2018 Interim Results

1 August 2018

Disciplined investment

Direct Line Group

Today's agenda

1. H1 2018 overview
2. Financial highlights
3. Strategic update
4. Concluding remarks
5. Appendix

1. H1 2018 overview

Paul Geddes

Good performance; on track to meet our targets

Good financial performance in the first half

- Operating profit of £303.1m in H1 2018. Normalising[1] for weather, profit up slightly vs. strong prior year
- Combined operating ratio[1] of 93.0% supported by lower expense and commission ratios and continued growth in direct own brands[1]
- Interim dividend of 7.0 pence; Solvency ratio[1] after dividend: 169%[2]

Strategic progress on track

- Diversified business model provides resilience and opportunities to improve and grow
- Motor insurance market has been competitive but rational
- Business model and self help opportunities give confidence to reiterate our financial targets

Making insurance much easier and better value for our customers

1. See glossary for definitions
2. Post the interim dividend

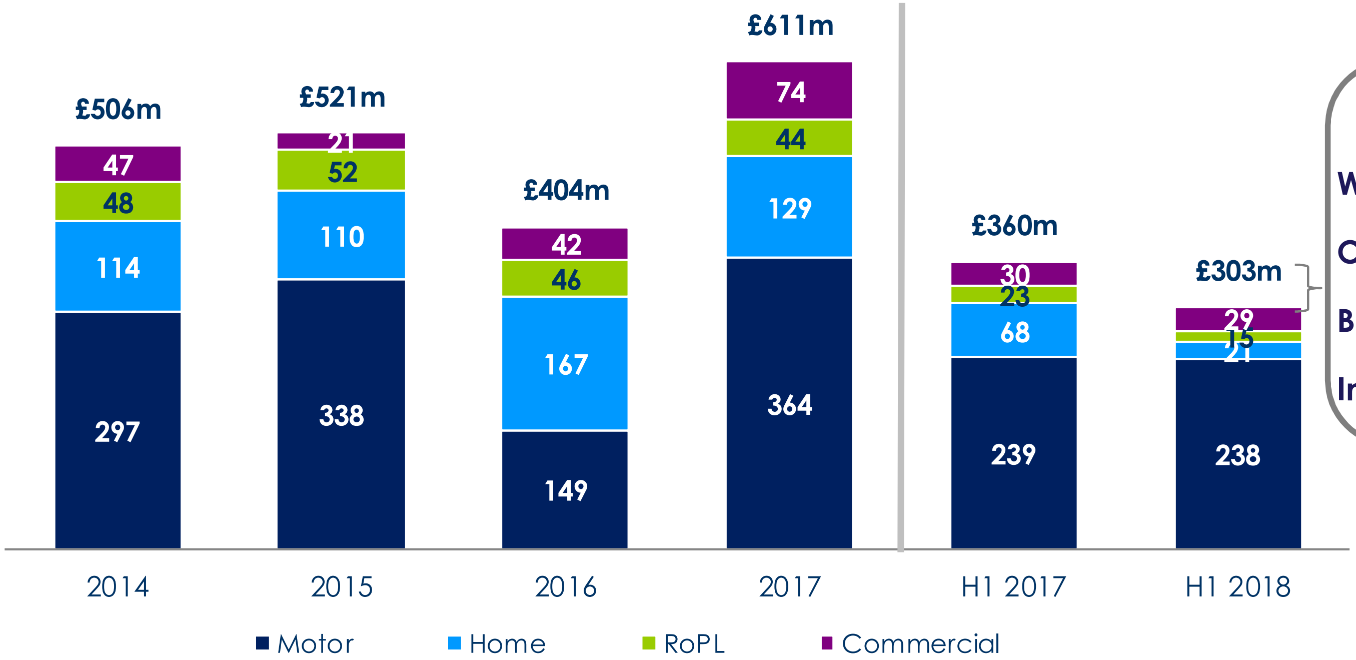
Direct Line Group

2. Financial highlights

Penny James

Good operating profit, high weather claims

Operating profit[1,2,3] £m



	H1 2017	H1 2018
Weather	(£9m)	(£75m)
Ogden	£49m	£0m
Bristol office	£0m	£10m
Inv't gains	£21m	£31m

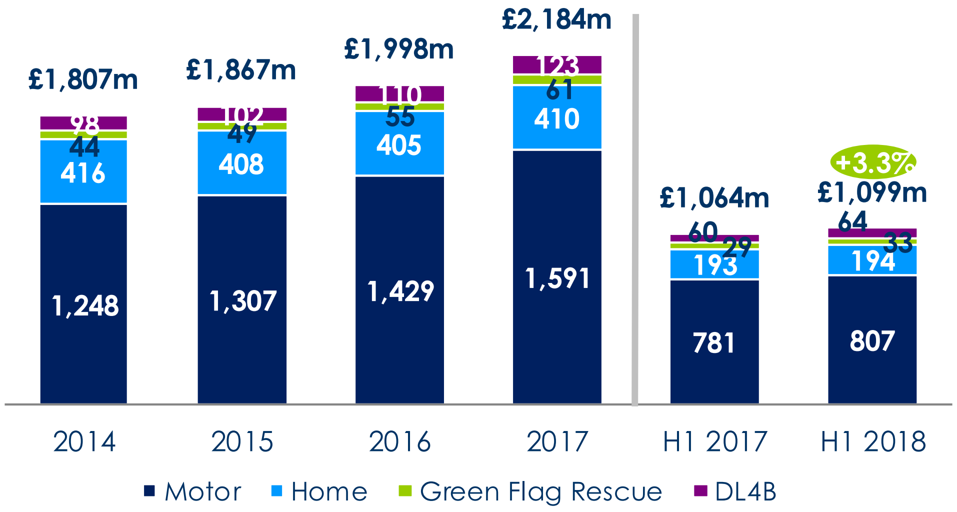
- Operating profit £57m lower than prior year; normalising[1] for weather up slightly
- £49m Ogden release in H1 2017 not repeated in H1 2018. £10m gain on sale of Bristol office and investment gains up £10m in H1 2018
- Prior year releases strong again in H1 2018; £207m versus £177m (excluding Ogden release)
- Motor, Home, and Commercial delivered good results, normalised[1] for weather

1. See glossary for definitions
2. International has been excluded
3. Results for the period ended 30 June 2018 are based on Total Group operations including restructuring and Run-off. H1 2017 comparative data has been re-presented accordingly to include restructuring costs and Run-off profits with the Motor segment

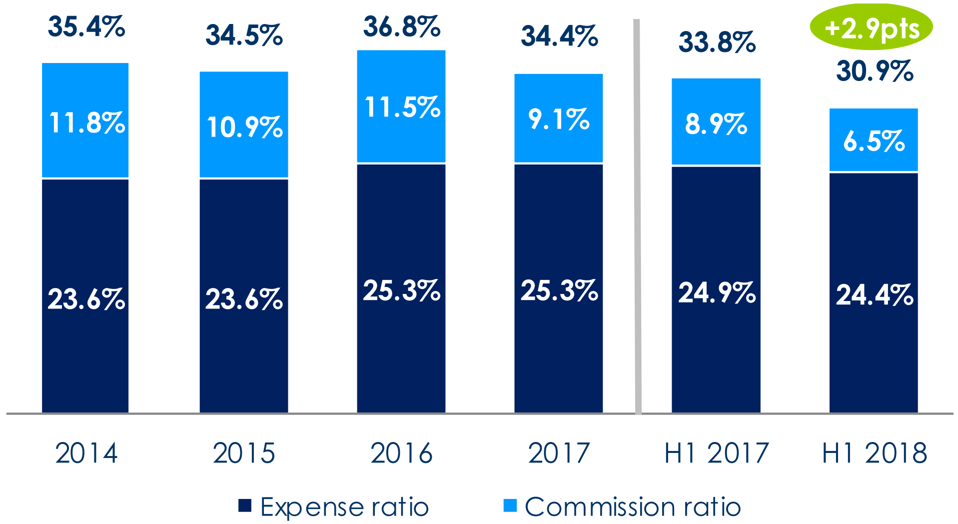
Direct Line Group

Delivering on our priorities

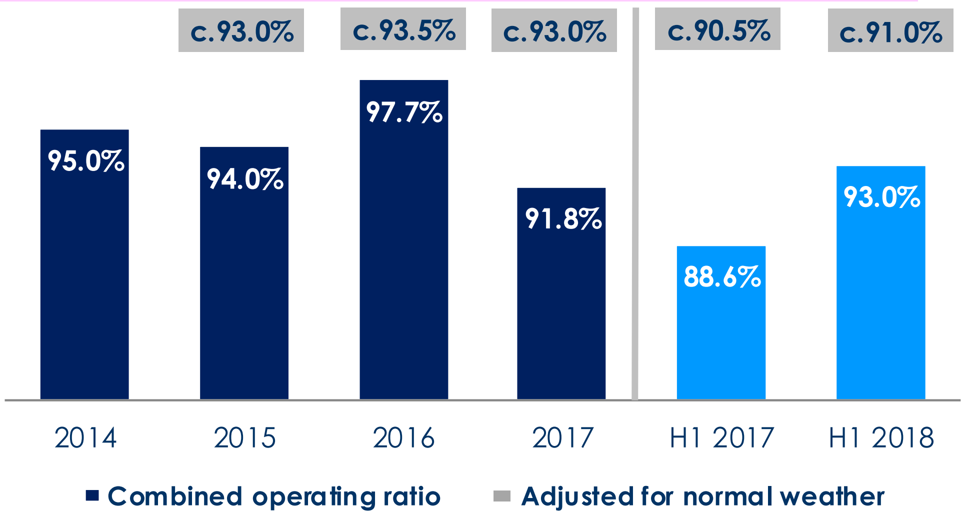
Direct own brands premiums[1], £m



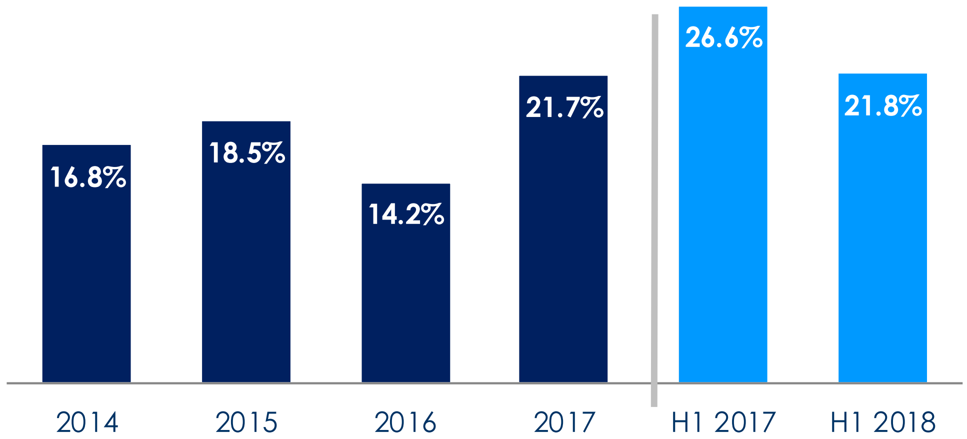
Expense and commission ratios[1,2,3]



Combined operating ratio (COR)[1,2,3]



Return on tangible equity (ROTE)[1,2,3]



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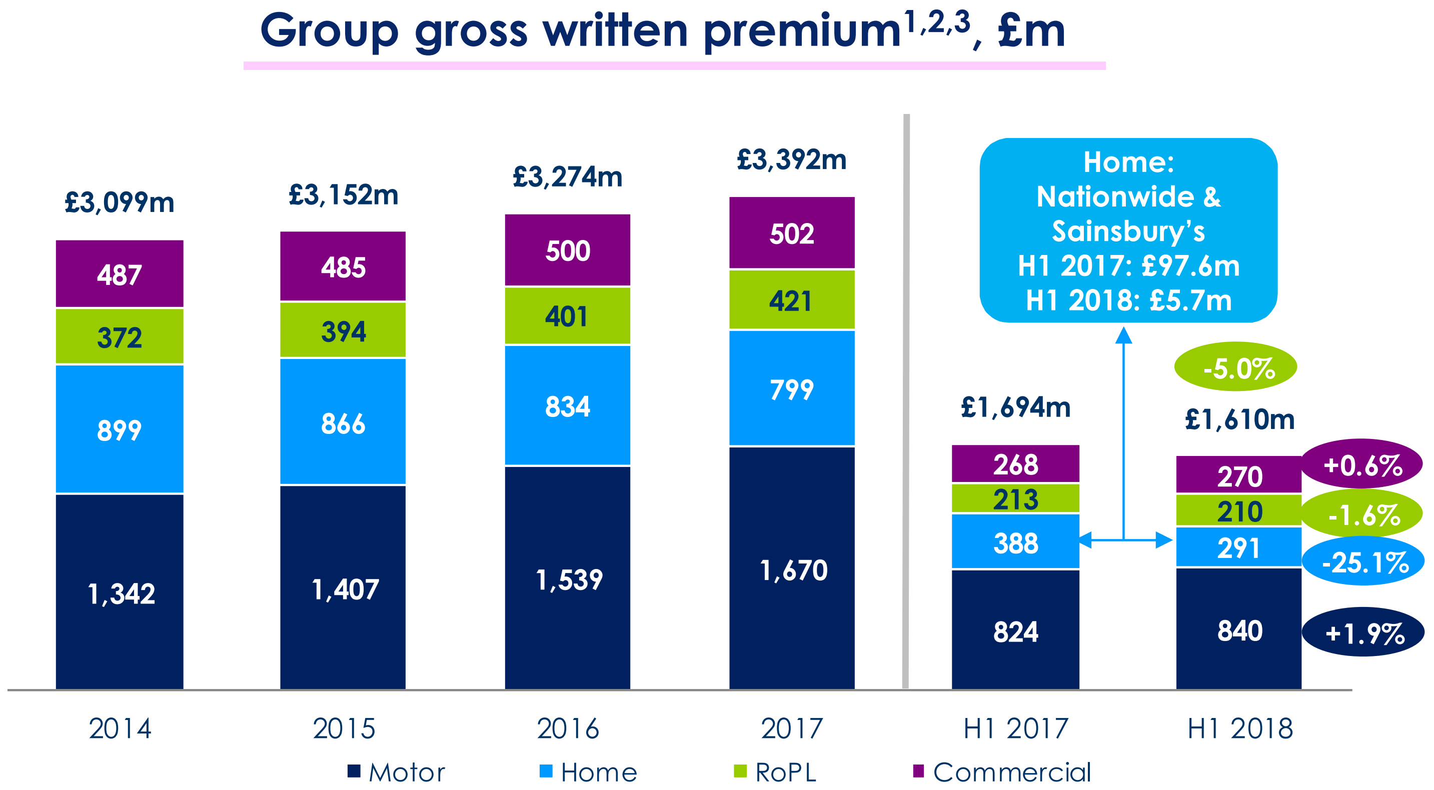
Direct Line Group

Group premiums lower; growth in Direct Own Brands



Direct own brands premium growth	H1 2018 vs. H1 2017
Motor	+3.3%
Home	+0.6%
Green Flag Rescue	+13.3%
Direct Line for Business (DL4B)	+6.5%
Total	**+3.3%**

- **Gross written premiums reduced by 5.0% due to Nationwide exit**
- **Motor premiums grew by 1.9% with own brand growth of 3.3%**
- **Home premiums were down 25.1% due to partner exits; own brands grew 0.6%**
- **Direct own brands in Rescue and Commercial continued to grow, but overall premium broadly flat**

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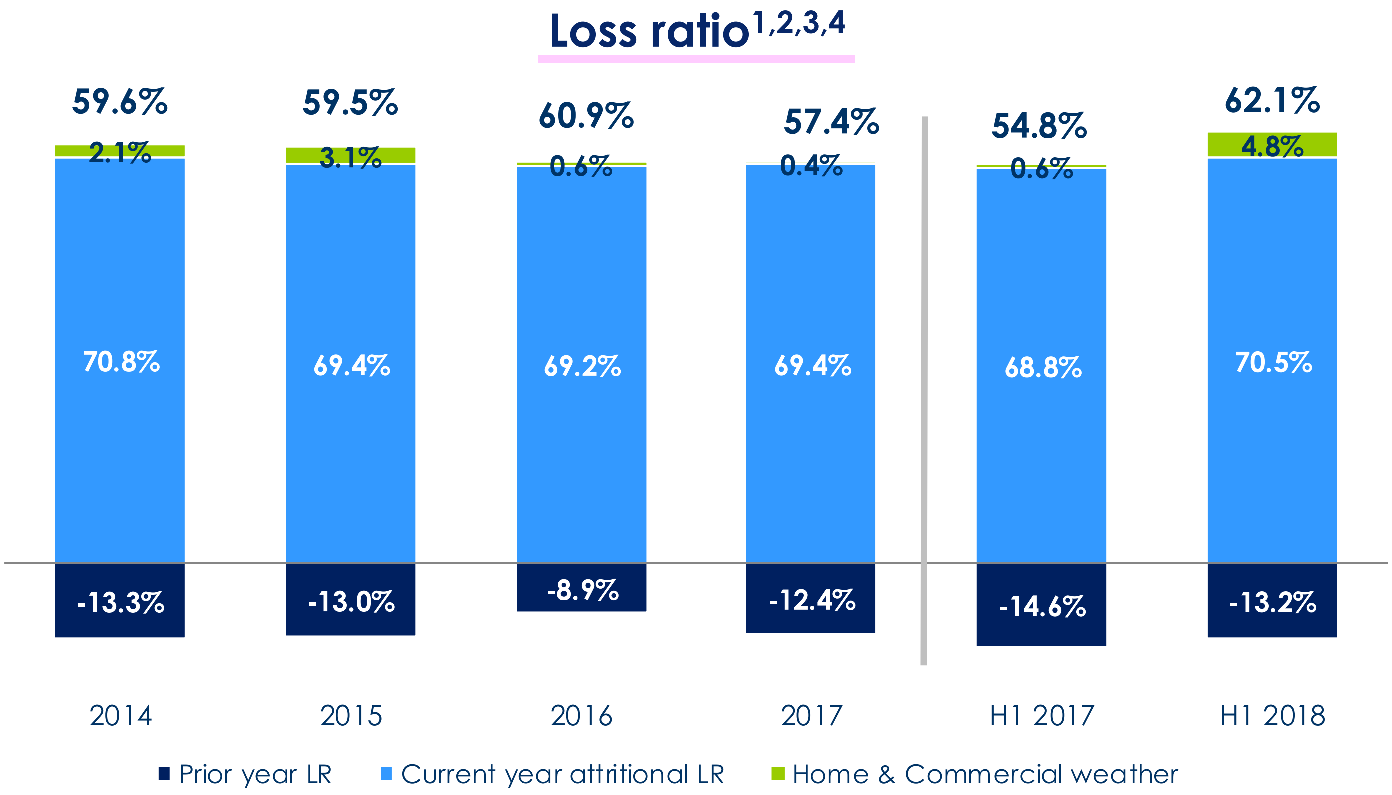
3. Results for the period ended 30 June 2018 are based on Total Group operations including restructuring and Run-off. H1 2017 comparative data has been re-presented accordingly to include restructuring costs and Run-off profits with the Motor segment

Group loss ratio impacted by weather



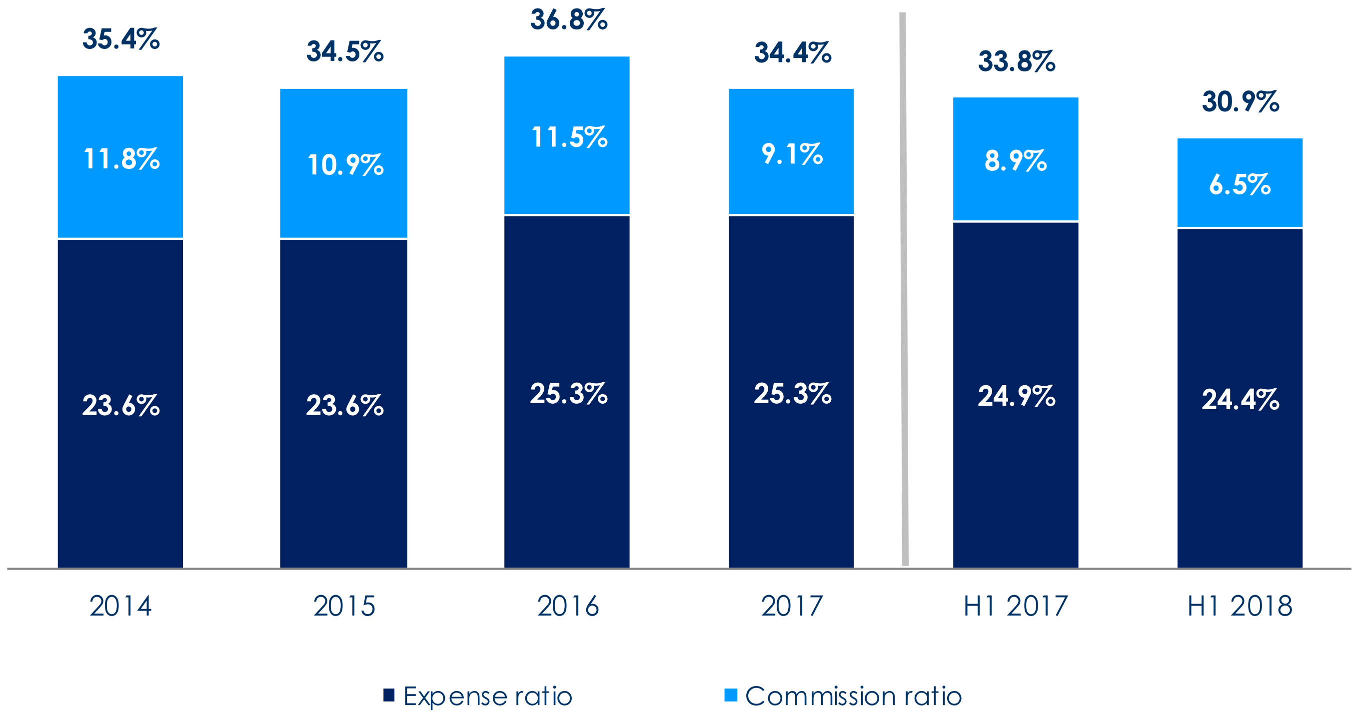
- **Home and Commercial weather costs:** £75m in H1 2018 vs. £9m H1 2017
- **Current year attritional loss ratio:**
  - Up slightly due primarily due to mix shift and partnership exit
  - 3.2 points improvement in Motor; H2 2018 expected to return to more normal levels
- **Prior year reserve releases:** H1 2017 includes £49m (3.2 points) one-time release relating to Ogden. Ex Ogden, prior year releases increased by £30m

1. See glossary for definitions
2. International has been excluded
3. Results for the period ended 30 June 2018 are based on Total Group operations including restructuring and Run-off. H1 2017 comparative data has been re-presented accordingly to include restructuring costs and Run-off profits with the Motor segment
4. Weather costs in comparative full year data is Home only. H1 2018 and H1 2017 reflects weather costs on Home and Commercial

Direct Line Group

Group efficiency improved with further opportunity

Expense ratio and commission ratio[1,2,3]



- **Expense ratio improved by 0.5 points**
- **Commission ratio 2.4 points better than H1 2017 reflecting:**
  - Shift in business mix as direct grows and partnerships exited
  - Net benefit from higher home weather losses, escape of water claims and prior year releases shared with partners

1. See glossary for definitions
2. International has been excluded
3. Results for the period ended 30 June 2018 are based on Total Group operations including restructuring and Run-off. H1 2017 comparative data has been re-presented accordingly to include restructuring costs and Run-off profits with the Motor segment

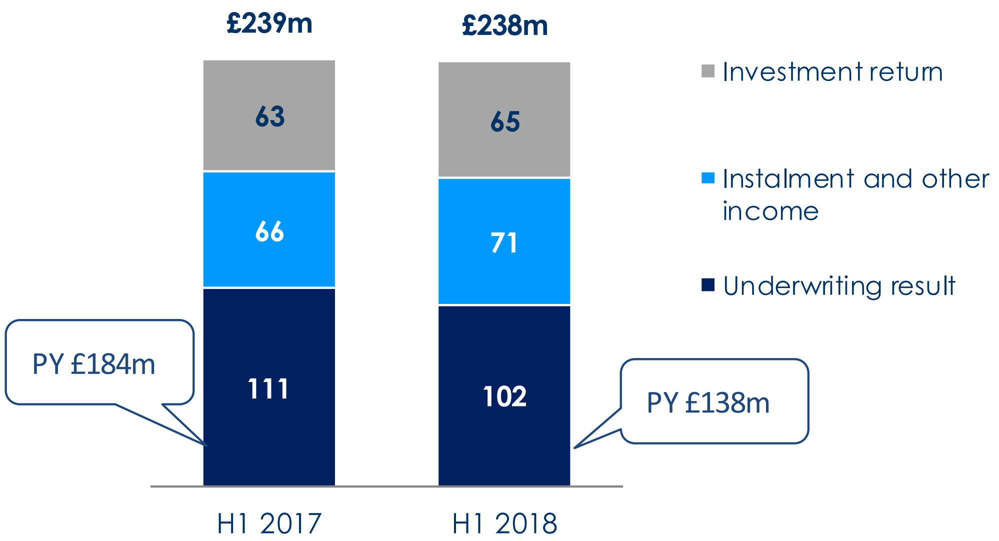
Direct Line Group

Motor trading: Disciplined approach in lower pricing environment

Trading

Total book	Q1 2018	Q2 2018
Change in price[1]	**+4.5%**	**+1.1%**
Change in risk mix[2]	-2.9%	-0.6%
Change in GWP	+2.9%	+0.9%
Change in IFPs	**+3.1%**	**+2.1%**

Operating profit[3], £m

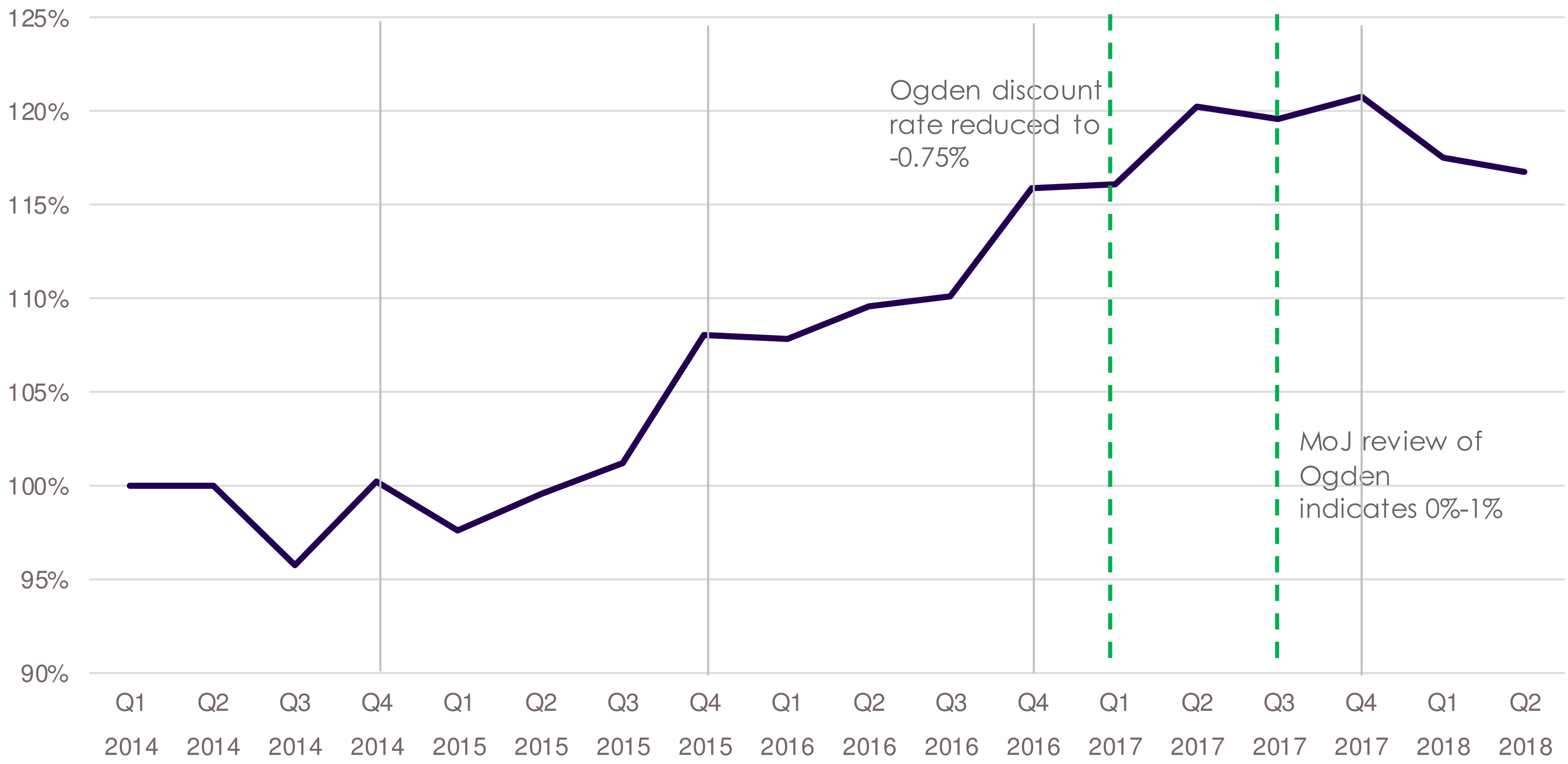


- **Average premiums up 0.7% versus prior year**
- **Continued growth in policy count and premiums but pace has slowed**
- **Claims inflation returned to more normal levels – continued expectation of 3%-5% over the long-term**
- **Civil Liability Bill progressing, Whiplash reform delayed**
- **H1 2017 benefitted from £49m release relating to Ogden**
- **Current year attritional loss ratio improved by 3.2 points as strong premium growth in 2017 earned through**
- **Prior year releases were £138m in H1 2018 versus £135m in H1 2017 (excl. Ogden impact)**
- **Excess of Loss Reinsurance cover maintained at £1m[4] at January renewals with 16% increase in price**

1. Change in price excludes IPT
2. Risk mix measures the estimated movement based on risk models used in that period
3. Results for the period ended 30 June 2018 includes restructuring and Run-off. H1 2017 comparative data has been re-presented accordingly
4. Details of the Group's Reinsurance programmes can be found in the appendix

Motor market: Prices returned to pre-Ogden levels

UK Motor premiums, excluding IPT, indexed to Q1 2014[1]



1. ABI UK Motor premiums adjusted to remove IPT and indexed to Q1 2014

We take a disciplined approach to Motor pricing

Market pricing and claims considerations

Claims considerations	Increasing claims/pricing H1 2017	Decreasing claims/pricing H2 2017 onwards	Today
Claims expectations	↑	→	↑
Ogden discount rate	↑	↓	=
Whiplash reform expectation		?	=
Pricing environment	↑	↓	?

DLG approach

1. Prioritise target loss ratio over volume
2. Focus even more keenly on cost management
3. Remain committed to disciplined and targeted investment to improve competitiveness across cycle

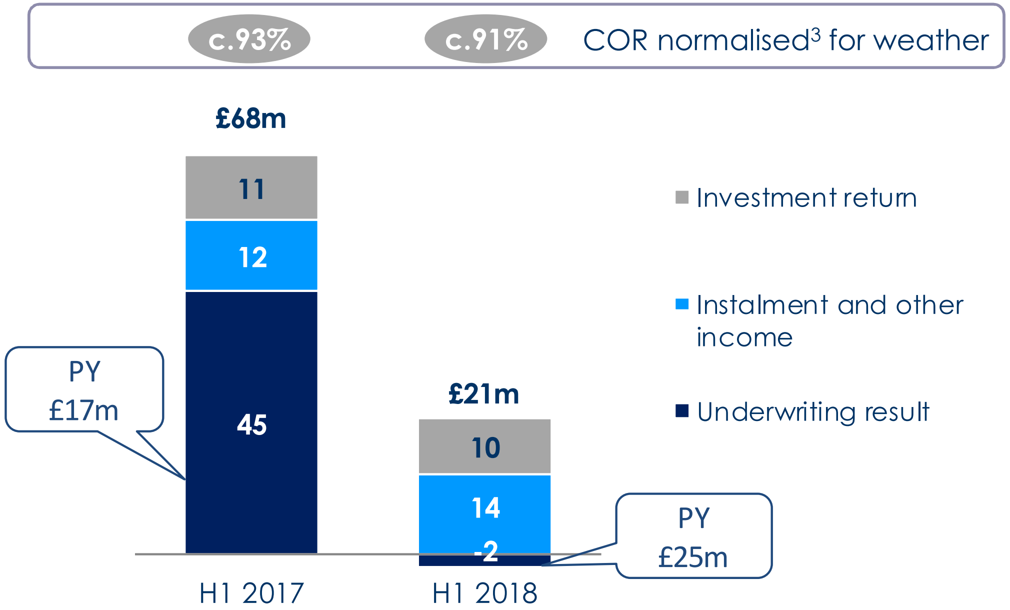
Home trading: Improved performance, normalised[3] for weather

Trading

Home own brands	Q1 2018	Q2 2018
Change in price[1]	**+4.8%**	**+4.7%**
Change in risk mix[2]	-4.8%	-4.3%
Change in GWP	+0.3%	+0.9%
Change in IFPs	**+1.8%**	**+1.3%**

- **Average premiums flat as price improvements across direct and PCW were offset by faster growth in lower premium PCW business**
- **Strong new business growth with retention down slightly across channels**

Operating profit, £m



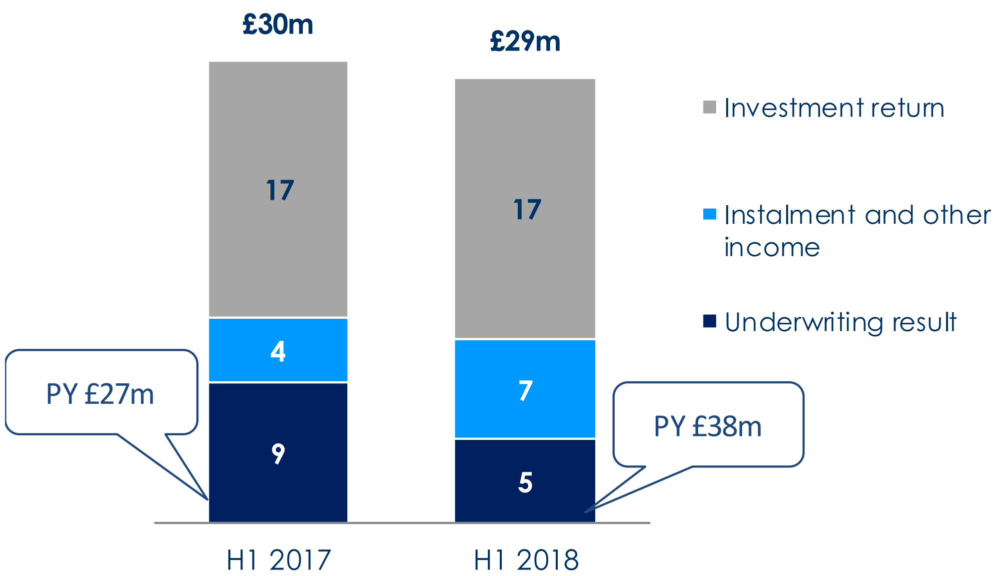
- **On track to achieve broadly flat profits vs. 2017 normalised[3] for weather**
- **Adjusting for normalised[3] weather, COR was c.2ppts better than prior year**
- **Successfully absorbed loss of contribution from Nationwide exit**
- **Prior year releases returned to previously more normal levels of £25m vs. £17m in H1 2017**

1. Change in price excludes IPT
2. Risk mix measures the estimated movement based on risk models used in that period
3. See glossary for definition

Direct Line Group

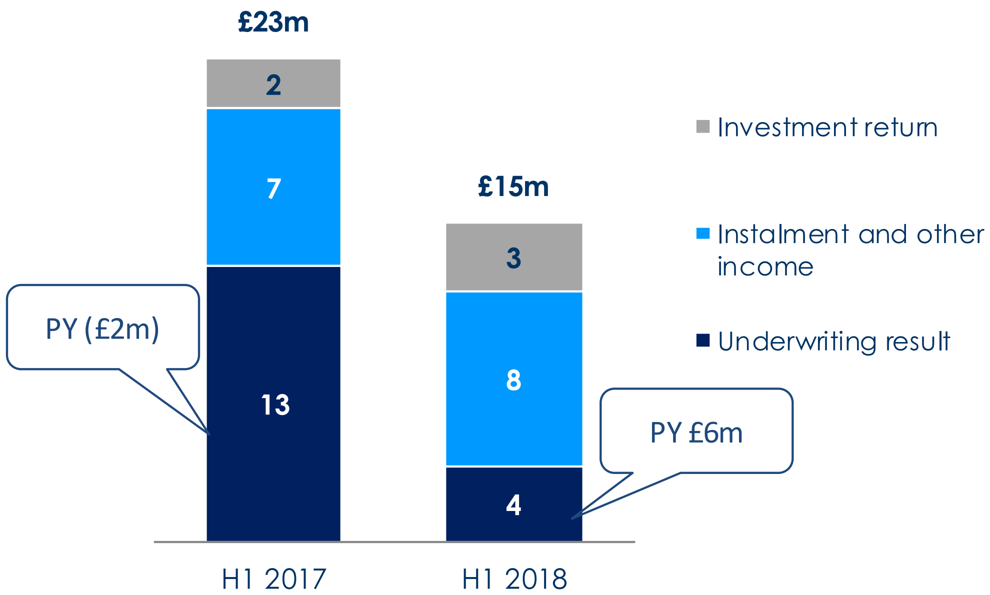
Commercial and RoPL results

Commercial operating profit[1], £m



- **Good operating result, in-line with prior year despite £10m of additional weather losses**
- **Prior year releases were £38m in H1 2018 versus £27m in H1 2017**

Rescue and other Personal lines operating profit[1], £m

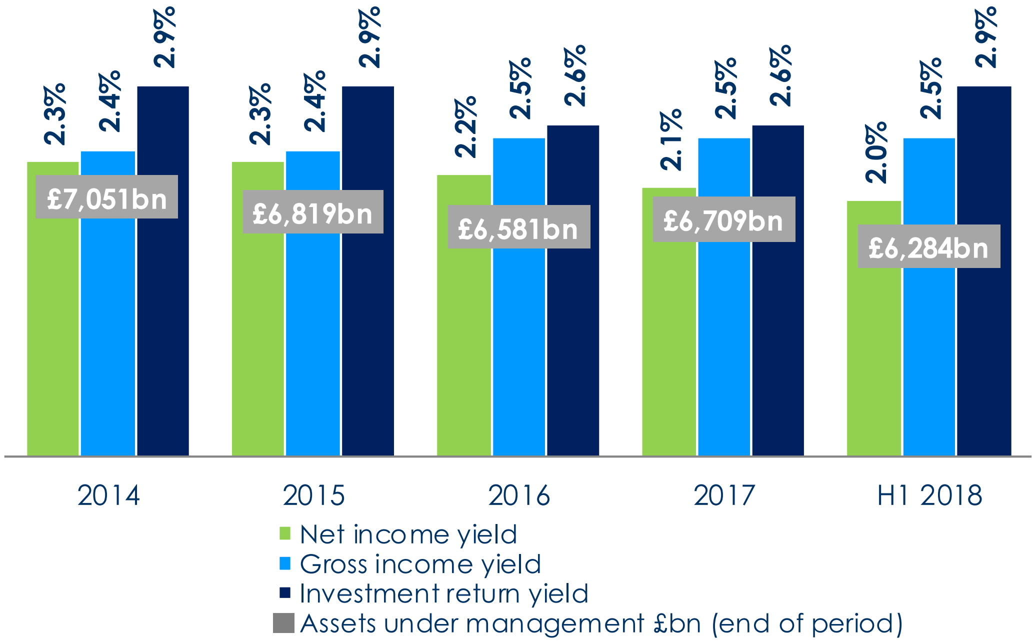


- **Rescue operating profit of £19m, £2m lower than prior year**
- **Other Personal lines profit impacted by weather losses on High Net Worth business and timing differences on reserve recognition**

1. See glossary for definitions

Investments: Strong gains

Group investment yields[1,2]



Group investment returns[1], £m	H1 2017	H1 2018
Investment income	**82.8**	**79.6**
Hedging to sterling floating rate	(10.8)	**(14.7)**
Net investment income	**72.0**	**64.9**
Net realised and unrealised gains excluding hedging	21.0	**30.5**
Of which property gains	*9.9*	***12.1***
Total investment return	**93.0**	**95.4**

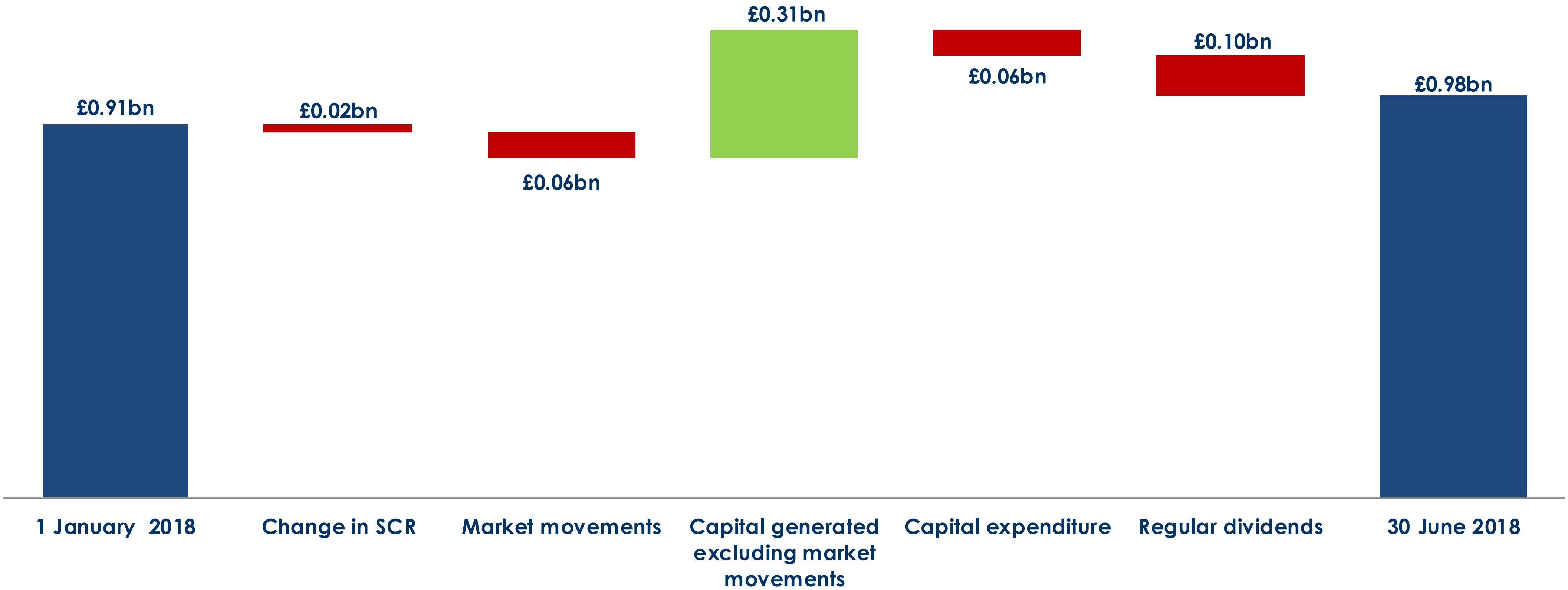
- **Total investment return of £95.4m, up £2.4m as a result of higher gains**
- **Net investment income was £7.1m lower than prior year as AuM[1] continued to decline**
- **No material realised gains expected in the second half of the year**
- **Given expected gains profile, we continue to expect investment return in the region of £150m in 2018**

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

Direct Line Group

Solvency II surplus: Strong capital generation

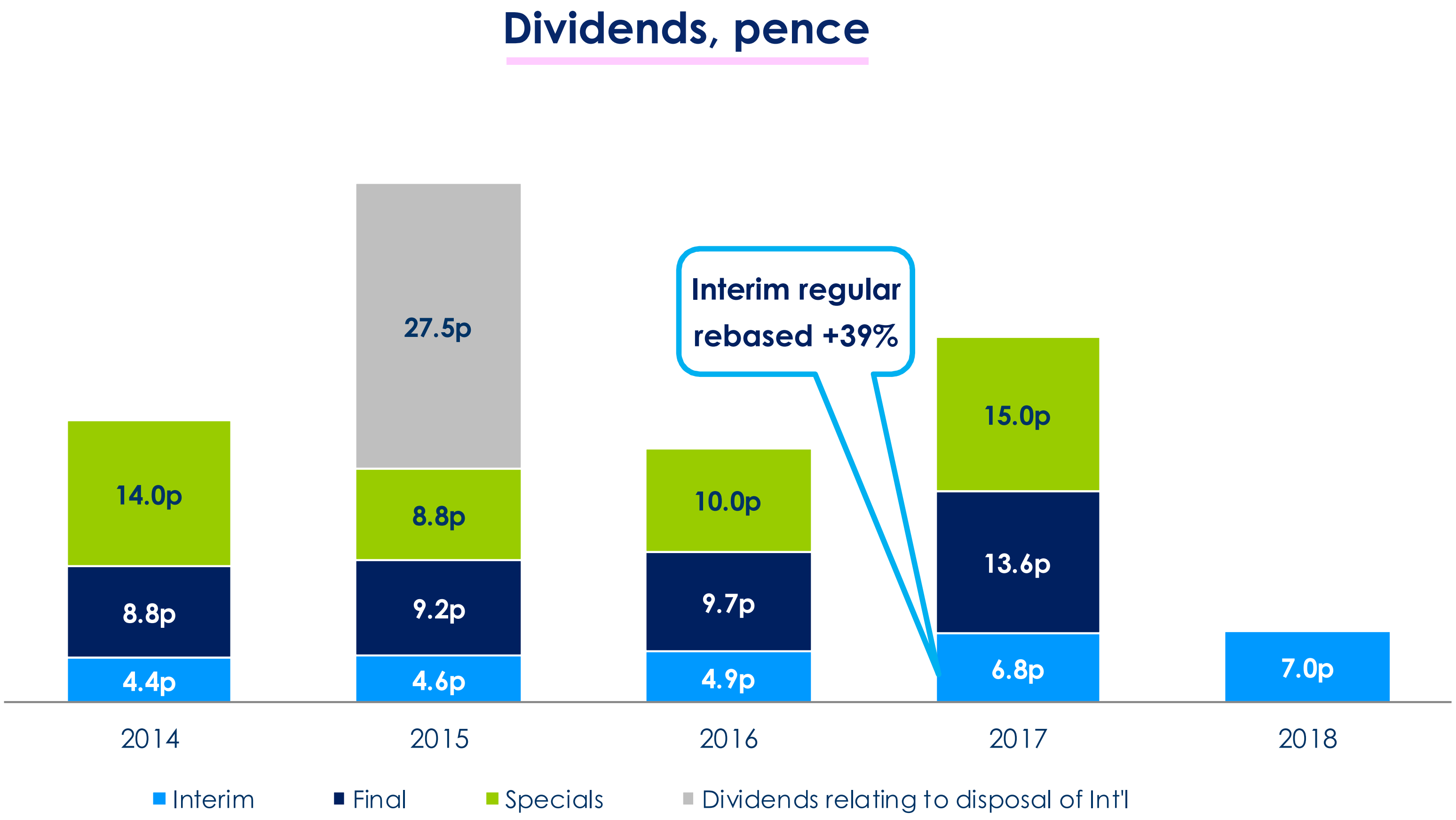
Movement in Solvency II capital surplus[1,2], £bn



- Market movements: Rising interest rates (partially offset in calculation of technical provisions in Capital generated) and widening credit spreads has reduced the market value of assets
- Strong capital generation of £0.31bn in the first half of 2018
- Capital expenditure reflects ongoing investment in the business as expected

1. See glossary for definitions
2. Figures are estimated and based on partial internal model (PIM) output for 30 June 2018

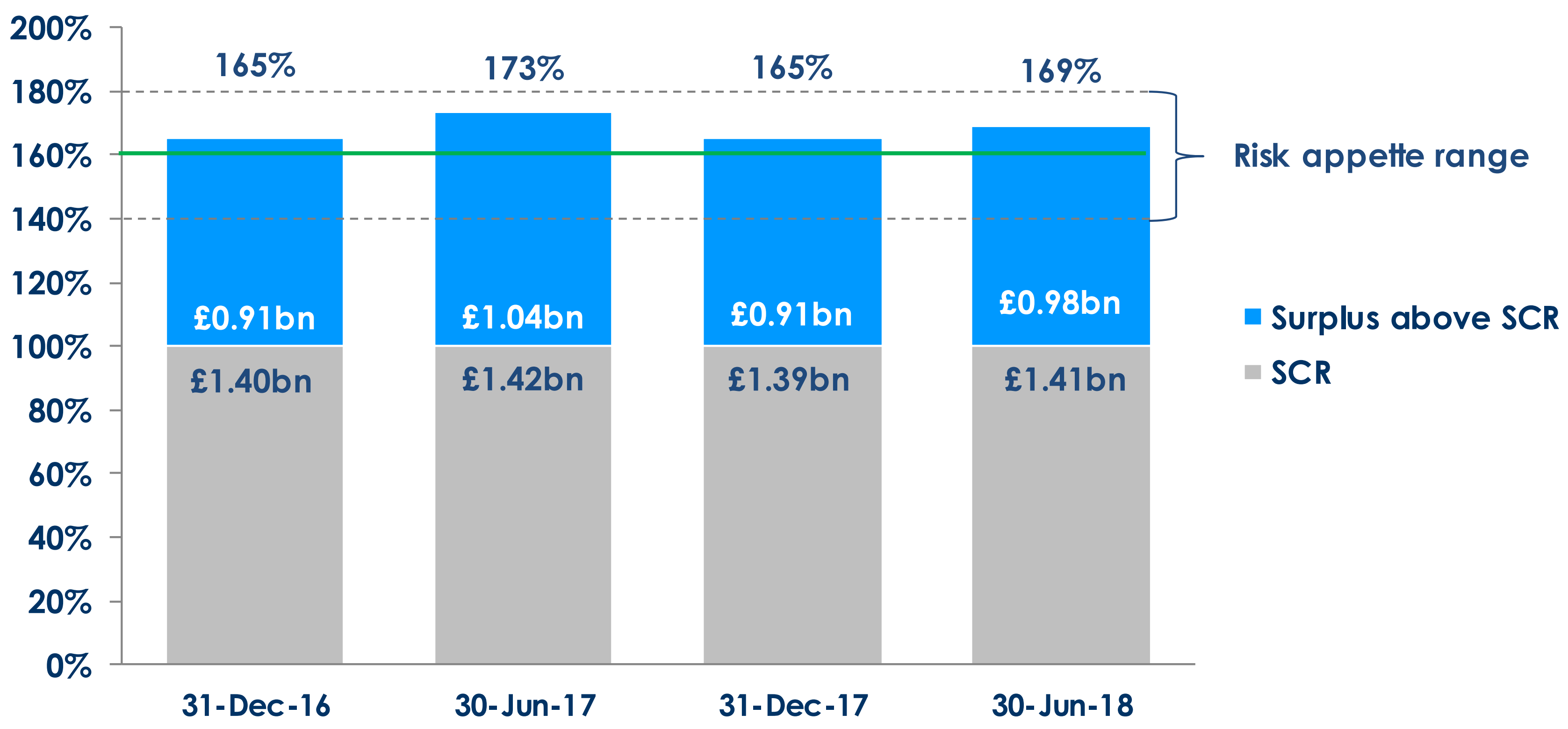
Interim dividends: Growth from a higher base



- **Regular dividend rebased in 2017**
- **Special distributions considered at the full year**

Solvency ratio strong post interim dividend

Solvency II capital coverage[1,2]



- **Capital coverage of 169% post the interim dividend**
- **The Group expects to operate around the middle of the Group risk appetite range of 140%-180%[3]**

1. See glossary for definitions
2. Figures are estimated and based on partial internal model (PIM) output for 30 June 2018
3. The Board considers the appropriate Group risk appetite range to be 140% to 180% of its SCR and expects the Group to operate around the middle of this range in normal circumstances where there is no material opportunity or threat.

Strong momentum and well positioned

Momentum + Opportunity → Medium term targets[1]

Momentum

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

Opportunity

Strong pipeline of initiatives

Medium term targets[1]

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

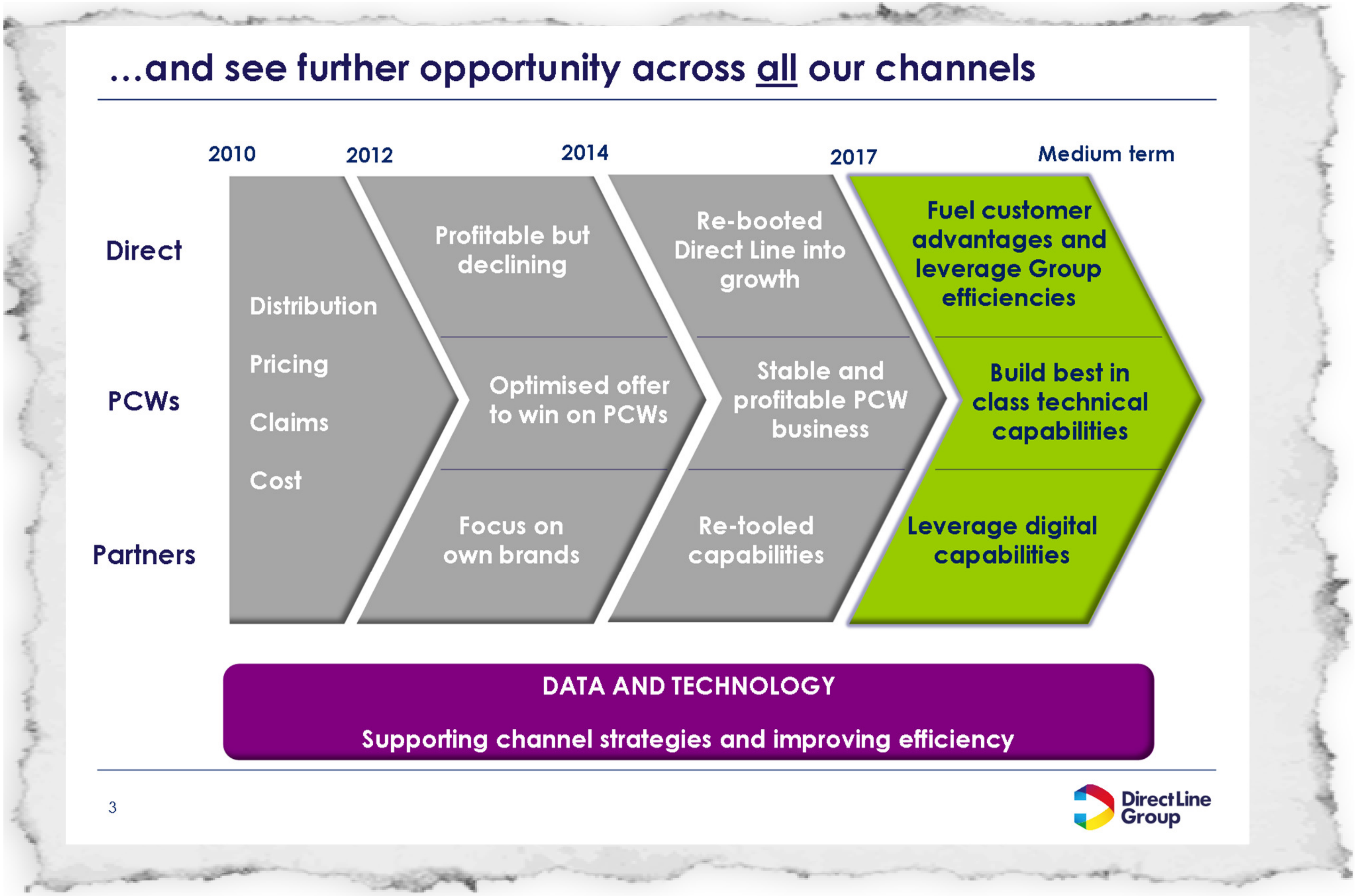
Long term ambition: Sustainable growth and at least 15% RoTE

1. See glossary for definitions
2. In normal circumstances, and in the absence of any material threat or opportunity

3. Strategic update

Paul Geddes

Multibrand, multiproduct and multichannel strategy



Direct: Fuel advantages and leverage Group efficiencies

Direct Line

Drive advantage

2 New propositions launched; 9 in total

Strong retention rates

'Virtuous circle'

Direct Line for Business

Fuel growth

New platform, new segments

500+ trades / new mass market advertising now live

Green Flag

Disrupt the market

Great service for half the price

New structure in place

New plan approved

Process Automation

Leverage scale

Unlocking value and service using the next generation of systems

Project on track

PCW: Build best in class capabilities

Churchill brand

Leverage brand

Continued brand support through marketing

Strong conversion and retention rates

Application fraud & next generation pricing

Move towards best in class

Build of latest generation systems on track to deliver step-change

Instant external data validation for application fraud

Pricing models more tailored to PCWs with greater market pricing

Alternative Pricing

Leading edge capability

Applying machine learning techniques

New model in build phase

Partnerships: Leverage our digital capabilities & seek new partners

Home

Build on strong digital capability

Returned RBS partnership to growth

Integration with more products and channels

Rescue and Travel

Retain existing and attract new partners

New Rescue centre of excellence in place

Roll out of new digital first travel platform

Motor

Strategic partnerships with Manufacturers

New partnership with VW Insurance Services

Ongoing relationship with PSA Finance UK and Tesla

Cost: Range of levers to deliver expense ratio improvement

Marketing efficiency	Efficient use of UK sites	Automation & offshoring	Cost culture & agility	Lower IT run costs	Self service /straight through
£89m reduction in marketing spend[1] while supporting growth Leading edge marketing science	Sites reduced by nearly 50% Run costs savings Home working and hot desking	Over 35 processes automated Over 1,000 FTE offshore Further opportunity	Share ownership Employee 'Idea lab' Procurement and agile change	Outsourcing IT hosting and mainframe More agile, more flexible, less risk and lower cost	Investing in next generation of systems to unlock transactional process automation Project on track

Current systems:

Delivery of efficiencies well advanced

Next generation of systems:

Targeting significant opportunities

1. Reduction in spend during the period 31 December 2012 to 31 December 2017

Direct Line Group

4. Concluding remarks

Paul Geddes

Summary: Strong delivery, confidence for the future

Good financial performance in the first half and ongoing pricing discipline

+

Strong progress against strategic initiatives, targeting increased competitiveness and improved efficiency

=

Confidence in achieving our targets

Making insurance much easier and better value for our customers

5. Appendix

Motor

(£m unless stated)	H1 2018	H1 2017
In-force policies (000s)	**4,049**	**3,966**
Own brand in-force policies (000s)	3,894	3,761
Partnerships in-force policies (000s)	155	205
Gross written premium	839.8	824.4
Net earned premium	765.8	707.8
Loss ratio – current year (1)	78.5%	81.7%
Loss ratio – prior years	(18.0%)	(26.0%)
Loss ratio	60.5%	55.7%
Commission ratio (2)	1.8%	2.6%
Expense ratio	24.4%	26.1%
Combined operating ratio	**86.7%**	**84.4%**
Underwriting profit / (loss)	101.8	110.6
Of which prior year releases (3)	*137.7*	*184.2*
Instalment and other income (4)	70.8	66.2
Investment return	65.4	62.6
Operating profit	**238.0**	**239.4**

1. **Current year loss ratio improvement reflects one-off reinsurance benefit in 2017 and the earn through from strong pricing in 2017**
2. **Commission ratio improvement driven by cessation of Sainsbury's and Prudential (Prudential new business now an own brand)**
3. **2017 Prior year releases includes £49m following a review of Ogden claims reserves**
4. **Instalment and other income includes gain on property sale of £9.6m (allocated across products)**

Motor results now include the Run-off segment and restructuring and other one-off costs

- **Restructuring and other one-off costs -£0.9m (H1 2017 £4.5m)**
- **Run-off result £27.8m (H1 2017 £10.1m)**

1. See glossary for definitions

Direct Line Group

Home

(£m unless stated)		H1 2018	H1 2017
In-force policies (000s)		**2,943**	**3,304**
Own brand in-force policies (000s)		1,793	1,770
Partnerships in-force policies (000s)		815	846
Nationwide and Sainsbury's (000s)	1	335	688
Gross written premium		290.7	388.1
Net earned premium		354.6	397.0
Loss ratio – current year attritional	2	53.3%	50.0%
Major weather	3	18.4%	2.3%
Loss ratio – current year incl. weather		71.7%	52.3%
Loss ratio – prior years		(7.0%)	(4.3%)
Loss ratio	4	64.7%	48.0%
Commission ratio		10.7%	17.0%
Expense ratio		25.2%	23.8%
Combined operating ratio		**100.6%**	**88.8%**
Underwriting profit / (loss)		(2.1)	44.5
Of which prior year releases	5	*24.7*	*16.8*
Instalment and other income		13.5	11.8
Investment return		9.7	11.2
Operating profit		**21.1**	**67.5**

1. **Reduction in premiums and policy count reflects Nationwide exit**
2. **Increase in current year loss ratio reflects business mix; Nationwide exit, offset in commission ratio**
3. **Weather losses of £65m compared with £9m in H1 2017**
4. **Reduction in the commission ratio reflects Nationwide exit and weather losses**
5. **Increase in prior year releases as H1 2017 below usual level due to escape of water claims**

1. See glossary for definitions

Direct Line Group

Rescue and other personal lines

(£m unless stated)		
Rescue	**H1 2018**	**H1 2017**
In-force policies (000s) 1	**3,537**	**3,663**
Gross written premium	80.1	83.6
Combined operating ratio	**85.8%**	**82.8%**
Operating profit	**19.2**	**21.7**

1 **Continued growth in Green Flag and Linked IFPs offset by reduction in partnerships**

Rescue and other personal lines[1]	**H1 2018**	**H1 2017**
In-force policies (000s)	**7,604**	**7,841**
Gross written premium	209.9	213.3
Net earned premium	205.5	209.0
Combined operating ratio 1	**98.3%**	**93.8%**
Underwriting profit	3.5	12.9
Of which prior year releases/(increases)	*5.7*	*(2.1)*
Operating profit	**14.9**	**22.6**

1 **Higher weather costs and timing of actuarial reviews**

1. See glossary for definitions

Direct Line Group

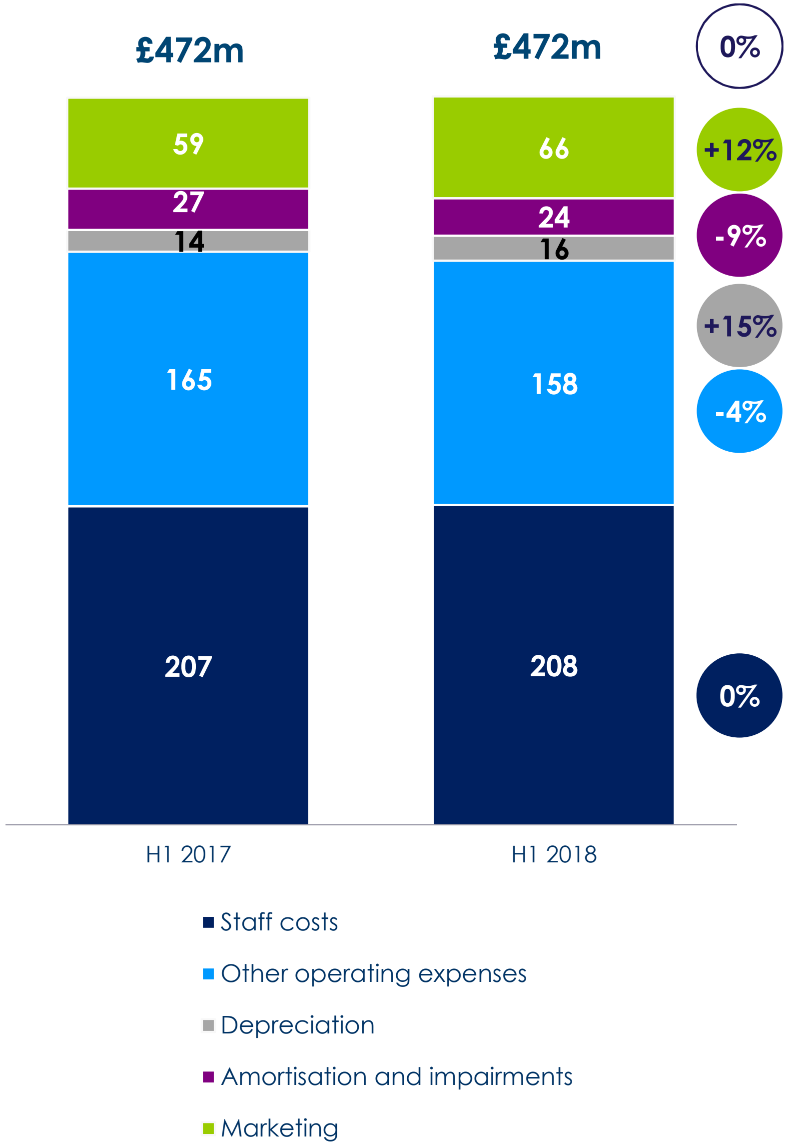
Commercial

(£m unless stated)	H1 2018	H1 2017
In-force policies (000s)	**730**	**700**
Direct Line for Business	485	452
NIG and other	245	248
Gross written premium	269.9	268.4
Net earned premium	233.7	233.7
Loss ratio – current year attritional 1	68.2%	66.0%
Major weather 2	4.3%	0.0%
Loss ratio – current year	72.5%	66.0%
Loss ratio – prior years	(16.5%)	(11.6%)
Loss ratio	56.0%	54.4%
Commission ratio	17.5%	17.9%
Expense ratio	24.2%	23.8%
Combined operating ratio	**97.7%**	**96.1%**
Underwriting profit/(loss)	5.4	9.1
Of which prior year releases 3	*38.4*	*27.1*
Instalment and other income	6.6	4.3
Investment return	17.1	16.8
Operating profit	**29.1**	**30.2**

1. **Current year attritional loss ratio in line with full year 2017 and 2ppts higher than H1 2017**
2. **Weather losses of £10m in H1 2018, versus zero in prior year**
3. **Increase in prior year releases reflects strong property and general liability development**

1. See glossary for definitions

Total cost base



£m	H1 2018	H1 2017
Total costs	**472.3**	**471.5**
Operating expenses	381.2	384.9
Claims handling expenses	91.1	86.6
Net earned premium	1,559.6	1,547.5
Expense ratio	**24.4%**	**24.9%**

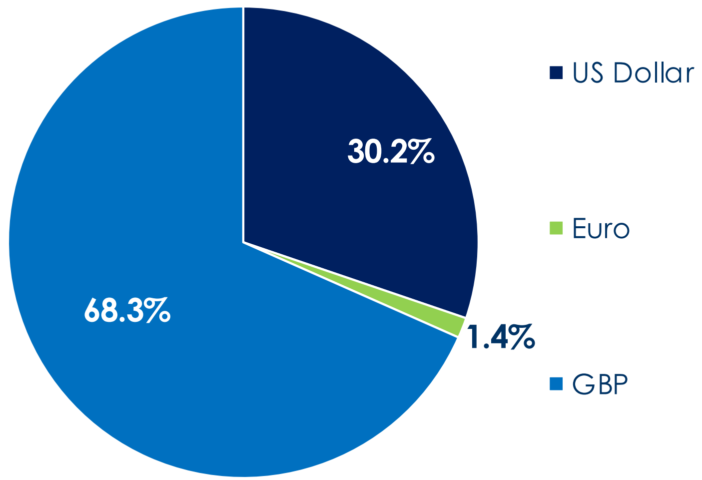
Claims handling expenses are reported within the loss ratio

1. See glossary for definitions

Investments

Total Group 30 June 2018	Target allocation[1]	Current holding	Income yield	Interest rate duration (years)
Investment grade (incl private placements)	64.0%	63.3%	2.6%	2.64
High yield	6.0%	6.3%	4.6%	1.69
Credit	**71.0%**	**69.6%**	**2.8%**	**2.56**
Sovereign	7.0%	2.7%	1.6%	1.43
Total debt securities	**78.0%**	**72.3%**	**2.7%**	**2.52**
Infrastructure debt	5.0%	4.8%	2.2%	0.18
Commercial real estate loans	4.0%	2.9%	3.6%	-
Investment property	5.0%	5.1%	5.0%	-
Cash and cash equivalents	8.0%	14.9%	0.5%	0.00
Total	**100.0%**	**100.0%**	**2.5%**	**1.83**

Assets under management by currency



1. See glossary for definitions
2. Target allocation updated during H1 2018

Reinsurance

Motor excess of loss reinsurance

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

- Cover renewed on 1 January 2018 at increased cost reflecting the reduction in the Ogden discount rate
- Retained £1m deductible (indexed)
- Cover is unlimited in size and has an unlimited amount of cover reinstatements
- Placed on a traditional, uncapitalised basis
- Placed with a panel of reinsurers who are at least 'A+' rated

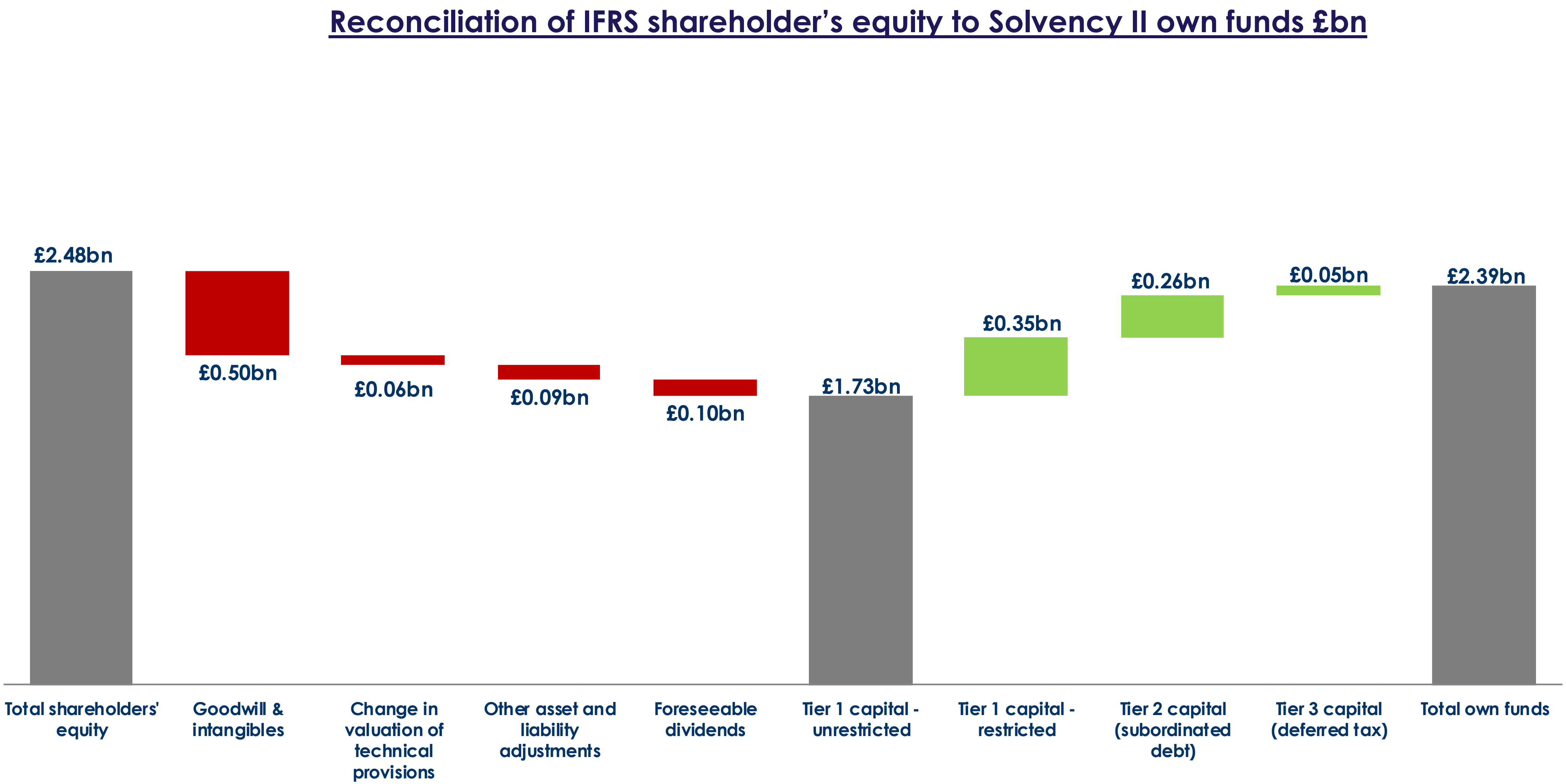
Property catastrophe reinsurance

(£m)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19[2]
Limit	1,300	1,400	1,350	1,250	c.1,275	c.1,205
Deductible	150	150	150	150	c.150	c. 139

- Cover renewed on 1 July 2018
- Retained deductible of 14.88% of gross earned premium (c. £139m)
- Cover is 128.79% of gross earned premium, c. £1.2bn, equivalent to a modelled 1 in 200 year loss
- Cover has one full reinstatement for all programme and additional reinstatement up to £600m
- Placed with a panel of reinsurers who are all at least 'A-' rated
- In latest renewal approximately 60% placed on 3 year basis at a fixed price (reinsurance rate online)

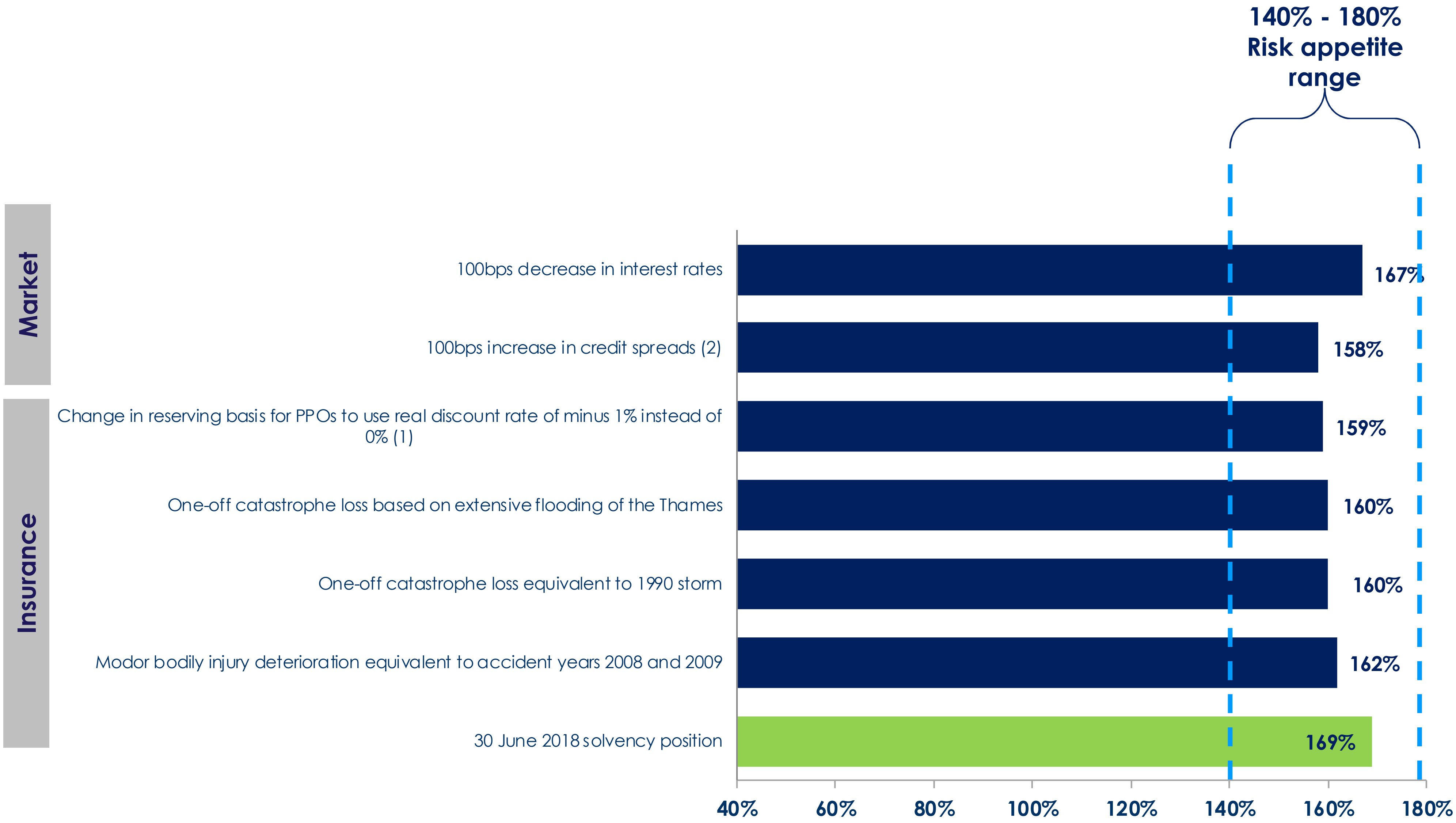
1. Partial placement on lower layer(s). For 2018 90% of the first layer (£2m excess £1m) is placed with 10% retained
2. Day 1 limits which will reduce over the reinsurance term

IFRS to Solvency II bridge



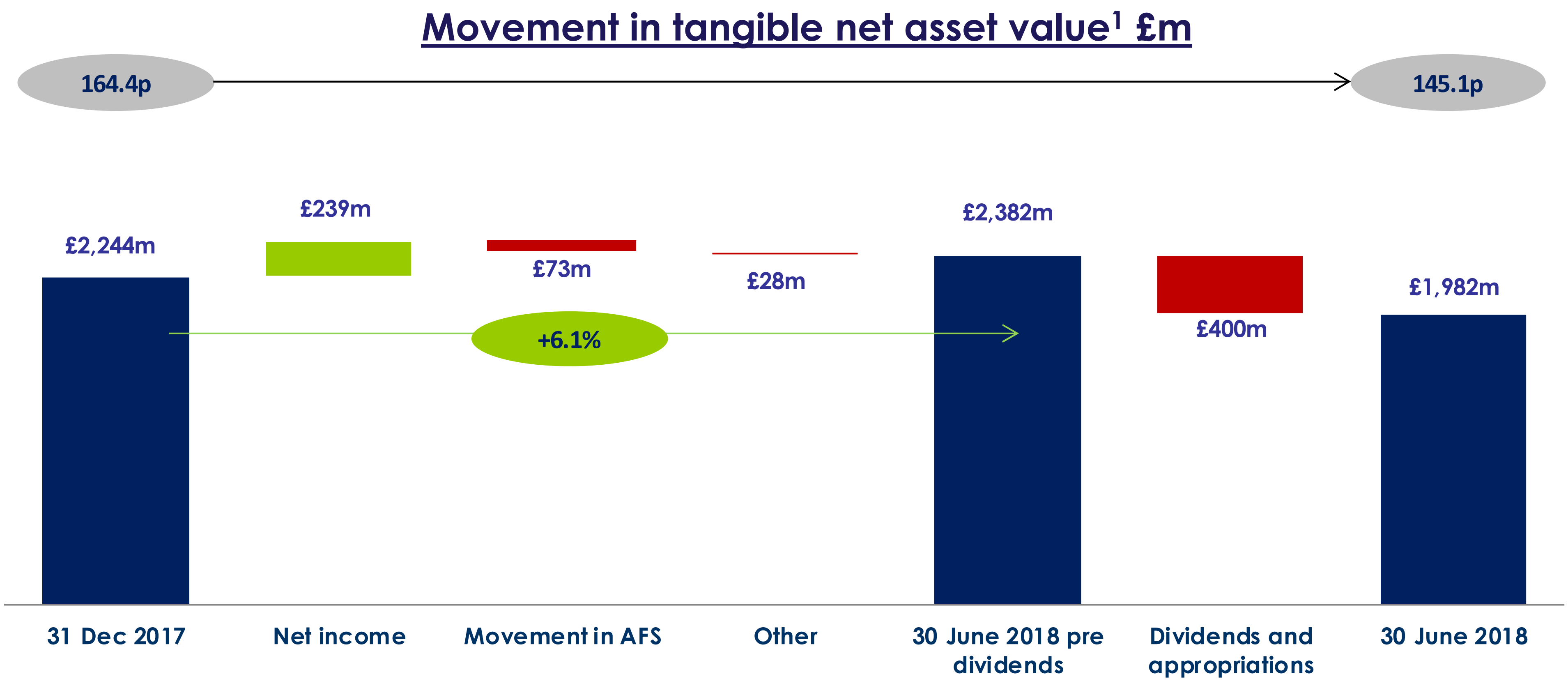
1. See glossary for definitions
2. Figures are estimated and based on partial internal model (PIM) output for 30 June 2018

Solvency sensitivity analysis



1. The PPO real discount rate used is an actuarial judgement which is reviewed annually based on the economic outlook for wage inflation relative to the EIOPA discount rate curve
2. These sensitivities only include the assessed impact of the above scenarios in relation to AFS investments

Book value and TNAV



pence	30 June 2018	31 December 2017
Net asset value per share	181.7	198.9
Tangible net asset value per share	145.1	164.4

- **Dividends and appropriations represented the FY dividends paid in H1 2018 and the coupon on the RT1 debt issued in H2 2017**
- **Total unrealised AFS reserves of £7.7m (net of tax) as at 30 June 2018. Reduction since December 2017 predominantly due to widening credit spreads**

1. See glossary for definitions

Balance sheet summary

(£m unless stated)	31 December 2015	31 December 2016	31 December 2017	30 June 2018
Goodwill and other intangible assets	524.8	508.9	471.1	500.0
Financial investments	5,614.6	5,147.0	5,040.4	4,996.5
Cash and cash equivalents	963.7	1,166.1	1,358.6	1,000.5
Assets held for sale	5.1	3.8	4.2	-
Reinsurance assets	1,011.4	1,371.8	1,178.5	1,191.2
Other assets	1,837.0	1,914.1	1,895.4	1,839.6
TOTAL ASSETS	**9,956.6**	**10,121.7**	**9,948.2**	**9,527.8**
Subordinated liabilities	521.1	539.6	264.7	260.9
Unearned premium reserve	1,476.6	1,547.9	1,600.3	1,545.2
Insurance liabilities	4,524.5	4,666.6	4,225.7	4,152.0
Borrowings	61.3	55.3	54.1	63.3
Other liabilities	743.1	790.8	741.8	677.8
TOTAL LIABILITIES	**7,326.6**	**7,600.2**	**6,886.6**	**6,699.2**
Shareholders' equity	2,630.0	2,521.5	2,715.1	2,482.1
Tier 1 notes	-	-	346.5	346.5
EQUITY	**2,630.0**	**2,521.5**	**3,061.6**	**2,828.6**
Closing number of Ordinary shares (m)	1,368.7	1,365.1	1,365.1	1,365.7
Net asset value per share (pence)	192.2	184.7	198.9	181.7
Tangible net asset value per share (pence)	153.8	147.4	164.4	145.1

RoTE and EPS calculation

RoTE calculation

(£m)	H1 2018	H1 2017
Profit after tax	238.8	275.5
Coupon payments in respect of Tier 1 notes	(8.3)	-
Profit attributable to ordinary shareholders	**230.5**	**275.5**
Tangible equity b/f	2,244.0	2,012.6
Tangible equity c/f	1,982.1	2,137.1
Average tangible equity	2,113.1	2,074.8
Return on tangible equity annualised	**21.8%**	**26.6%**

EPS calculation

(£m)	H1 2018	H1 2017
Profit after tax	238.8	275.5
Coupon payments in respect of Tier 1 notes	(8.3)	-
Profit attributable to ordinary shareholders	**230.5**	**275.5**
Weighted average number of ordinary shares	1,366.5	1,365.5
EPS – Adjusted basic (pence)	**16.9**	**20.2**
Weighted average number of ordinary shares (diluted)	1,381.0	1,378.2
EPS – Adjusted diluted (pence)	**16.7**	**20.2**

1. See glossary for definitions

Financial summary: H1 2018

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total Group
GWP	839.8	290.7	209.9	269.9	**1,610.3**
Net earned premium	765.8	354.6	205.5	233.7	**1,559.6**
Net insurance claims	(463.6)	(229.4)	(144.6)	(130.9)	**(968.6)**
Commission expenses	(13.6)	(38.1)	(8.7)	(40.8)	**(101.2)**
Operating expenses	(186.8)	(89.2)	(48.6)	(56.6)	**(381.2)**
Underwriting profit / (loss)	**101.8**	**(2.1)**	**3.5**	**5.4**	**108.6**
Investment return	65.4	9.7	3.2	17.1	**95.4**
Instalment and other operating income	70.8	13.5	8.2	6.6	**99.1**
Operating profit / (loss)	**238.0**	**21.1**	**14.9**	**29.1**	**303.1**
Finance costs	-	-	-	-	**(9.3)**
Profit before tax	**-**	**-**	**-**	**-**	**293.8**
Tax	-	-	-	-	**(55.0)**
Profit after tax	**-**	**-**	**-**	**-**	**238.8**
Loss ratio – current year	78.5%	71.7%	73.2%	72.5%	**75.3%**
Loss ratio – prior year	(18.0%)	(7.0%)	(2.8%)	(16.5%)	**(13.2%)**
Commission ratio	1.8%	10.7%	4.2%	17.5%	**6.5%**
Expense ratio	24.4%	25.2%	23.7%	24.2%	**24.4%**
Combined operating ratio	**86.7%**	**100.6%**	**98.3%**	**97.7%**	**93.0%**

1. See glossary for definitions

Financial summary: H1 2017

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total Group
GWP	824.4	388.1	213.3	268.4	**1,694.2**
Net earned premium	707.8	397.0	209.0	233.7	**1,547.5**
Net insurance claims	(393.9)	(190.7)	(135.7)	(127.1)	**(847.4)**
Commission expenses	(18.3)	(67.4)	(10.5)	(41.9)	**(138.1)**
Operating expenses	(185.0)	(94.4)	(49.9)	(55.6)	**(384.9)**
Underwriting profit / (loss)	**110.6**	**44.5**	**12.9**	**9.1**	**177.1**
Investment return	62.6	11.2	2.4	16.8	**93.0**
Instalment and other operating income	66.2	11.8	7.3	4.3	**89.6**
Operating profit / (loss)	**239.4**	**67.5**	**22.6**	**30.2**	**359.7**
Finance costs	-	-	-	-	**(18.3)**
Profit before tax	**-**	**-**	**-**	**-**	**341.4**
Tax	-	-	-	-	**(65.9)**
Profit after tax	**-**	**-**	**-**	**-**	**275.5**
Loss ratio – current year	81.7%	52.3%	63.9%	66.0%	**69.4%**
Loss ratio – prior year	(26.0%)	(4.3%)	1.0%	(11.6%)	**(14.6%)**
Commission ratio	2.6%	17.0%	5.0%	17.9%	**8.9%**
Expense ratio	26.1%	23.8%	23.9%	23.8%	**24.9%**
Combined operating ratio	**84.4%**	**88.8%**	**93.8%**	**96.1%**	**88.6%**

1. See glossary for definitions

Direct Line Group

UK regulatory themes

FCA review of pricing practices

- The FCA launched a review of pricing practices in General Insurance in its 2017 Business Plan. It aims to develop a comprehensive understanding of how insurers set the price for consumers.
- DLG has been involved in the work, with numerous information requests and meetings to discuss use of data, complaints and rating factors.
- The ABI and BIBA published joint principles and action points, which will be evaluated after two years.

Civil Liability Bill

- Following last year's change in the discount rate from 2.5% down to negative 0.75%, the methodology for setting the rate in future is detailed in the Civil Liability Bill, which has passed through the House of Lords with minor amendments to facilitate an initial review of the rate after the Bill is passed, and to review a minimum of every five years thereafter.
- The Bill also includes measures to lower the number and cost of whiplash claims. These have been criticised by the Justice Select Committee and may be subject to amendments during its passage through the Commons.

Access to travel insurance

- The FCA will facilitate creation of a signposting service for consumers of travel insurance with pre-existing medical conditions or who are declined cover, or where the cover is prohibitively expensive.
- The service will be mandatory for all insurers, intermediaries and price comparison websites.
- Communication improvements will also be considered to make pricing and decisions more transparent to consumers.

Review of EUMID

- At present, the Road Traffic Act requires motor insurance to be in place for vehicles intended for or adapted for road use or in a public place which is not compliant with the EU Motor Insurance Directive. This has been highlighted by a number of Court of Justice of the European Union cases.
- The European Commission has proposed changes to the Directive including clarification of what is meant by 'use of a vehicle'.

FCA value measures pilot

- A pilot 'scorecard' publishing measures of product value is underway.
- Firms' claims frequency, acceptance and average payment for a small selection of products has been published on the FCA website for the past two years although changes were made to the parameters in the second year so the results are less comparable.
- The FCA will confirm in Q3 2018 whether there will be a 3rd year pilot or a consultation on a more permanent solution.

Glossary of terms

Term	Definition
Combined operating ratio ("COR")	The sum of the loss, commission and expense ratios. The ratio measures the amount of claims costs, commission and operating expenses, compared to net earned premium generated. A ratio of less than 100% indicates profitable underwriting. Normalised COR adjusts loss and commission ratios for a normal level of major weather events in the period.
Commission ratio	The ratio of commission expense divided by net earned premium.
Current-year attritional loss ratio	The loss ratio for the current accident year, excluding the movement of claims reserves relating to previous accident years, and claims relating to major weather events
Direct own brands	Direct own brands include Home and Motor under the Direct Line, Churchill and Privilege brands, Rescue under the Green Flag brand and Commercial under the Direct Line for Business brand.
Earnings per share	The amount of the Group's profit after deduction of the Tier 1 coupon payments allocated to each Ordinary Share of the Company.
Expense ratio	The ratio of operating expenses divided by net earned premium.
Investment income yield	The income earned from the investment portfolio, recognised through the income statement during the period, and divided by the average AUM. This excludes unrealised and realised gains and losses, impairments, and fair-value adjustments. The average AUM derives from the period's opening and closing balances for the total Group.
Investment return	The return earned from the investment portfolio, including unrealised and realised gains and losses, impairments and fair value adjustments.
Investment return yield	The return earned from the investment portfolio, recognised through the income statement during the period divided by the average AUM. This includes unrealised and realised gains and losses, impairments, and fair-value adjustments. The average AUM derives from the period's opening and closing balances.
Loss ratio	Net insurance claims divided by net earned premium.
Net investment income yield	The net investment income yield is calculated in the same way as investment income yield but includes the cost of hedging
Operating profit	The pre-tax profit that the Group's activities generate, including insurance and investments activity, but excluding finance costs.

Direct Line Group

Glossary of terms

Term	Definition
Return on tangible equity ("RoTE")	Return on tangible equity is profit after tax from total group operations after deduction of the Tier 1 coupon payments, divided by the Group's average shareholders' equity, less goodwill and other intangible assets.
Solvency capital ratio	The ratio of Solvency II own funds to the solvency capital requirement.
Solvency II	The capital adequacy regime for the European insurance industry, which became effective on 1 January 2016. It establishes capital requirements and risk management standards. It comprises three pillars: Pillar I, which sets out capital requirements for an insurer; Pillar II, which focuses on systems of governance; and Pillar III, which deals with disclosure requirements.
Total costs	Total costs comprise operating expenses and claims handling expenses.
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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General disclaimer

Forward-looking statements

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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 outcome of negotiations in relation to 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.

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