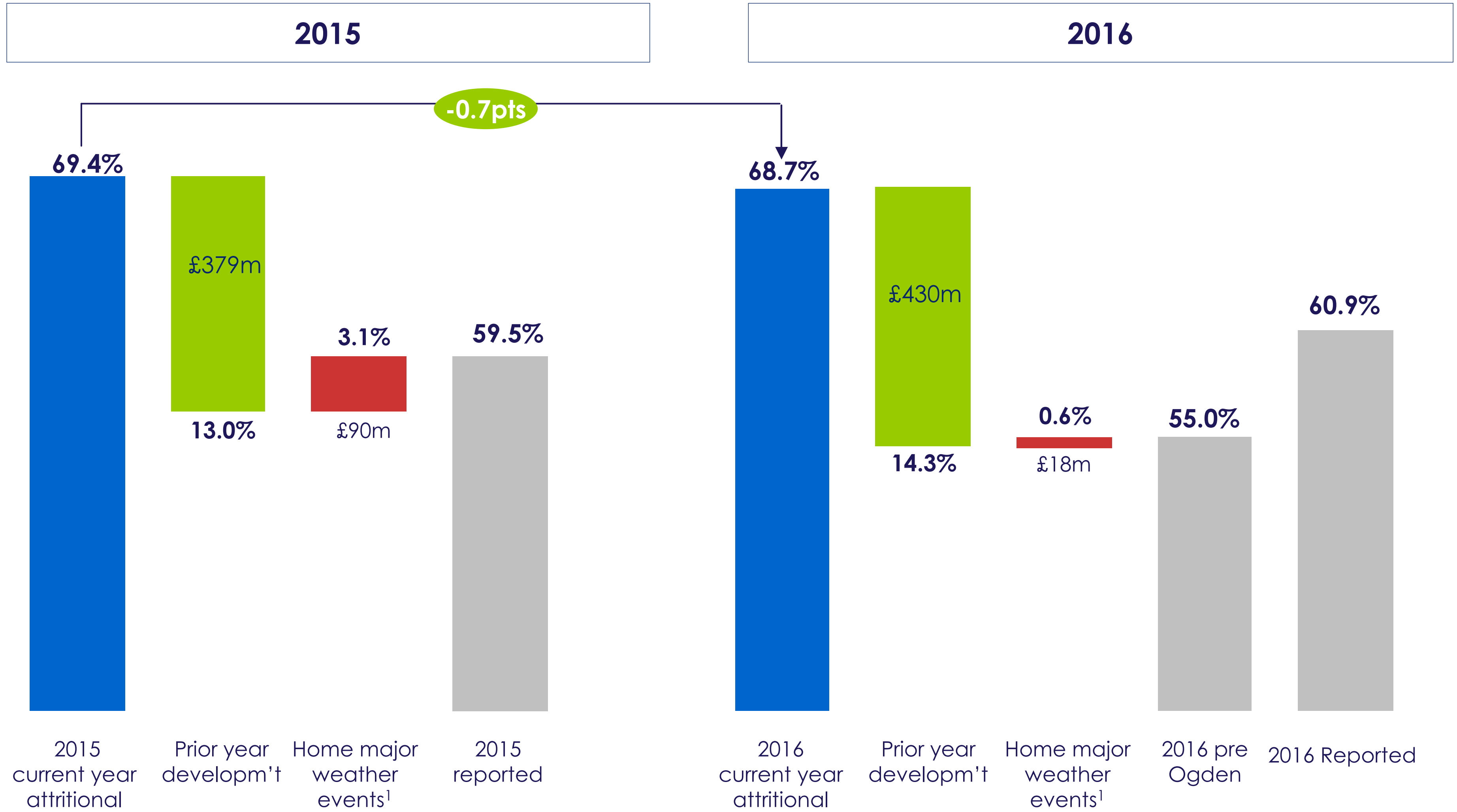
1. *Assuming normal annual claims from weather events and no change to the Ogden discount rate*

Q&A

Appendix

Improvement in current year underwriting performance

Loss ratio analysis - ongoing operations



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

Instalment and other operating income

Observations

- **Instalment and other operating income increased by 9.6% to £165.3m in 2016**
- **Instalment income increased by £7.0m due to higher Motor volumes**

Breakdown of instalment and other operating income

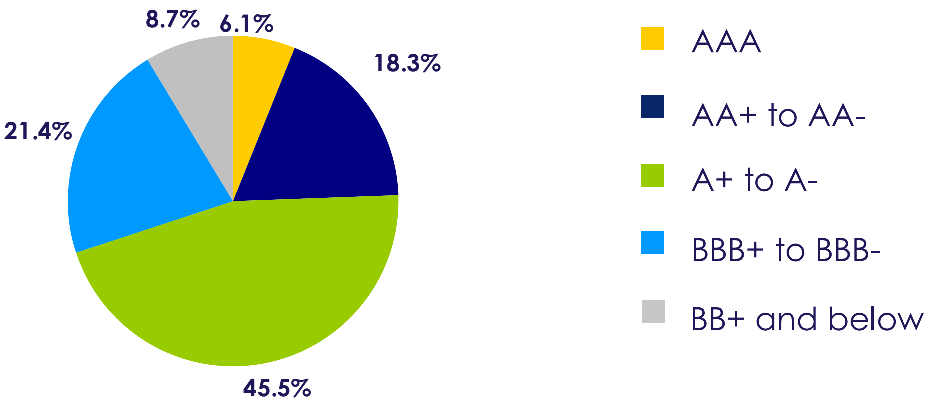
(£m)	2016	2015
Instalment income	107.1	100.1
Other operating income	58.2	50.7
Total – ongoing operations	**165.3**	**150.8**

(£m)	2016	2015
Vehicle replacement referral income	14.1	12.5
Revenue from vehicle recovery and repair services	19.3	15.5
Other income	24.8	22.7
Other operating income	**58.2**	**50.7**

Direct Line Group

Investment portfolio: debt securities

Debt securities credit quality



Debt securities by industry sector

Reinsurance

Motor excess of loss reinsurance

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

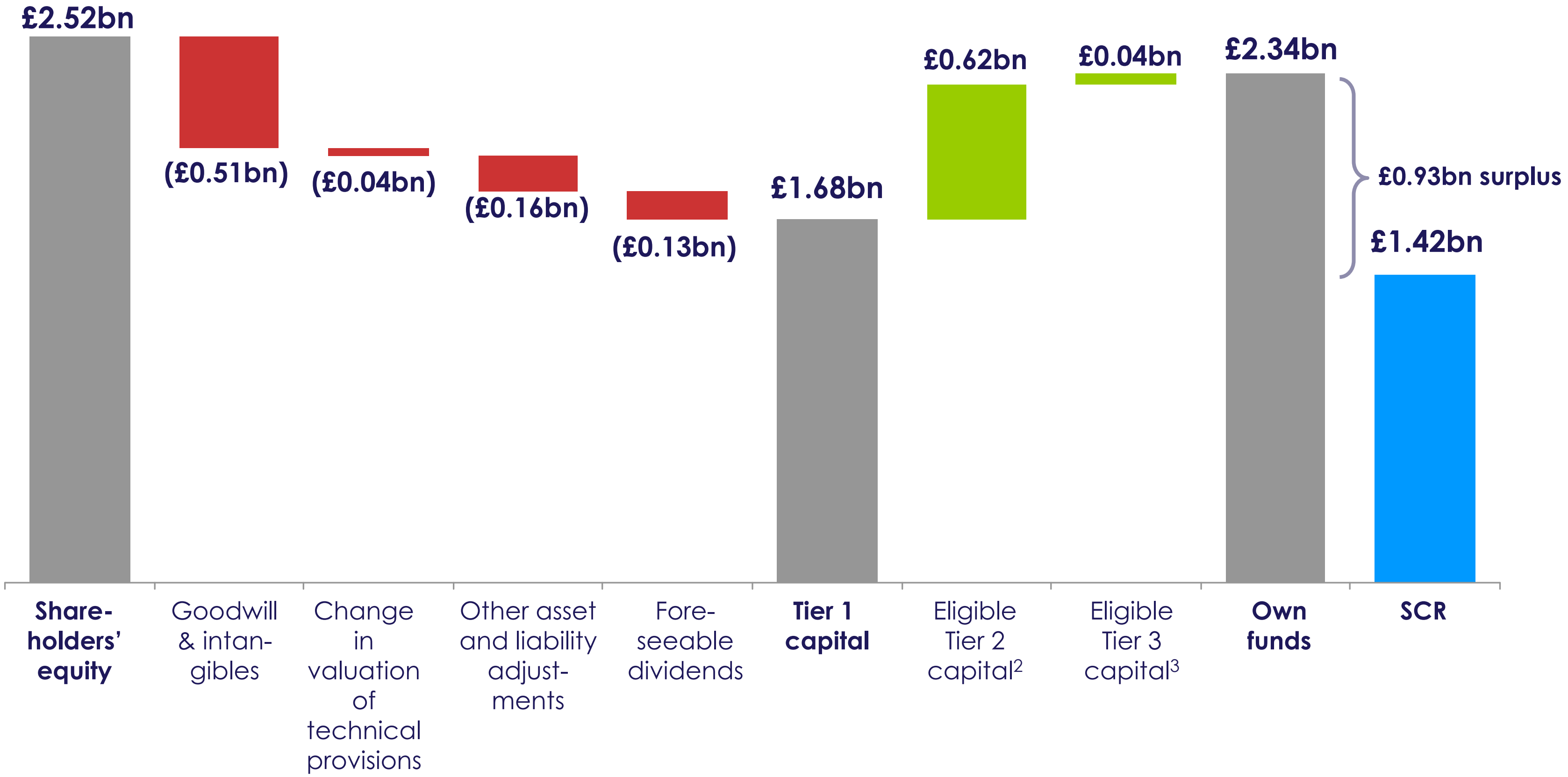
Property catastrophe reinsurance

(£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*

Bridge of shareholders' equity under IFRS to Solvency II own funds[1]



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

1. *Figures are estimated and based on partial internal model (PIM) output for 31 December 2016*
2. *Eligible Tier 2 is the Group's subordinated debt*
3. *Eligible Tier 3 is the Group's deferred tax asset*

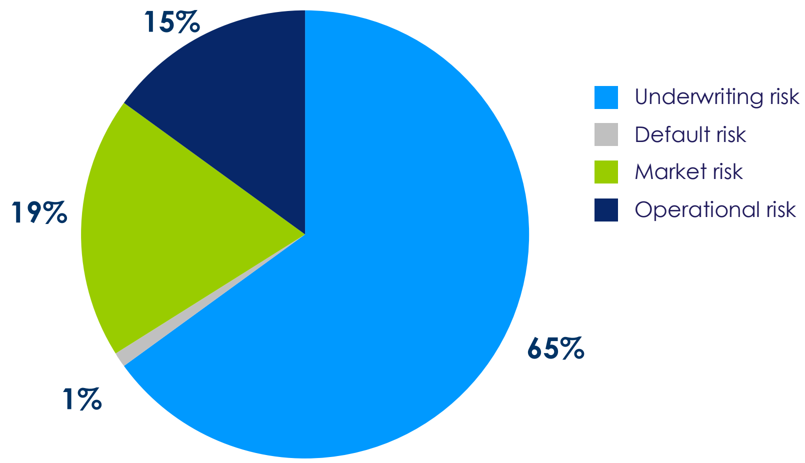
Direct Line Group

SCR by risk type

Split of SCR by risk type[1]

(£m)	31 Dec 2016	Comments
Non-life u/w risk	899	
- Premium risk	*246*	Weighted towards Motor category
- Reserve risk	*418*	Includes run-off book
- Catastrophe risk	*212*	Home and Commercial mainly
- Other underwriting	*23*	Risk margin volatility
Default risk	10	Mainly credit risk from RI
Market risk	271	Largest element is spread followed by interest
Operational risk	210	
UKI SCR	**1,390**	
Sub Group SCR	31	
Solvency Capital Requirement (SCR)	**1,422**	

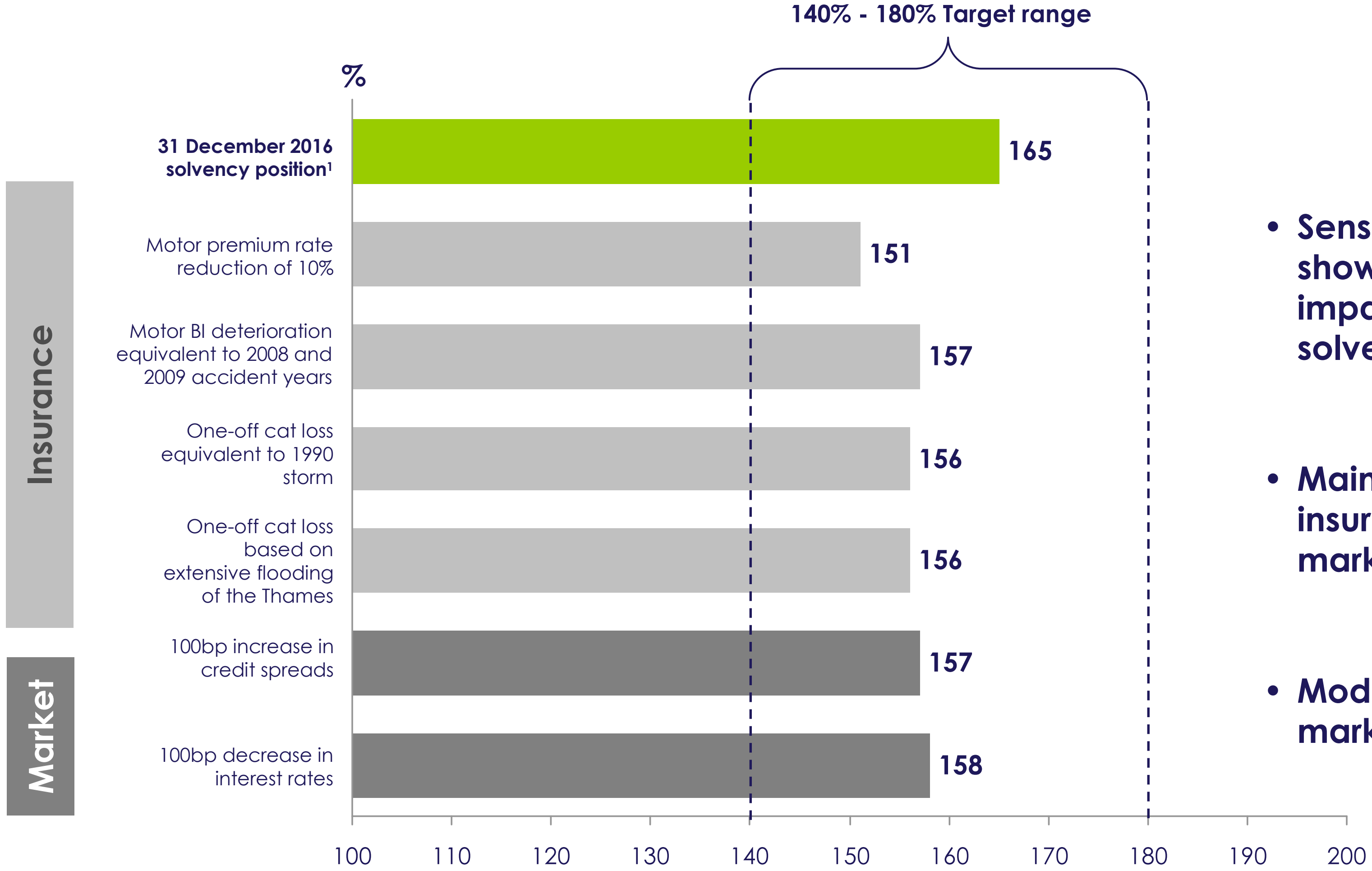
Underwriting risk is the largest element



All figs stated post diversification

1. *Figures are estimated and based on partial internal model (PIM) output for 31 December 2016*

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

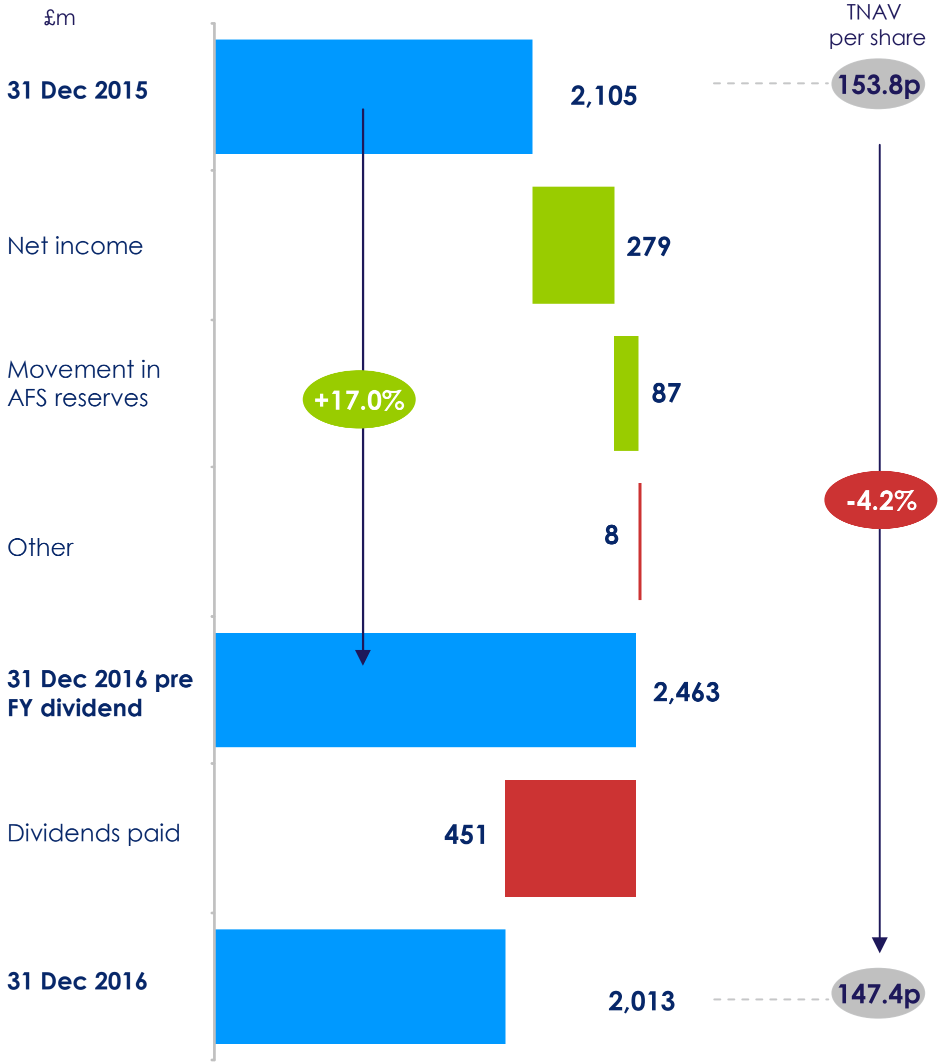


- **Sensitivities selected to show a range of impacts on base case solvency ratio**
- **Main risk types – insurance risk and market risk**
- **Modest exposure to market risks**

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

Book value and TNAV

Movement in tangible net asset value



NAV and TNAV per share

Pence	31 Dec 16	31 Dec 15
Net asset value per share	184.7	192.2
Tangible net asset value per share	147.4	153.8

- **Total unrealised AFS reserves of £92.1m (net of tax) as at 31 December 2016**

Motor

Results

(£m unless stated)	2016 Reported	2016 Pre-Ogden	2015
In-force policies (000s)	***3,873***	**3,873**	**3,707**
Own brand in-force policies (000s)	*3,642*	3,642	3,459
Partnerships in-force policies (000s)	*231*	231	248
Gross written premium	*1,539.1*	1,539.1	1,406.7
Net earned premium	*1,337.1*	1,337.1	1,249.3
Loss ratio – current year	*84.1%*	83.3%	85.0%
Loss ratio – prior years	*(9.2%)*	(19.6%)	(21.4%)
Loss ratio	*74.9%*	63.7%	63.6%
Commission ratio	*3.2%*	3.2%	2.6%
Expense ratio	*28.2%*	28.2%	26.2%
Combined operating ratio	***106.3%***	**95.1%**	**92.4%**
Underwriting profit / (loss)	*(84.8)*	65.5	95.5
Of which prior year releases	*123.5*	*263.3*	*266.8*
Instalment and other income	*117.0*	117.0	103.6
Investment return	*116.9*	116.9	138.9
Operating profit	***149.1***	**299.4**	**338.0**

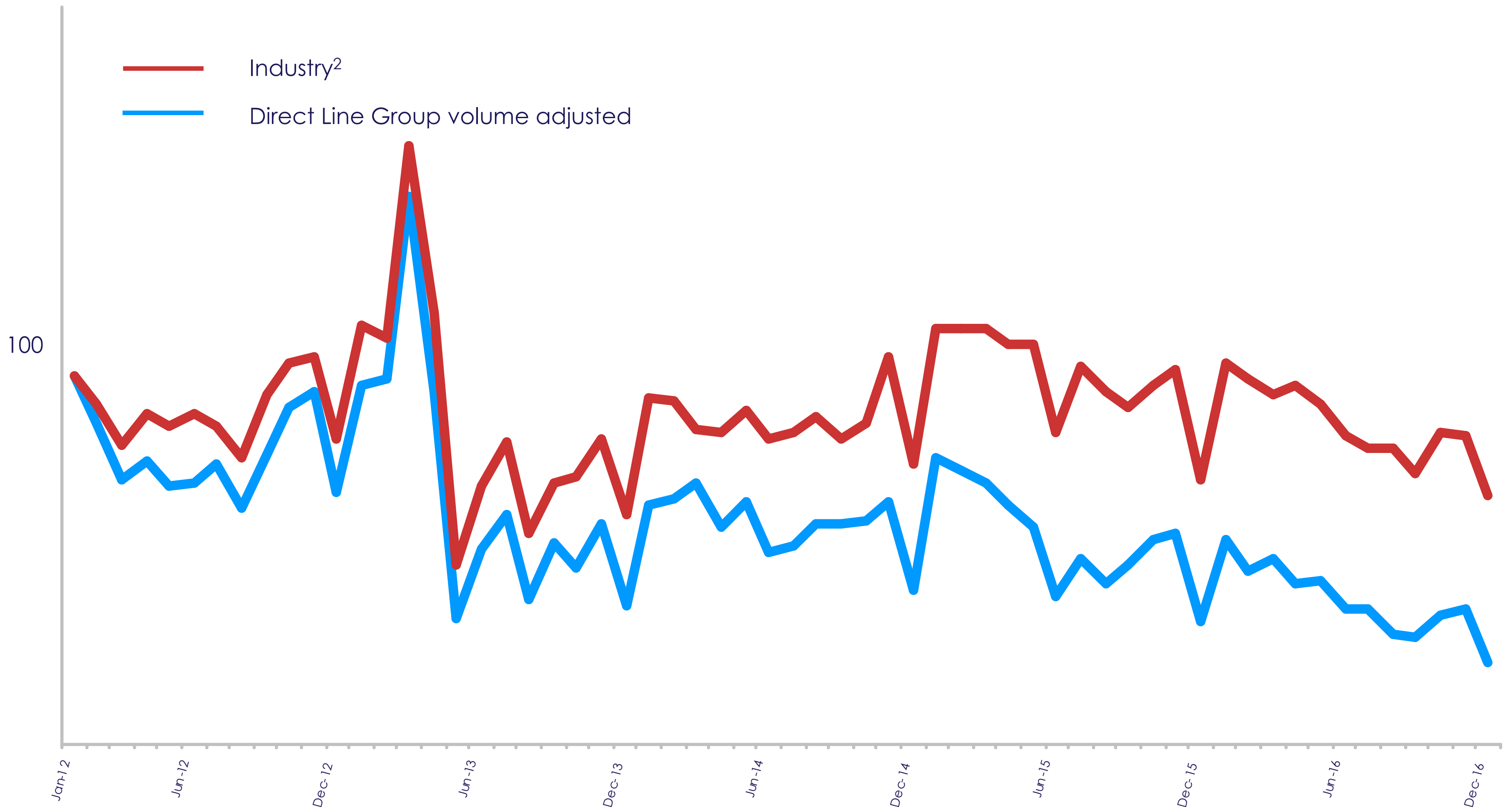
Observations

1. **IFPs grew by 4.5% with own brands up 5.3% offset by a reduction in partners**
2. **9.4% 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 1.7ppts**
5. **Lower yet still significant prior year releases in 2016**
6. **Combined operating ratio of 95.1%, 2.7ppts higher than prior year primarily reflecting a higher expense ratio due impairment**
7. **Operating profit of £299.4m, £38.6m lower than prior year mainly as a result of higher intangible asset impairments**

Direct Line Group

Small BI claims trends

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



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

Home

Results

(£m unless stated)		2016	2015
In-force policies (000s)	1	**3,378**	**3,418**
Own brand in-force policies (000s)		1,759	1,719
Partnerships in-force policies (000s)		1,619	1,699
Gross written premium	2	834.4	866.3
Net earned premium		816.3	845.0
Loss ratio – current year attritional	3	47.8%	45.8%
Major weather	4	2.2%	10.7%
Loss ratio – current year incl. weather		50.0%	56.5%
Loss ratio – prior years		(9.3%)	(5.0%)
Loss ratio		40.7%	51.5%
Commission ratio		22.6%	20.9%
Expense ratio		21.7%	19.8%
Combined operating ratio	5	**85.0%**	**92.2%**
Underwriting profit / (loss)		122.5	65.6
Of which prior year releases		*75.9*	*41.9*
Instalment and other income		24.3	23.8
Investment return		19.9	20.5
Operating profit	6	**166.7**	**109.9**

Observations

1. **IFPs 1.2% lower than 2015. Own brand IFPs grew 2.3%**
2. **GWP down 3.7% lower primarily due to partnerships. Own brands reduced by 0.9%**
3. **Current year attritional loss ratio was 2.0ppts higher than 2015**
4. **£18m of weather related claims in 2016, lower than expected normal annual level**
5. **Combined operating ratio improved by 7.2 ppts to 85.0%**
6. **Operating profit improved by £56.8m reflecting lower claims from major weather events**

Rescue and other personal lines

Results

(£m unless stated)

Rescue	FY 16	FY 15
In-force policies (000s)	**3,646**	**3,932**
Gross written premium (1)	163.1	163.3
Combined operating ratio (2)	**83.4%**	**82.3%**
Operating profit (3)	**42.8**	**42.2**

Rescue and other personal lines[1]	FY 16	FY 15
In-force policies (000s) (1)	**7,880**	**8,288**
Gross written premium (2)	400.8	394.1
Net earned premium	394.4	386.4
Combined operating ratio	**93.3%**	**91.2%**
Underwriting profit	26.6	33.9
Of which prior year releases/(increases)	*17.5*	*13.6*
Operating profit (3)	**45.9**	**52.0**

Observations

1. **GWP remained broadly stable compared with 2015, IFPs down 7.3% due to partners**
2. **COR increased 1.1ppts with a higher loss ratio**
3. **Operating profit was similar to the prior year**

1. **IFPs 4.9% lower, mainly due to lower partner volumes**
2. **1.7% growth in GWP versus prior year due to Travel partnerships pricing**
3. **Operating profit reduction in 2016 mainly due to one-off premium adjustment in Pet**

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

Commercial

Results

(£m unless stated)	2016 Reported	2016 Pre-Ogden	2015
In-force policies (000s)	**675**	1 **675**	**655**
Direct Line for Business	433	433	407
NIG and other	242	242	248
Gross written premium	499.8	2 499.8	485.3
Net earned premium	452.8	452.8	440.1
Loss ratio – current year	66.3%	3 65.9%	75.5%
Loss ratio – prior years	(11.0%)	4 (16.1%)	(12.8%)
Loss ratio	55.3%	49.8%	62.7%
Commission ratio	19.5%	19.5%	19.6%
Expense ratio	23.9%	23.9%	22.2%
Combined operating ratio	**98.7%**	5 **93.2%**	**104.5%**
Underwriting profit/(loss)	5.8	30.6	(19.8)
Of which prior year releases	49.8	72.9	56.6
Instalment and other income	8.6	8.6	9.1
Investment return	27.4	27.4	31.5
Operating profit	**41.8**	6 **66.6**	**20.8**

Observations

1. **3.1% growth in total IFPs and 6.4% growth in DL4B IFPs**
2. **GWP increased by 3.0%, with DL4B GWP increased by 7.7ppts**
3. **Current year loss ratio improved by 11.3ppts reflecting better claims experience**
4. **Prior year releases increased by £16.3m**
5. **Combined operating ratio improved to 93.2%**

   COR normalised for weather and other large losses was approximately 96%
6. **Operating profit increased to £66.6m**

Direct Line Group

RoTE calculation

RoTE calculation

(£m)	2016 Reported	2016 Pre-Ogden	2015
Ongoing operating profit	403.5	578.6	520.7
Less: Finance costs	(37.2)	(37.2)	(37.6)
Profit before tax	366.3	541.4	483.1
Less: tax[1]	(73.3)	(108.3)	(97.8)
Profit after tax	**293.0**	**433.1**	**385.3**
Tangible equity b/f	2,105.2	2,105.2	2,052.0[2]
Tangible equity c/f	2,012.6	2,186.4	2,105.2
Average tangible equity	2,058.9	2,145.8	2,078.6
Return on tangible equity	**14.2%**	**20.2%**	**18.5%**

Adjusted EPS calculation

(£m)	2016 Reported	2015
Ongoing operating profit	403.5	520.7
Less: Finance costs	(37.2)	(37.6)
Profit before tax	366.3	483.1
Less: tax[1]	(73.3)	(97.8)
Profit after tax	**293.0**	**385.3**
Weighted average number of ordinary shares	1,368.7	1,431.2
EPS – Adjusted basic (pence)	**20.4**	**27.9**
Weighted average number of ordinary shares (diluted)	1,381.8	1,449.0
EPS – Adjusted diluted (pence)	**21.2**	**26.6**

1. UK standard tax rate of 20.00% (2015: 20.25%)
2. Tangible equity for the Group less disposal group net assets of £241.0m

Direct Line Group

Segmental performance – 2016

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total ongoing	Run-off	Total Group
GWP	1,539.1	834.4	400.8	499.8	**3,274.1**	-	**3,274.1**
Net earned premium	1,337.1	816.3	394.4	452.8	**3,000.6**	-	**3,000.6**
Net insurance claims	(1,001.7)	(332.0)	(242.9)	(250.5))	**(1,827.2)**	23.4	**(1,803.8)**
Commission expenses	(42.9)	(184.4)	(28.4)	(88.3)	**(344.0)**	-	**(344.0)**
Operating expenses	(377.3)	(177.4)	(96.5)	(108.1)	**(759.3)**	(0.2)	**(759.5)**
Underwriting result	**(84.8)**	**122.5**	**26.6**	**5.8**	**70.1**	-	**-**
Investment return	116.9	19.9	3.9	27.4	**168.1**	3.4	**171.5**
Instalment and other operating income	117.0	24.3	15.4	8.6	**165.3**	-	**165.3**
Operating profit/(loss)	**149.1**	**166.7**	**45.9**	**41.8**	**403.5**	**26.6**	**430.1**
Restructuring and other one off costs	-	-	-	-	**-**	-	**(39.9)**
Operating profit	-	-	-	-	-	-	390.2
Finance costs	-	-	-	-	**-**	-	**(37.2)**
Profit before tax	**-**	**-**	**-**	**-**	**-**	**-**	**353.0**
Loss ratio – current year	84.1%	50.0%	66.0%	66.3%	**69.8%**	-	**-**
Loss ratio – prior year	(9.2%)	(9.3%)	(4.4%)	(11.0%)	**(8.9%)**	-	**-**
Commission ratio	3.2%	22.6%	7.2%	19.5%	**11.5%**	-	**-**
Expense ratio	28.2%	21.7%	24.5%	23.9%	**25.3%**	-	**-**
Combined operating ratio	**106.3%**	**85.0%**	**93.3%**	**98.7%**	**97.7%**	-	**-**

Segmental performance – 2016

Pre-Ogden

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total ongoing	Run-off	Total Group
GWP	1,539.1	834.4	400.8	499.8	**3,274.1**		**3,274.1**
Net earned premium	1,337.1	816.3	394.4	452.8	**3,000.6**		**3,000.6**
Net insurance claims	(851.4)	(332.0)	(242.9)	(225.8)	**(1,652.1)**	65.6	**(1,586.5)**
Commission expenses	(42.9)	(184.4)	(28.4)	(88.3)	**(344.0)**	-	**(344.0)**
Operating expenses	(377.3)	(177.4)	(96.5)	(108.1)	**(759.3)**	(0.2)	**(759.5)**
Underwriting result	**65.5**	**122.5**	**26.6**	**30.6**	**245.2**	65.4	**310.6**
Investment return	116.9	19.9	3.9	27.4	**168.1**	3.4	**171.5**
Instalment and other operating income	117.0	24.3	15.4	8.6	**165.3**	-	**165.3**
Operating profit/(loss)	**299.4**	**166.7**	**45.9**	**66.6**	**578.6**	**68.8**	**647.4**
Restructuring and other one off costs	-	-	-	-	**-**	-	**(39.9)**
Operating profit	-	-	-	-	-	-	607.5
Finance costs	-	-	-	-	**-**	-	**(37.2)**
Profit before tax	**-**	**-**	**-**	**-**	**-**	**-**	**570.3**
Loss ratio – current year	83.3%	50.0%	66.0%	65.9%	**69.3%**	-	**-**
Loss ratio – prior year	(19.6%)	(9.3%)	(4.4%)	(16.1%)	**(14.3%)**	-	**-**
Commission ratio	3.2%	22.6%	7.2%	19.5%	**11.5%**	-	**-**
Expense ratio	28.2%	21.7%	24.5%	23.9%	**25.3%**	-	**-**
Combined operating ratio	**95.1%**	**85.0%**	**93.3%**	**93.2%**	**91.8%**	**-**	**-**

Direct Line Group

Segmental performance – 2015

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total ongoing	Run-off	Total Group
GWP	1,406.7	866.3	394.1	485.3	**3,152.4**	0.1	**3,152.5**
Net earned premium	1,249.3	845.0	386.4	440.1	**2,920.8**	0.1	**2,920.9**
Net insurance claims	(794.8)	(435.1)	(231.6)	(275.8)	**(1,737.3)**	70.4	**1,666.9**
Commission expenses	(31.9)	(176.7)	(24.5)	(86.1)	**(319.2)**	(0.1)	**(319.3)**
Operating expenses	(327.1)	(167.6)	(96.4)	(98.0)	**(689.1)**	(0.7)	**(689.8)**
Underwriting result	**95.5**	**65.6**	**33.9**	**(19.8)**	**175.2**	-	**-**
Investment return	138.9	20.5	3.8	31.5	**194.7**	3.4	**198.1**
Instalment and other operating income	103.6	23.8	14.3	9.1	**150.8**	-	**150.8**
Operating profit/(loss)	**338.0**	**109.9**	**52.0**	**20.8**	**520.7**	**73.1**	**593.8**
Restructuring and other one off costs	-	-	-	-	**-**	-	**(48.7)**
Operating profit	-	-	-	-	-	-	**545.1**
Finance costs	-	-	-	-	**-**	-	**(37.6)**
Profit before tax	**-**	**-**	**-**	**-**	-	**-**	**507.5**
Loss ratio – current year	85.0%	56.5%	63.5%	75.5%	**72.5%**	-	**-**
Loss ratio – prior year	(21.4%)	(5.0%)	(3.6%)	(12.8%)	**(13.0%)**	-	**-**
Commission ratio	2.6%	20.9%	6.4%	19.6%	**10.9%**	-	**-**
Expense ratio	26.2%	19.8%	24.9%	22.2%	**23.6%**	-	**-**
Combined operating ratio	**92.4%**	**92.2%**	**91.2%**	**104.5%**	**94.0%**	**-**	**-**

Segmental performance – 2014

(£m)	Motor	Home	Rescue & other personal lines	Commercial	Total ongoing	Run-off	Total Group
GWP	1,342.0	898.6	371.8	487.0	**3,099.4**	(0.4)	**3,099.0**
Net earned premium	1,295.9	875.3	369.1	446.8	**2,987.1**	(0.4)	**2,986.7**
Net insurance claims	(868.1)	(444.3)	(211.9)	(255.3)	**(1,779.6)**	52.2	**(1,727.4)**
Commission expenses	(41.4)	(190.3)	(34.5)	(87.8)	**(354.0)**	-	**(354.0)**
Operating expenses	(336.6)	(177.2)	(93.1)	(98.5)	**(705.4)**	(1.0)	**(706.4)**
Underwriting result	**49.8**	**63.5**	**29.6**	**5.2**	**148.1**	-	**-**
Investment return	144.8	25.7	6.1	34.0	**210.6**	4.5	**215.1**
Instalment and other operating income	102.5	24.7	12.3	7.8	**147.3**	-	**147.3**
Operating profit/(loss)	**297.1**	**113.9**	**48.0**	**47.0**	**506.0**	**55.3**	**561.3**
Restructuring and other one off costs	-	-	-	-	**-**	-	**(69.6)**
Operating profit	-	-	-	-	-	-	491.7
Finance costs	-	-	-	-	**-**	-	**(37.2)**
Gain on disposal of subsidiary							2.3
Profit before tax	**-**	**-**	**-**	**-**	**-**	**-**	**456.8**
Loss ratio – current year	88.5%	56.5%	61.7%	69.2%	**70.8%**	-	**-**
Loss ratio – prior year	(21.5%)	(5.7%)	(4.3%)	(12.1%)	**(11.1%)**	-	**-**
Commission ratio	3.2%	21.7%	9.4%	19.7%	**11.8%**	-	**-**
Expense ratio	26.0%	20.2%	25.2%	22.0%	**23.6%**	-	**-**
Combined operating ratio	**96.2%**	**92.7%**	**92.0%**	**98.8%**	**95.0%**	**-**	**-**

Direct Line Group

Segmental performance – 2013

(£m)	Motor	Home	Rescue & other personal lines	Commercial	Total ongoing	Run-off	Total Group
GWP	1,421.1	943.1	383.4	474.5	**3,222.1**	7.9	**3,230.0**
Net earned premium	1,444.8	908.9	365.8	434.6	**3,154.1**	2.7	**3,156.8**
Net insurance claims	(940.2)	(490.4)	(219.8)	(270.6)	**(1,921.0)**	50.1	**(1,870.9)**
Commission expenses	(36.3)	(177.9)	(27.3)	(92.2)	**(333.7)**	(0.8)	**(334.5)**
Operating expenses	(370.2)	(184.4)	(90.8)	(101.4)	**(746.8)**	(1.4)	**(748.2)**
Underwriting result	**98.1**	**56.2**	**27.9**	**(29.6)**	**152.6**	-	**-**
Investment return	122.8	24.1	8.2	29.6	**184.7**	13.0	**197.7**
Instalment and other operating income	126.8	25.9	10.4	9.5	**172.6**	-	**172.6**
Operating profit/(loss)	**347.7**	**106.2**	**46.5**	**9.5**	**509.9**	**63.6**	**573.5**
Restructuring and other one off costs	-	-	-	-	**-**	-	**(140.5)**
Operating profit	-	-	-	-	-	-	433.0
Gain on disposal of subsidiary	-	-	-	-	**-**	-	**(37.7)**
Gain on disposal of subsidiary							12.0
Profit before tax	**-**	**-**	**-**	**-**	**-**	**-**	**407.3**
Loss ratio – current year	85.3%	58.7%	62.5%	74.1%	**71.3%**	-	**-**
Loss ratio – prior year	(20.2%)	(4.8%)	(2.4%)	(11.8%)	**(10.4%)**	-	**-**
Commission ratio	2.5%	19.6%	7.5%	21.2%	**10.6%**	-	**-**
Expense ratio	25.6%	20.3%	24.8%	23.3%	**23.7%**	-	**-**
Combined operating ratio	**93.2%**	**93.8%**	**92.4%**	**106.8%**	**95.2%**	**-**	**-**

Direct Line Group

Balance sheet overview

(£m)	31 Dec 2016 Reported	31 Dec 2015
Assets		
Goodwill and other intangible assets	508.9	524.8
Financial investments	5,147.0	5,614.6
Cash and cash equivalents	1,166.1	963.7
Assets held for sale	3.8	5.1
Other assets	3,295.9	2,848.4
Total assets	**10,121.7**	**9,956.6**
Liabilities		
Subordinated liabilities	539.6	521.1
Insurance liabilities and unearned premium reserve	6,214.5	6,001.1
Borrowings	55.3	61.3
Other liabilities	790.8	743.1
Total liabilities	**7,600.2**	**7,326.6**
Equity	**2,521.5**	**2,630.0**
Net asset value per share (pence)[1]	**184.7**	**192.2**
Net tangible asset value per share (pence)[2]	**147.4**	**153.8**

1. *Net assets divided by closing number of ordinary shares 1,365.1million*
2. *Tangible net assets divided by closing number of ordinary shares 1,365.1million*

UK regulatory themes

Insurance Distribution Directive & General Data Protection Regulation

- The Insurance Distribution Directive (IDD) and General Data Protection Regulation (GDPR) have both been agreed by EU member states and published in the Official Journal. There is a 2-year implementation period for transposing them into member state law/regulation with both of these due in H1 2018.
- The key elements of the IDD impacting DLG are the introduction of an Insurance Product Information Document (IPID), disclosure of remuneration, product oversight and governance requirements, and continuing professional development.
- The main articles of the GDPR that will impact DLG relate to consent for profiling of sensitive data of anyone other than the policyholder, the use of criminal offences in pricing and underwriting, and data portability. DLG is lobbying UK Government for insurers to be able to continue using criminal offences.

DfT consideration of ECJ judgment on Vnuk vs Zavarovalnica

- The Department for Transport (DfT) is seeking views on options for amending domestic law on motor insurance following the judgment from European Court of Justice in a case known as Vnuk.
- At present, the Road Traffic Act (RTA) requires compulsory motor insurance to be in place for vehicles intended for or adapted for road use or in a public place – not private land – which means that it is not compliant with the EU Motor Directive, as highlighted by Vnuk.
- DfT is seeking views on whether to amend the RTA to reflect the Vnuk ruling or to wait for the EC to amend the Directive in due course (which is anticipated in 2017). DfT is also consulting on derogating certain vehicles, which removes the requirement for mandatory insurance and any claims would be covered by the Motor Insurers' Bureau (MIB), which is funded by insurers.

MoJ review of Ogden discount rate

- The Lord Chancellor announced a change in the discount rate (applied to personal injury claims which are settled with lump sum payments) from 2.5% down to negative 0.75%.
- Claimant compensation for the most serious and long-term injuries settled from 20th March 2017 will benefit from an increased payment
- The Government will review the framework under which the rate is set to ensure it remains fit for purpose in the future.

MoJ whiplash reforms

- Consultation to lower the number and cost of whiplash claims. First part of the Government response confirms they will:
  - introduce a tariff of damages for whiplash claims that last up to 24 months which would see major reductions in costs;
  - raise the small claims limit for RTA related personal injury claims from £1,000 to £5,000 and to £2000 for all other personal injury claims; and
  - ban offers to settle whiplash claims without medical evidence.
- A number of other proposals are still being considered and the Government is keen to implement all changes as a package in late 2018.

DfT Pathway to Driverless cars

- A detailed review of regulations for automated driving technologies is in train.
- The focus of the review is to ensure the UK is at the forefront of the testing and development of the technologies that will ultimately realise the goal of driverless vehicles.
- The Government will review and amend domestic regulations by summer 2017 to accommodate driverless technology.

FCA add-ons, renewal disclosures and value measures

- The FCA banned 'opt out selling' for all add on products sold with insurance and made rules requiring that consumers make 'active elections' to renew add-ons that were previously free of charge. These changes were implemented in 2016.
- A pilot 'scorecard' publishing measures of product value is underway with firms required to provide details of claims frequency, claims acceptance and average claims payment for Home Buildings and Contents, Home Emergency, Key Cover (as an add-on only) and Personal Accident (as an add-on only). Figures for the year ending 31st August 2016 have recently been published on the FCA website.
- The requirement to disclose last year's premium on renewal documents as well as statements on shopping around for cover are due to be implemented in April 2017.

Direct Line Group

Glossary of terms

Term	Definition
Adjusted diluted earnings per share	Adjusted diluted earnings per share is calculated by dividing the adjusted profit after tax of Ongoing operations by the weighted average number of Ordinary Shares during the period adjusted for dilutive potential Ordinary Shares.
Adjusted profit after tax	Profit after tax is adjusted to exclude discontinued operations, the Run-off segment and restructuring and other one-off costs, and is stated after charging tax (using the UK standard tax rate of 20.0%; 2015: 20.25%).
Capital coverage ratio	The ratio of Solvency II own funds to the solvency capital requirement.
Combined operating ratio ("COR")	The combined operating ratio is the sum of the loss, commission and expense ratios. The ratio measures the amount of claims costs, commission and expenses compared to net earned premium generated. A ratio of less than 100% indicates profitable underwriting.
Commission ratio	The ratio of commission expense divided by net earned premium.
Current-year attritional loss ratio	The loss ratio for the current accident year, excluding the movement of claims reserves relating to previous accident years and claims costs relating to major weather events in the Home division.
Earnings per share	The amount of the Group's profit allocated to each Ordinary Share of the Company.
Expense ratio	The ratio of operating expenses divided by net earned premium.
Investment income yield	The annualised income earned from the investment portfolio, recognised through the income statement during the period and divided by the average assets under management. This excludes unrealised and realised gains and losses, impairments and fair-value adjustments. The average assets under management derives from the period's opening and closing balances for the total Group.
Investment return	The income earned from the investment portfolio, including unrealised and realised gains and losses, impairments and fair value adjustments.

Glossary of terms

Term	Definition
Investment return yield	The annualised return earned from the investment portfolio, recognised through the income statement during the period divided by the average assets under management. This includes unrealised and realised gains and losses, impairments and fair-value adjustments. The average assets under management derives from the period's opening and closing balances for the total Group.
Loss ratio	Net insurance claims divided by net earned premium.
Ongoing operations	Ongoing operations comprise the Group's ongoing divisions: Motor, Home, Rescue and other personal lines, and Commercial. It excludes discontinued operations, the Run-off segment, and restructuring and other one-off costs.
Operating profit	The pre-tax profit that the Group's activities generate, including insurance and investments activity, but excluding finance costs.
Return on tangible equity ("RoTE")	Return on tangible equity is annualised adjusted profit after tax from Ongoing operations divided by the Group's average shareholders' equity less goodwill and other intangible assets.
Solvency II	The capital adequacy regime for the European insurance industry, which became effective on 1 January 2016. It establishes revised capital requirements and risk management standards. It sets out capital requirements appropriate systems of governance and disclosure requirements.
Total costs	Total costs comprise operating expenses and claims handling expenses for Ongoing operations.
Underwriting result (profit or loss)	The profit or loss from operational activities excluding investment return and other operating income. It is calculated as net earned premium less net insurance claims and total expenses.

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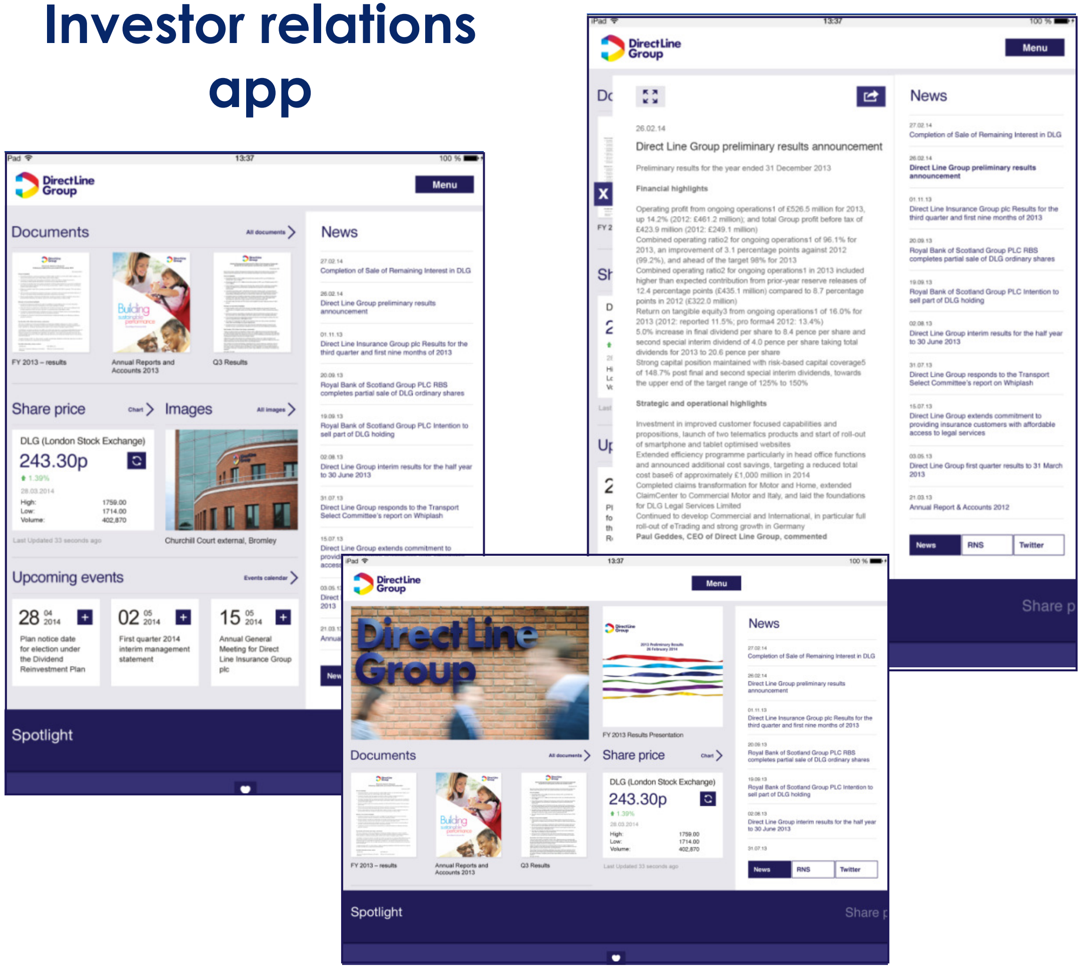
Investor relations app



General disclaimer

Forward-looking statements

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

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, the result of the referendum on the UK's withdrawal from the European Union, 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.

Inside Information

Prior to publication, this document combined inside information for the purposes of Article 7 of the European Union Regulation 596/2014.

Direct Line Group