



*peace of mind*

now and  
in the future



*2019 Preliminary results presentation*

3 March 2020



**Privilege.**

*Darwin.*



# Today's speakers

**Penny James**  
**CEO**



**Tim Harris**  
**CFO**



# 2019 highlights

1  
**Good financial performance  
in 2019**

2  
**Great delivery of our  
transformation agenda**

3  
**Clear and focused plans for  
2020**



# We have clear vision, purpose and strategic objectives



# Financials

Delivering our ambition

**Tim Harris**  
**CFO**



# 2019 financial highlights

1

Direct own brands growth

1.4%

To 7.3m in-force policies

2

Beat £700m expense target

£694m

Operating expenses

3

Delivered our COR target

93.5%<sup>1</sup>

Reported COR 92.2%

4

Grew current year contribution<sup>2</sup>

39%

Of normalised operating profit from current year<sup>2</sup>

5

Strong shareholder returns

£447m

£297m regular dividend  
£150m share buy-back  
SCR coverage 165%<sup>3</sup>

# 2019 results summary

## Delivering our ambition

Group results £m	2019	2018 restated	Change
Gross written premiums	3,203	3,212	(0.3%)
<i>Of which direct own brands</i>	2,228	2,229	0.0%
Net earned premiums	2,985	3,090	(3.4%)
Operating expenses	(694)	(718)	3.3%
<b>Underwriting result</b>	<b>232</b>	<b>260</b>	<b>(10.7%)</b>
<i>Of which prior year releases</i>	295	404	(27.2%)
Instalment and other income	180	192	(6.1%)
Investment return	135	155	(12.9%)
<b>Operating profit</b>	<b>547</b>	<b>606</b>	<b>(9.8%)</b>
Restructuring and one –off costs	(11)	-	-
<b>Combined operating ratio (COR)</b>	<b>92.2%</b>	<b>91.6%</b>	<b>(0.6pt)</b>
<b>COR adjusted for normal weather and Ogden rate changes</b>	<b>93.5%</b>	<b>93.3%</b>	<b>(0.2pts)</b>
<b>RoTE</b>	<b>20.8%</b>	<b>21.6%</b>	<b>(0.8pts)</b>

- Gross written premiums broadly stable
- Underwriting result lower than 2018 due to lower prior year releases, in part due to Ogden
- Combined operating ratio (normalised) was towards the lower end of our 93%-95% target range
- RoTE of 20.8%, ahead of the 15% target

Significant items £m	2019	2018
Ogden discount rate change	(17)	55
Bristol office sale	-	10
Investment gains	10	26
<b>Total</b>	<b>(7)</b>	<b>91</b>
<b>Event weather</b>	<b>(6)</b>	<b>(75)</b>

# 2019 group ratios

## Improved current year loss ratio

Group ratios	2019	2018 restated
Current year attritional loss ratio	<b>71.6%</b>	72.6%
Major weather events	<b>0.2%</b>	2.4%
Prior year releases	<b>(9.9%)</b>	(13.1%)
<b>Loss ratio</b>	<b>61.9%</b>	<b>61.9%</b>
Expense ratio	<b>23.2%</b>	23.2%
Commission ratio	<b>7.1%</b>	6.5%
<b>Combined operating ratio</b>	<b>92.2%</b>	<b>91.6%</b>
<b>Combined operating ratio adjusted for normal weather and Ogden</b>	<b>93.5%</b>	<b>93.3%</b>

- Current year attritional loss improved by 1.0 percentage point primarily driven by escape of water in Home with small improvements in Motor, RoPL and Commercial
- Major weather events totalled £6m in 2019 compared with £75m in 2018
- Prior year releases reduced by £110m but continued to be significant at £295m. £17m increase in reserves in 2019 due to change in Ogden discount rate (£51m release in 2018)
- Expense ratio flat as lower costs were offset by lower earned premiums
- Commission ratio increases driven by higher profit share payments and higher PCW volumes



# In-force policies

## Motor returned to growth in H2 2019

In-force policies	Dec '19 000's	Change %
Motor own brands	3,921	(0.7%)
Home own brands	1,765	(1.3%)
Green Flag	1,063	13.7%
Commercial own brands	541	5.3%
<b>Direct own brands</b>	<b>7,290</b>	<b>1.4%</b>
Motor and Home partners	951	(5.5%)
Other rescue and personal lines	6,314	(4.9%)
NIG and other	234	(2.9%)
<b>Total Group</b>	<b>14,789</b>	<b>(1.9%)</b>

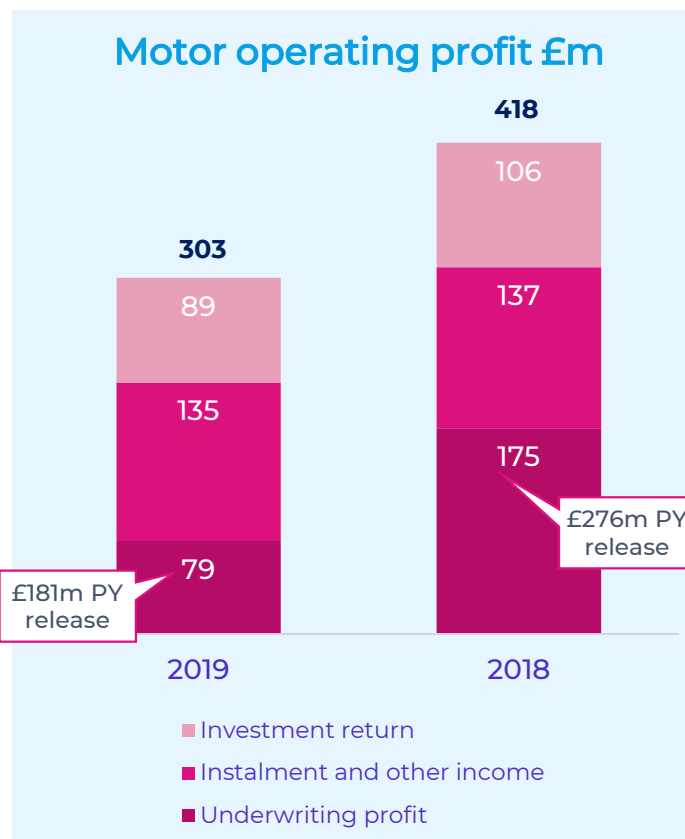
- Motor own brands in-force policies stabilised in Q3 and returned to growth in Q4
- Home own brand in-force policies were stable in Q4
- Green Flag delivered strong growth throughout the year, passing the 1 million milestone in Q3
- Commercial own brands includes Direct Line for Business and products sold under the Churchill brand. Direct Line for Business continued to grow following further product launches on its new digital trading platform

# Motor

## Strong result reflects underwriting discipline

Trading metrics	2019	2018
Change in GWP	<b>(1.2%)</b>	0.0%
Change in price	<b>3.1%</b>	0.6%
Change in risk mix	<b>(3.7%)</b>	(1.5%)
Change in IFPs	<b>(1.2%)</b>	1.9%

- Pricing actions reflect underwriting discipline and initiatives supporting new business competitiveness
- Reduction in risk mix partly reflects actions taken on application fraud
- Underlying claims severity inflation remained towards the top of the 3%-5% range
- Claims frequency was below expectations

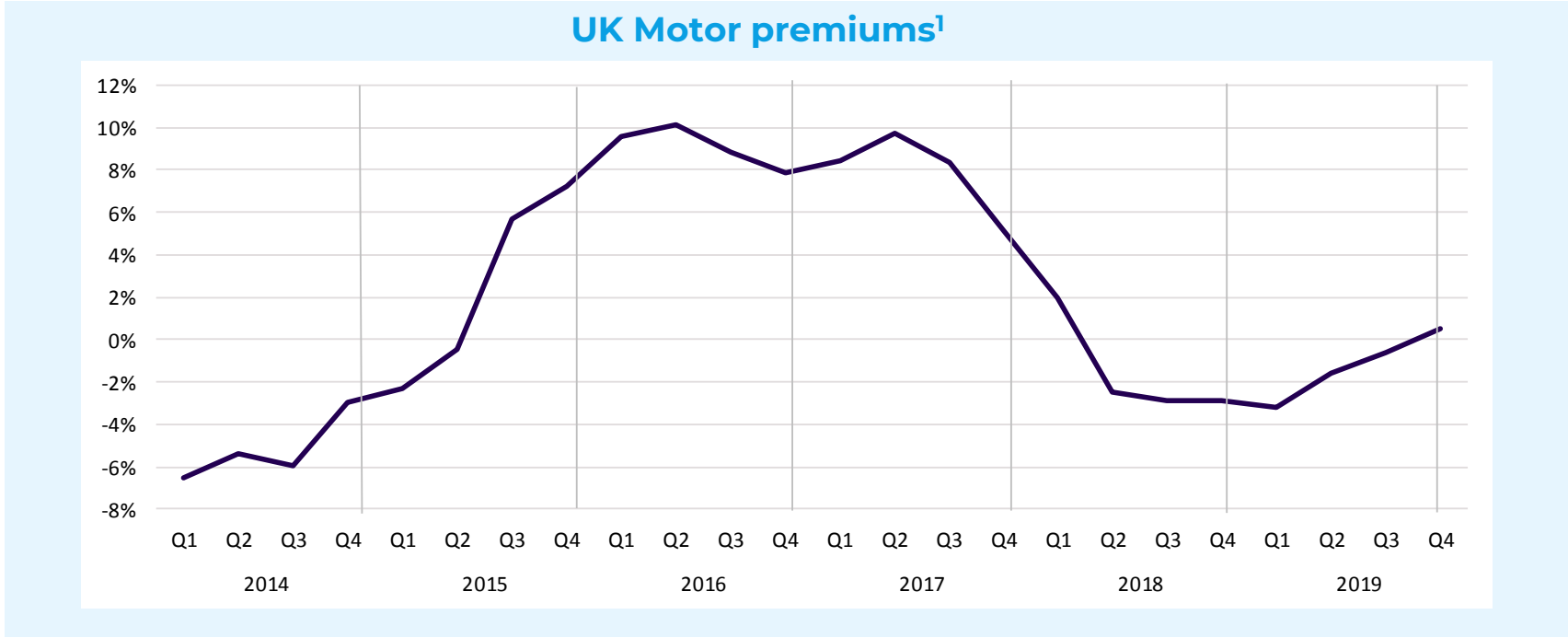


Key ratios	2019	2018 restated
Current year loss ratio	<b>81.2%</b>	81.4%
Prior year ratio	<b>(11.9%)</b>	(17.9%)
Loss ratio	<b>69.3%</b>	63.5%
Commission ratio	<b>2.6%</b>	2.0%
Expense ratio	<b>22.9%</b>	23.1%
<b>COR</b>	<b>94.8%</b>	<b>88.6%</b>

- Current year loss ratio broadly stable due to lower frequency and actions taken on application fraud
- Prior year releases were £96m lower as 2018 included a £48m prior year release due to change in Ogden discount rate. 2019 includes £16m strengthening
- Higher commission ratio reflects the earn through of higher PCW volumes

# Motor

## Market pricing shows some improvement



1. ABI UK Motor premiums year on year adjusted to remove impact of changes to IPT

# Motor claims

## Vertical integration provides greater visibility and control



Peril	Proportion of gross claims cost	Underlying experience versus our long-term expectation	
		Frequency	Severity
Damage	c. 59%		
Small BI	c. 23%		
Large BI	c. 18%		

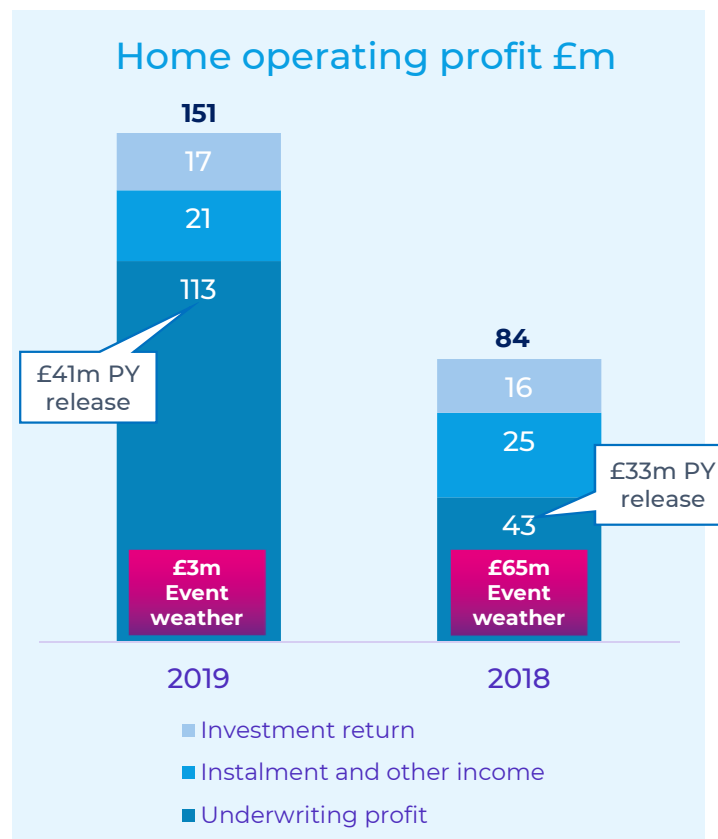
- 2019 frequency was better than our expectations and more in line with 2017. 2018 was elevated due to weather conditions
- We've taken actions on application fraud and our claims fraud detection rates have increased
- c. 50% of damage repairs are carried out in-house through our network of 21 owned repair centres
- Managing third party claims and supply chain reduces claims leakage

# Home

## Strong result reflects benign weather and actions on EoW

Trading metrics (Own brands)	2019	2018
Change in GWP	<b>(1.2%)</b>	0.7%
Change in price	<b>2.0%</b>	3.5%
Change in risk mix	<b>(2.7%)</b>	(3.1%)
Change in IFPs	<b>(1.3%)</b>	(0.3%)

- Priced ahead of the market on new business
- Retention continued to be strong
- Own brand average premiums were 0.7% lower than 2018 reflecting changes in risk mix and tenure

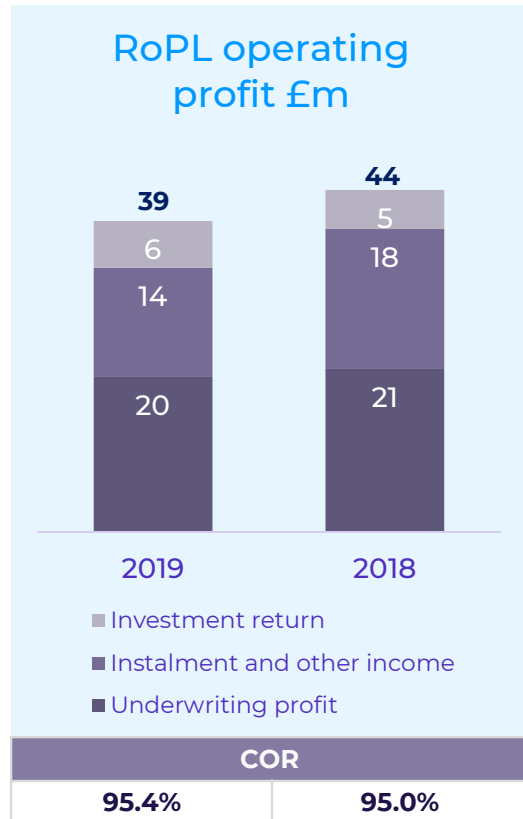


Key ratios	2019	2018 restated
Current year attritional loss ratio	<b>53.5%</b>	57.0%
Event weather	<b>0.5%</b>	9.7%
Prior year ratio	<b>(7.2%)</b>	(4.9%)
Loss ratio	<b>46.8%</b>	61.8%
Commission ratio	<b>9.7%</b>	9.4%
Expense ratio	<b>23.8%</b>	22.3%
<b>COR</b>	<b>80.3%</b>	<b>93.5%</b>
<b>COR normalised for weather</b>	<b>86.9%</b>	<b>91.6%</b>

- 3.5 point improvement in current year attritional loss ratio reflects actions taken on Escape of Water (EoW) claims and benign weather
- Increase in prior year releases due to favourable development in EoW
- Event weather was £3m versus £65m in 2018

# Rescue and other personal lines

## Rescue growth offset by losses in other personal lines

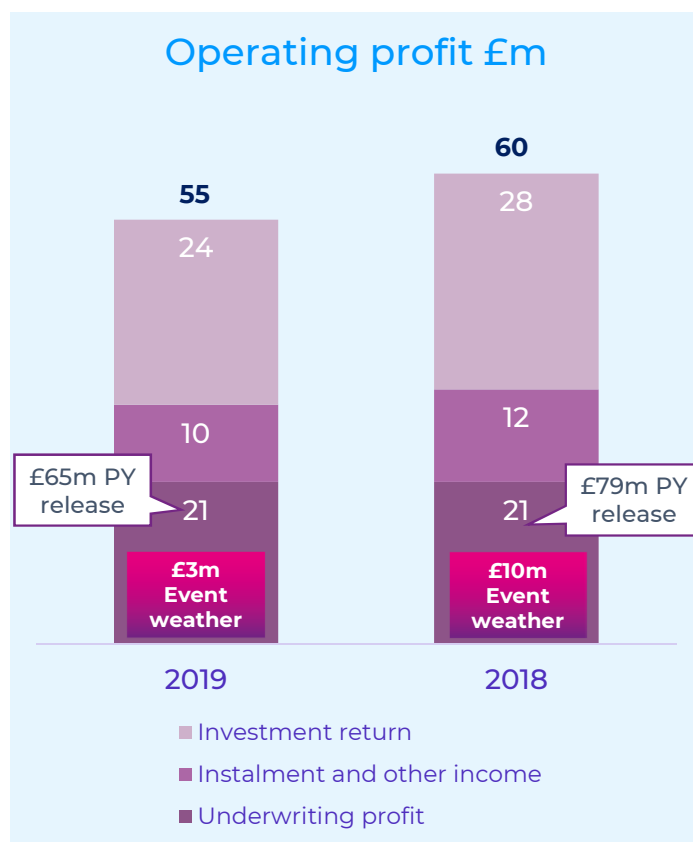


- Rescue is the largest product within RoPL
- Increase in Rescue profit driven by operational improvements and better claims experience
- Other personal lines include Pet, Travel and a mid-high net worth business, UK Select
- Reduction in other personal lines due to lower prior year releases in Travel and UK Select and higher large loss severity in UK Select
- RoPL maintained a COR of 95%



# Commercial

## Improved current year performance

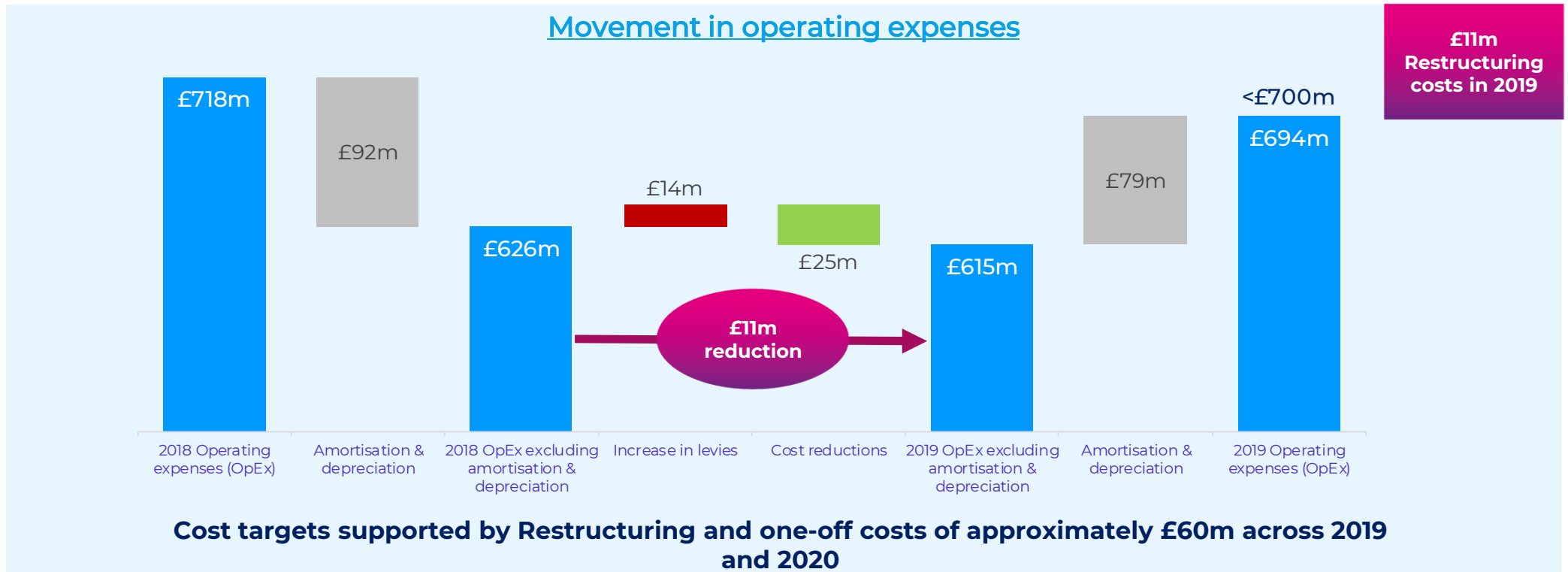


Key ratios	2019	2018 restated
Current year attritional loss ratio	<b>65.6%</b>	66.8%
Event weather	<b>0.7%</b>	2.1%
Prior year ratio	<b>(13.6%)</b>	(17.1%)
Loss ratio	<b>52.7%</b>	51.8%
Commission ratio	<b>18.5%</b>	18.9%
Expense ratio	<b>24.5%</b>	24.7%
<b>COR</b>	<b>95.7%</b>	<b>95.4%</b>
<b>COR normalised for weather</b>	<b>99.4%</b>	<b>97.7%</b>

- Focus on improving margins with strong rate carried in NIG
- Current year loss ratio improvement helped offset lower contribution from prior year releases
- Event weather below expectations; £3m in 2019 (2018 £10m)

# The changing shape and quality of our earnings

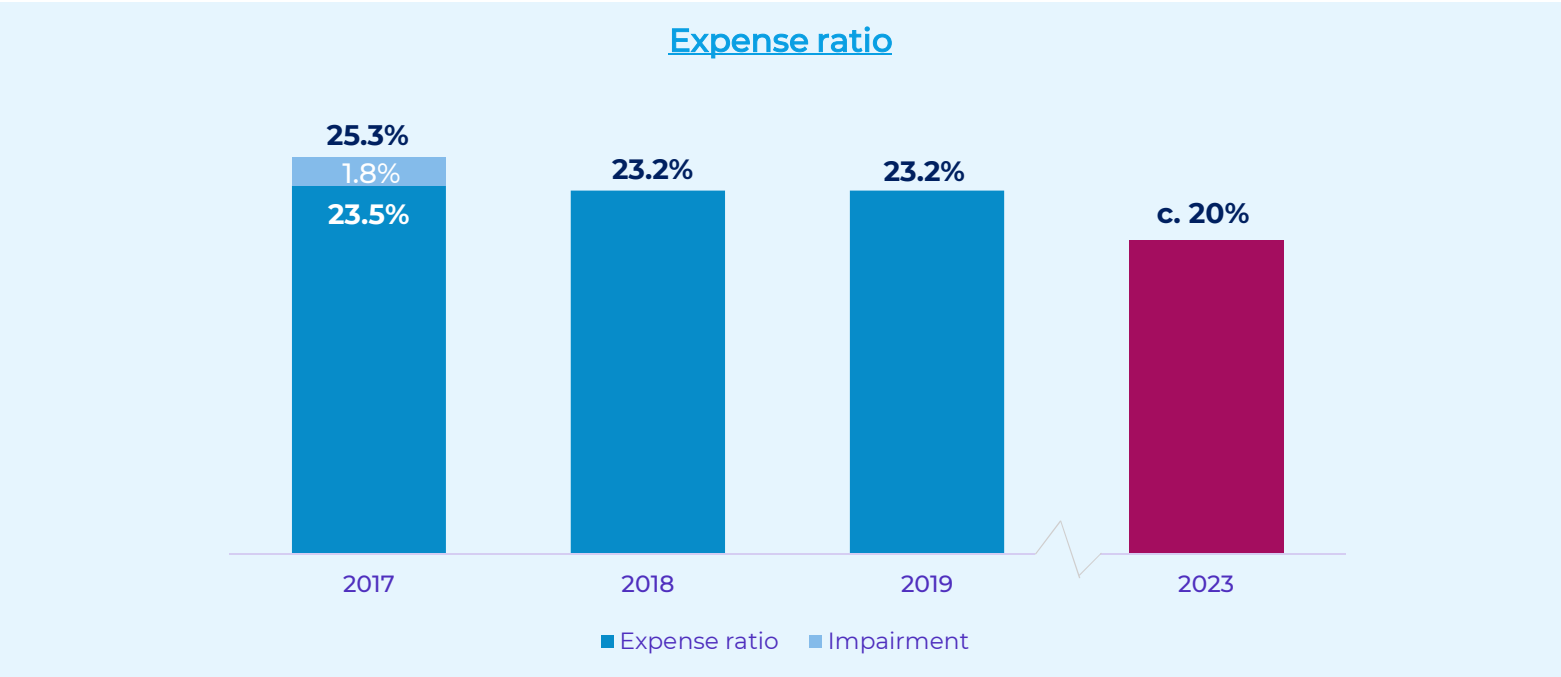
## Reducing operating expenses; targeting £50m reduction by 2021<sup>1</sup>





# The changing shape and quality of our earnings

## Reducing the expense ratio; targeting 20% by 2023



Expense ratio was flat in 2019 as lower costs were offset by lower earned premiums

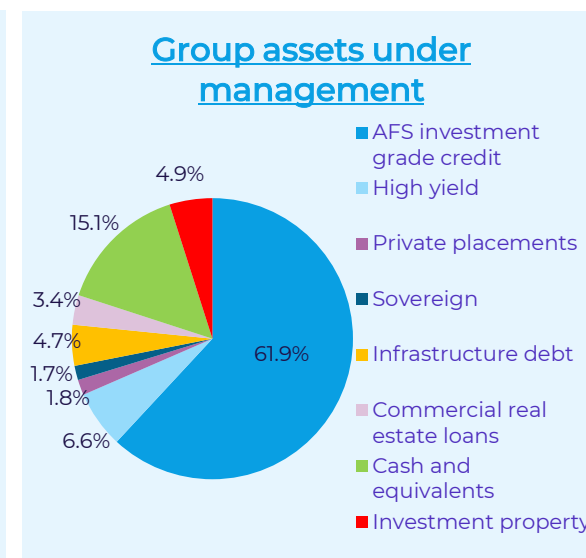
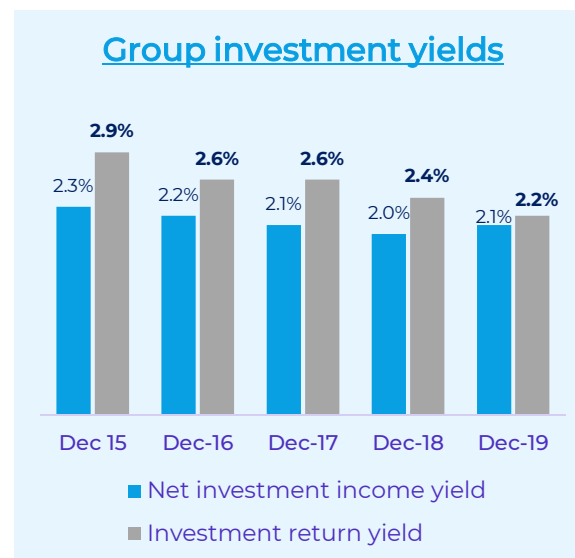


See notes on slide 34 and glossary of terms on slides 54 to 57

# Investment return

## 2.1% net investment income yield

Group investment returns	2019 £m	2018 £m
Investment income	<b>146.4</b>	159.2
Hedging to sterling floating rate	<b>(22.1)</b>	(30.8)
<b>Net investment income</b>	<b>124.3</b>	<b>128.4</b>
Net realised and unrealised gains ex. hedging	<b>10.3</b>	26.2
<i>Of which property fair value</i>	<b>(6.2)</b>	12.7
<b>Total investment return</b>	<b>134.6</b>	<b>154.6</b>
<b>Available for sale reserve net of tax</b>	<b>47.5</b>	<b>(36.8)</b>

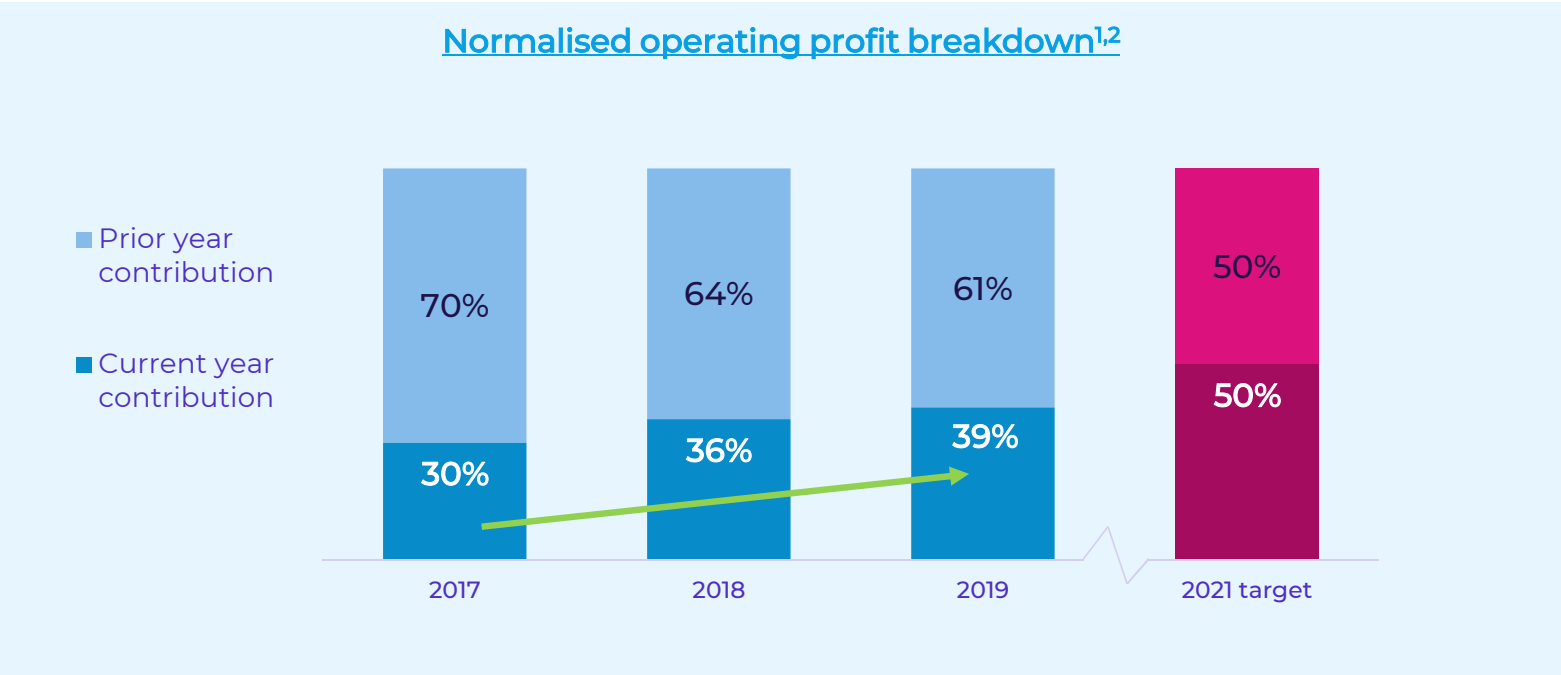


- Total investment return of £135m, £20m lower than prior year principally due to lower realised gains including property fair value
- £4m reduction in net investment income driven by lower assets under management
- Net investment yield of 2.1%, 0.1pts higher than 2018

**We expect to achieve net investment income yield of approx. 2.0% in 2020 with minimal gains**

# Changing shape and quality of our earnings

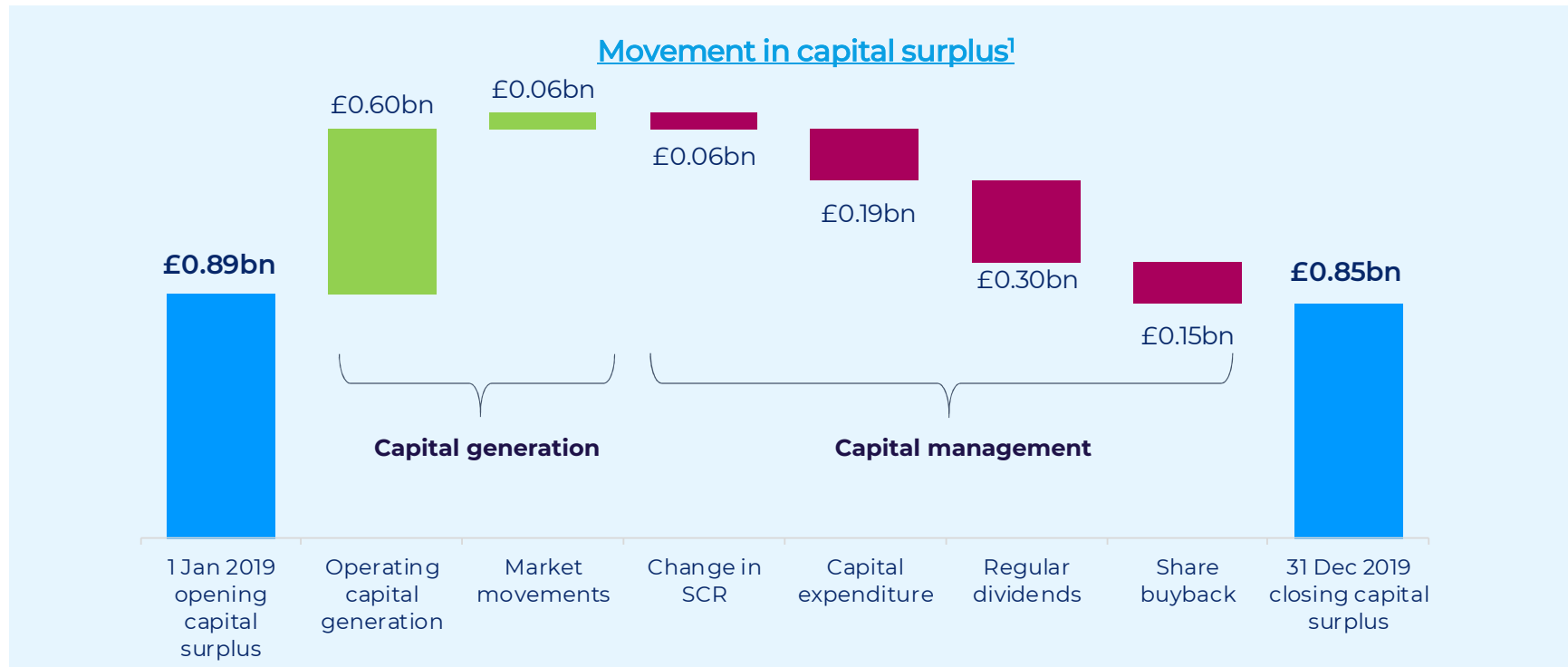
## Growth in contribution from current year profit



1. Group operating profit normalised for weather, and Ogden rate changes, excluding restructuring and one-off costs  
 2. 2017 and 2018 restated having adjusted for Ogden current year and the removal of restructuring and one-off costs  
 See notes on slide 34 and glossary of terms on slides 54 to 57

# Capital and balance sheet management

## Strong conversion of earnings to distributable capital



**We expect capital expenditure to be approx. £150m in 2020 and around £100m in 2021**

# Capital and balance sheet management

## Solvency ratio strong at 165% after capital distributions

### Regular dividend

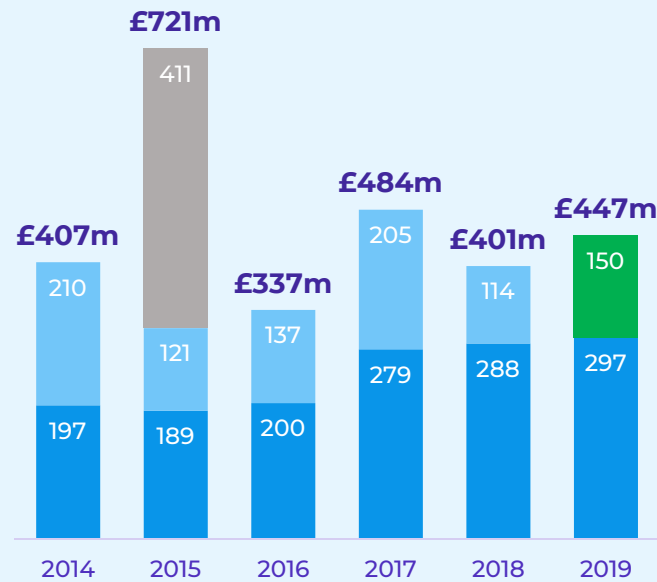
Final regular dividend of 14.4p pence, an increase of 2.9% compared to 2018

### Buybacks

Announcing a £150m share buyback

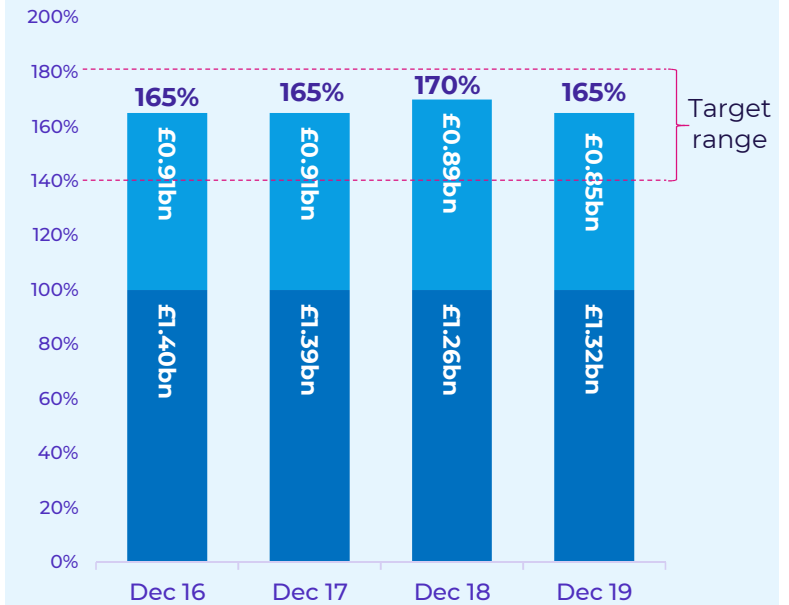
### Capital distributions

■ Regular dividends £m   ■ Special dividends £m  
■ Int'l disposal £m   ■ Share buyback £m



### Solvency ratio<sup>1</sup>

■ Required capital £bn   ■ Surplus capital £bn



# Financial outlook

## Reiterating our targets

1

**Operating expenses**

**£50m reduction by 2021<sup>1</sup>**

**Expense ratio of 20% in 2023**

2

**Current year operating profit**

**At least 50% by 2021<sup>2</sup>**

3

**Combined operating ratio**

**93% - 95% throughout the medium term<sup>3</sup>**

4

**Return on tangible equity (ROTE)**

**At least 15% per annum over the long term**

# Strategy

Leveraging our customer focus  
with new technology

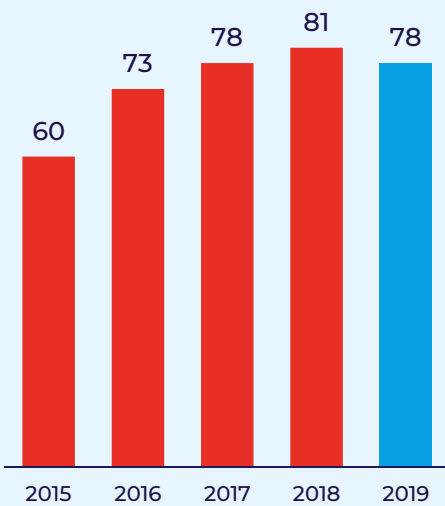
**Penny James**  
**CEO**



# Focused on delivering good outcomes for all key stakeholders

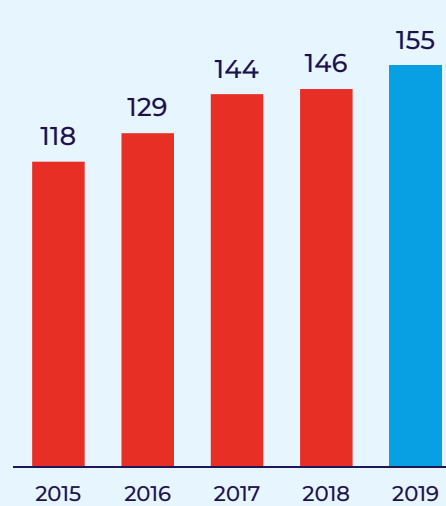
## DLG has a highly engaged workforce

Highly engaged, %



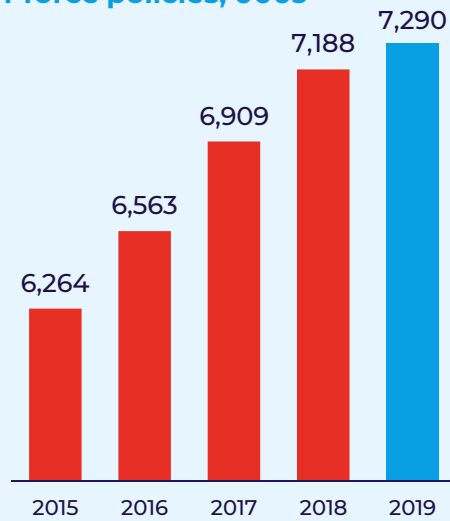
## Driving improved net promotor scores

Direct Line NPS<sup>1</sup>, indexed to 2013



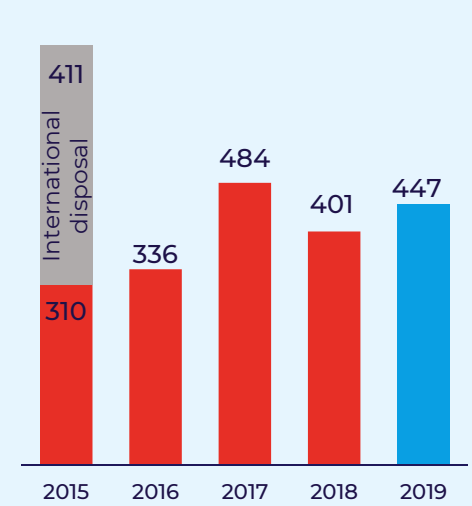
## Leading to growth across our direct own brands

In-force policies, 000s



## Driving sustainable returns to shareholders

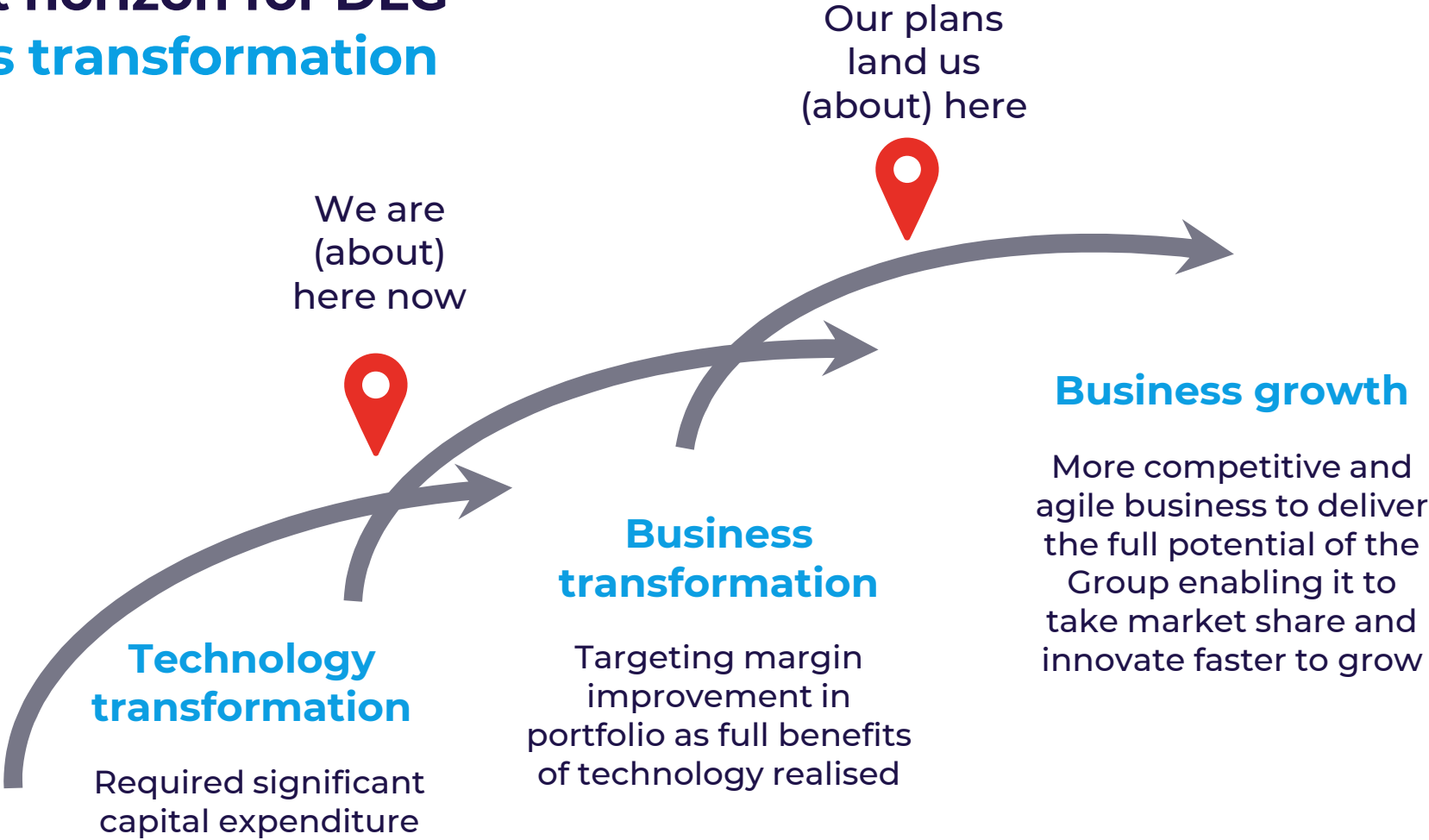
Capital returns, £m





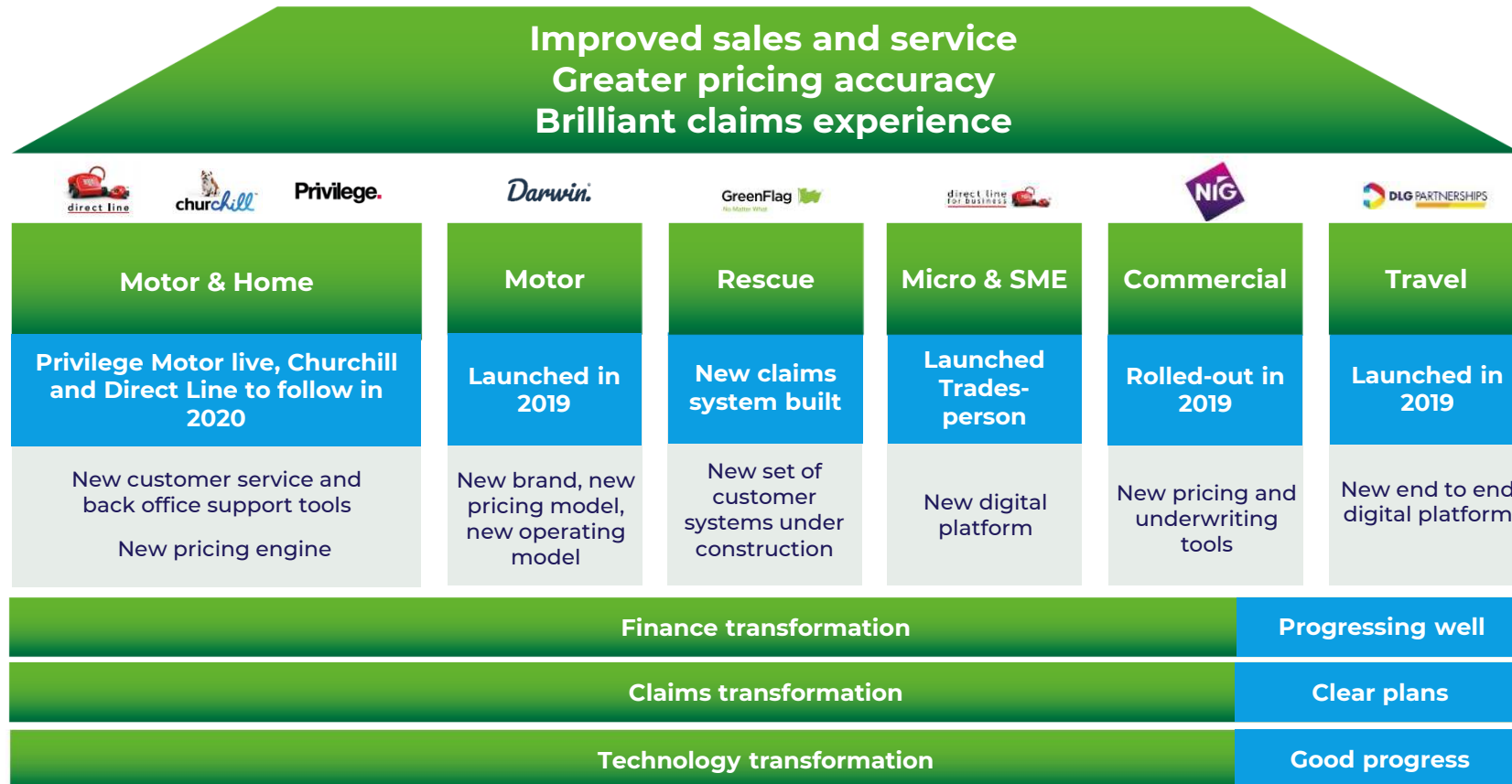
# The next horizon for DLG

## Business transformation



# Building a better business

## Technology a key enabler across brands, channels and products



# Good progress across our strategic objectives

## Easy to use and accessible everywhere

### Best at Direct

#### Why?

A direct relationship with our customers provides opportunity for profitable growth by meeting a broader set of customer needs; and the foundation for future product and service innovation

#### 2019 Achievements

- ✓ Direct Line: Best ever NPS
- ✓ Green Flag: Passed 1 million policies
- ✓ Direct Line for Business: New Tradesperson proposition launched

### Win on PCWs

#### Why?

Price comparison websites will continue to be the biggest market for new business and therefore our primary route for profitable growth

#### 2019 Achievements

- ✓ Privilege: Motor live on new platform and available on 4 PCWs
- ✓ Churchill: Relunched brand as PCW first
- ✓ Darwin: New Motor proposition launched on 2 PCWs

### Extend our reach

#### Why?

Our new platform makes it easier for us to onboard new books of business. We will use this to explore inorganic growth opportunities through partnerships and acquisitions

#### 2019 Achievements

- ✓ NatWest Travel: New platform rolled-out
- ✓ RBS Home: Grew 3 year proposition
- ✓ Starling Bank and YouMeCar: New partnerships

# Good progress across our strategic objectives

## Key enablers

### Technical edge

#### Why?

To create a great experience for our customers and sustainable competitive advantage for us by better utilising our scale advantage in repair, data and claims insight and management

#### 2019 Achievements

- ✓ **Motor: New pricing models and rating factors deployed**
- ✓ **Motor: Extended owned repair centres to 21**
- ✓ **Home: Escape of Water cost control**

### Nimble and cost efficient

#### Why?

To bring our cost base in line with the market to compete better, in particular through PCWs and partnerships. We will introduce new ways of working to exploit our advantages within each product and channel

#### 2019 Achievements

- ✓ **Costs: Delivered 2019 cost target**
- ✓ **Agile: Embedded new ways of working across a number of areas**
- ✓ **Organisational change: programme underway**

### Great people

#### Why?

As disruption in our market increases, we need to become brilliant at innovation and change. We can only do this by empowering and developing the best people.

#### 2019 Achievements

- ✓ **Women in Finance: 30% target achieved**
- ✓ **Talent: First cohort of graduates completed 3 year training programme**
- ✓ **Diversity: Neurodiversity, BAME, Disability and carers**

# Clear priorities as we go into 2020

## Purpose

We help people carry on with their lives, giving them peace of mind now and in the future.

## Strategic objectives

Best at direct

Win on price comparison websites

Extend our reach

Technical edge

Nimble and cost efficient

Great people

- Continue the development and roll-out of our ambitious and complex technology change
  - Prepare Direct Line and Churchill motor new business for new platform
  - Launch Darwin motor on two more PCWs
  - Launch Van on new Direct Line for Business platform
  - Begin roll-out of new Green Flag claims system
  - Continuing the re-engineering of our technology platform
- Launch and embed new ways of working
- Continue focus on delivering cost saves to deliver cost targets
- Launch new Direct Line creative campaign

## Key investment points

1

Strengths that  
are hard to  
replicate

2

Our customers  
and our people  
are at the heart  
of our business

3

Delivering tools  
and  
organisational  
change to  
increase  
competitiveness

4

Continuing our  
journey to  
improve quality  
of earnings

5

Strong balance  
sheet with  
further  
opportunities to  
improve its  
effectiveness

## Closing messages

1

Good financial performance in 2019

2

Great delivery of our transformation agenda

3

Clear and focused plans for 2020

# Questions



# APPENDIX

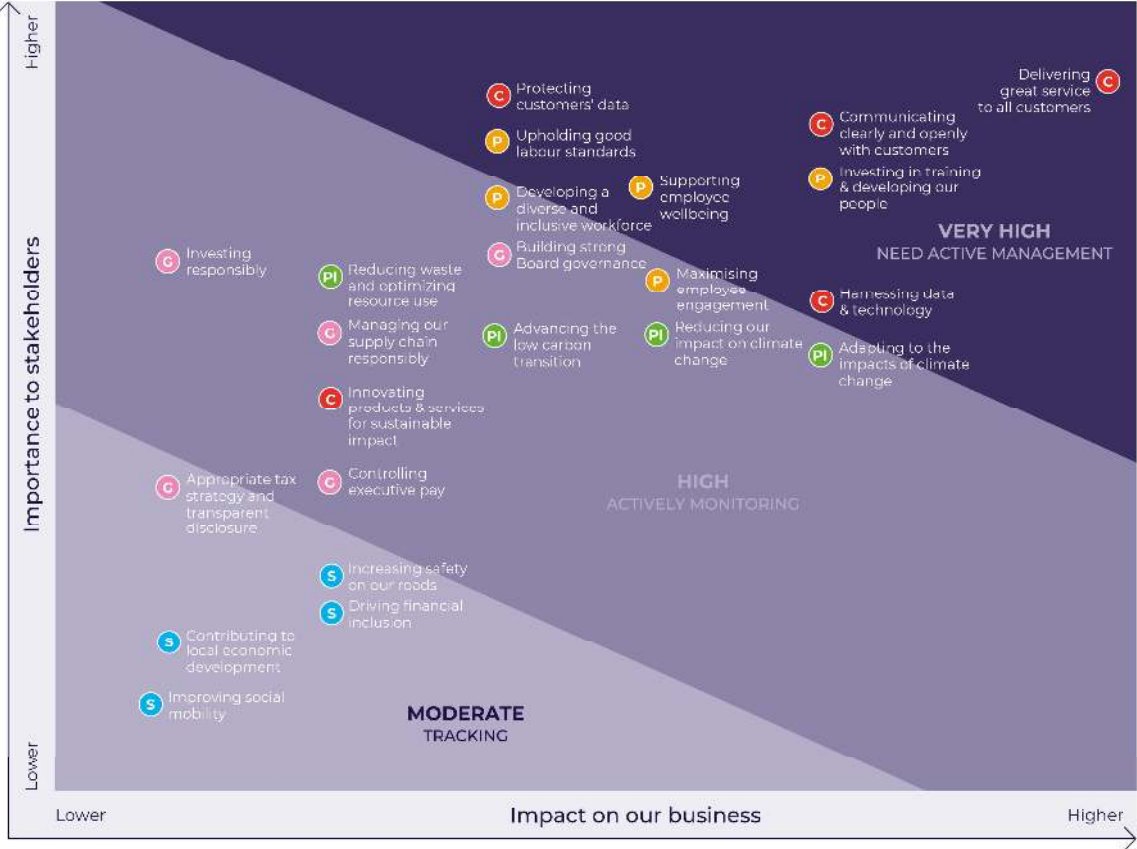
# Notes to financial disclosures

1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 23 to the consolidated financial statements in the preliminary results. For more information.
2. In-force policies, including direct own brands, as at 31 December 2018 have been restated to include 41,000 policies omitted from previously reported amounts.
3. Direct own brands include in-force policies for Home and Motor under the Direct Line, Churchill, Darwin and Privilege brands, Rescue policies under the Green Flag brand and Commercial policies under the Direct Line for Business and commercial products sold under the Churchill brand.
4. See glossary of terms on pages 54 to 57
5. The Group's dividend policy includes an expectation that generally one-third of the regular annual dividend will be paid in the third quarter as an interim dividend and two-thirds will be paid as a final dividend in the second quarter of the following year.

# Sustainability pillars – materiality matrix

- C** Our customers
- S** Our society
- PI** Our planet
- P** Our people
- G** Our governance

MATERIALITY MATRIX



# Good progress across our five sustainability pillars

## Customers

- Technology upgrades providing greater value and ease for customers
- Actively engaged with the FCA and support a level playing field
- Rebranded *Churchill*

## People

- Mental health first aiders on every floor in every site
- Diversity Network Alliance promoting diversity and inclusion
- 'Thrive' women's network expanded and helping support women's careers

## Society

- Working with the Parliamentary Advisory Council for Transport Safety (PACTS) on road safety
- Working with FiveAI and TRL to trial autonomous vehicles
- 'One Day' volunteering during company time, supporting local communities

## Planet

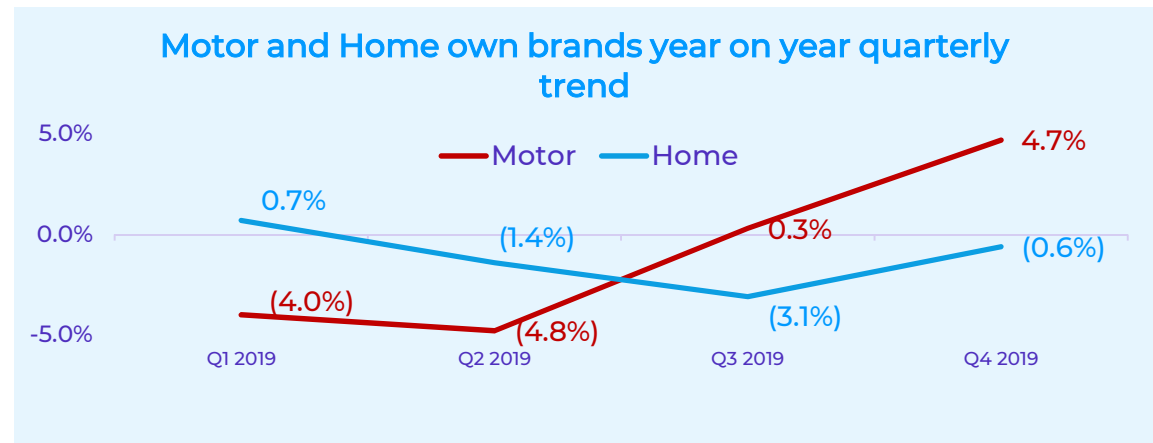
- 100% of investment grade corporate bond mandates have an ESG rating of 'A'
- Recycled 98% of our total waste and 100% of our electricity is from renewal sources
- Working with the Carbon Trust to set scientific based targets

## Governance

- Supplier prompt payment code
- Named Executives responsible for customer pricing
- Changes made to the Directors' Remuneration Policy

# Gross written premiums

Gross Written premiums	2019 £m	Change %
Motor own brands	1,592	(1.1%)
Home own brands	408	(1.2%)
Green Flag	79	13.5%
Commercial own brands	149	8.3%
<b>Direct own brands</b>	<b>2,228</b>	<b>(0.0%)</b>
Motor and Home partners	239	(7.0%)
Other rescue and personal lines	357	1.1%
NIG and other	380	1.7%
<b>Total Group</b>	<b>3,203</b>	<b>(0.3%)</b>



- Motor premiums returned to growth in H2 2019
- Home own brand premiums were 1.2% lower reflecting risk mix and channel shift towards PCW
- Green Flag delivered its third successive year of double-digit growth
- Commercial direct grew premiums by 8.3%

# Motor

	2019	2018 restated
<b>In-force policies (000s)</b>	<b>4,043</b>	<b>4,094</b>
Own brand in-force policies	3,921	3,950
Partnerships in-force policies	122	144
<b>Gross written premium £m</b>	<b>1,652</b>	<b>1,671</b>
Net earned premium £m	1,508	1,542
Loss ratio – current year	81.2%	81.4%
Loss ratio – prior years	(11.9%)	(17.9%)
Loss ratio	69.3%	63.5%
Commission ratio	2.6%	2.0%
Expense ratio	22.9%	23.1%
<b>Combined operating ratio</b>	<b>94.8%</b>	<b>88.6%</b>
<b>Underwriting profit £m</b>	<b>79</b>	<b>175</b>
<i>Of which prior year releases £m</i>	181	276
Instalment and other income £m	135	137
Investment return £m	89	106
<b>Operating profit £m</b>	<b>303</b>	<b>418</b>

# Home

	2019	2018 restated
<b>In-force policies (000s)</b>	<b>2,594</b>	<b>2,651</b>
Own brand in-force policies (000s)	1,765	1,789
Partnerships in-force policies (000s)	829	862
<b>Gross written premium £m</b>	<b>587</b>	<b>607</b>
Net earned premium £m	574	668
Loss ratio – current year attritional	53.5%	57.0%
Loss ratio – prior years	(7.2%)	(4.9%)
Loss ratio – major weather events	0.5%	9.7%
Loss ratio	46.8%	61.8%
Commission ratio	9.7%	9.4%
Expense ratio	23.8%	22.3%
<b>Combined operating ratio</b>	<b>80.3%</b>	<b>93.5%</b>
<b>COR Normalised for weather</b>	<b>86.9%</b>	<b>91.6%</b>
<b>Underwriting profit £m</b>	<b>113</b>	<b>43</b>
<i>Of which prior year releases £m</i>	41	33
Instalment and other income £m	21	24
Investment return £m	17	16
<b>Operating profit £m</b>	<b>151</b>	<b>84</b>

Normal weather assumed to be £46m in 2020

# Rescue and other personal lines

Rescue and other personal lines	2019	2018 restated
<b>In-force policies (000s)</b>	<b>7,377</b>	<b>7,573</b>
Rescue (000s)	3,450	3,532
Travel (000s)	3,648	3,759
Pet (000s)	157	156
Other personal lines (000s)	122	126
<b>Gross written premium £m</b>	<b>436</b>	<b>423</b>
Net earned premium £m	425	415
Loss ratio – current year	68.7%	70.7%
Loss ratio – prior years	(1.8%)	(3.9%)
Loss ratio	66.9%	66.8%
Commission ratio	6.4%	4.6%
Expense ratio	22.1%	23.6%
<b>Combined operating ratio</b>	<b>95.4%</b>	<b>95.0%</b>
<b>Underwriting profit £m</b>	<b>20</b>	<b>21</b>
<i>Of which prior year releases £m</i>	8	16
<b>Operating profit £m</b>	<b>39</b>	<b>44</b>

Rescue	2019	2018 restated
In-force policies (000s)	3,450	3,532
Of which Green Flag (000s)	1,063	935
<b>Gross written premium £m</b>	<b>168</b>	<b>163</b>
<b>Combined operating ratio</b>	<b>81.5%</b>	<b>85.0%</b>
<b>Operating profit £m</b>	<b>45</b>	<b>40</b>

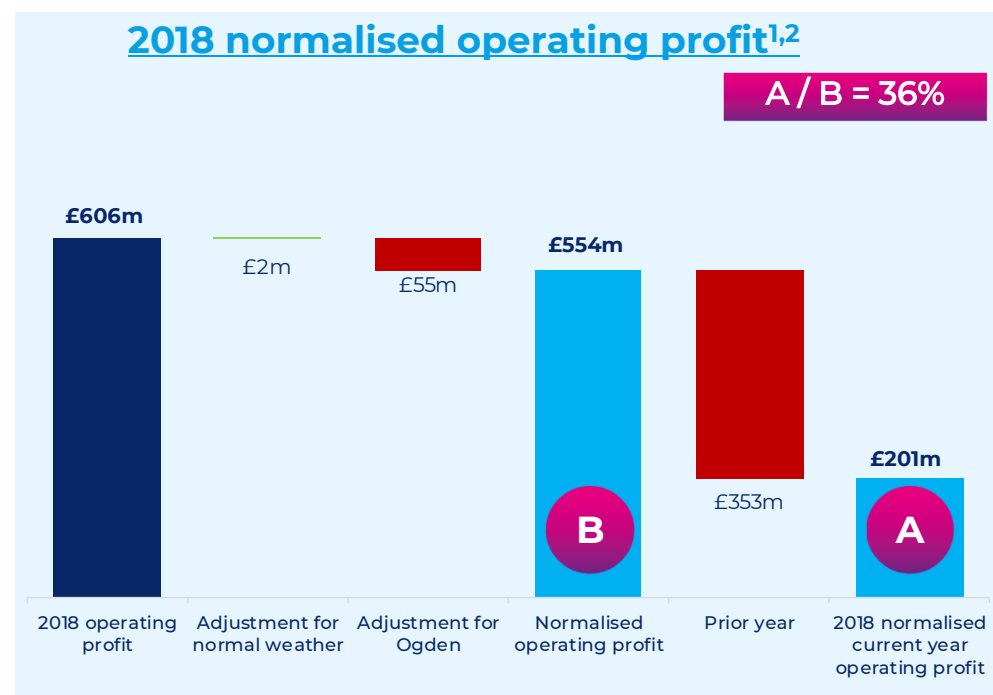
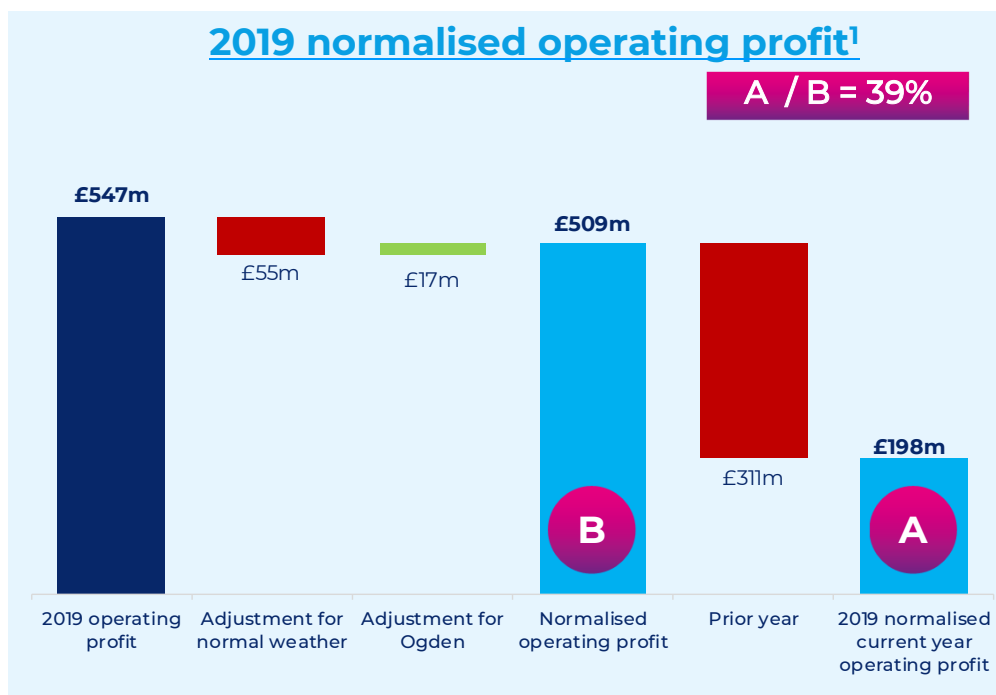


# Commercial

	2019	2018 restated
<b>In-force policies (000s)</b>	<b>775</b>	<b>755</b>
Own brands (000s)	541	514
NIG and other (000s)	234	241
<b>Gross written premium £m</b>	<b>529</b>	<b>511</b>
Net earned premium £m	478	465
Loss ratio – current year attritional	65.6%	66.8%
Loss ratio – prior years	(13.6%)	(17.1%)
Loss ratio – major weather events	0.7%	2.1%
Loss ratio	52.7%	51.8%
Commission ratio	18.5%	18.9%
Expense ratio	24.5%	24.7%
<b>Combined operating ratio</b>	<b>95.7%</b>	<b>95.4%</b>
<b>COR Normalised for weather</b>	<b>99.4%</b>	<b>97.7%</b>
<b>Underwriting profit £m</b>	<b>21</b>	<b>21</b>
<i>Of which prior year releases £m</i>	65	79
Instalment and other income £m	10	12
Investment return £m	24	28
<b>Operating profit £m</b>	<b>55</b>	<b>60</b>

Normal weather assumed to be £18m in 2020

# Current year contribution to operating profit



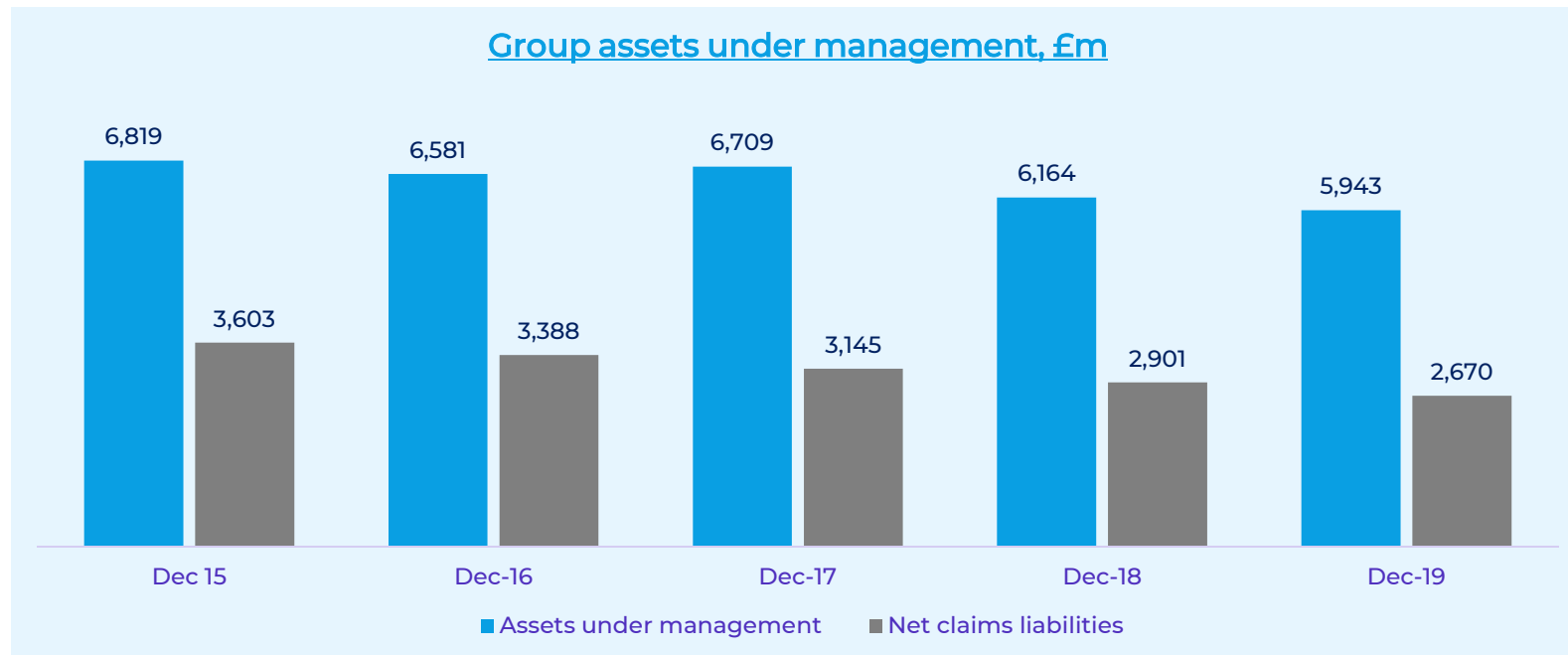
Ogden rate changes	31 Dec 2019	31 Dec 2018
Current year impact £m	-	4
Prior year impact £m	(17)	51
<b>Total £m</b>	<b>(17)</b>	<b>55</b>

# Balance sheet

Group balance sheet £m	Dec-19	Dec-18 restated
Goodwill and other intangible assets	703	567
Financial investments and cash	5,914	6,214
Reinsurance assets	1,251	1,209
Other assets	1,566	1,545
<b>Total Assets</b>	<b>9,434</b>	<b>9,535</b>
Unearned premium reserve	1,506	1,506
Insurance liabilities	3,820	4,006
Other liabilities	1,118	1,119
<b>Total Liabilities</b>	<b>6,444</b>	<b>6,631</b>
Shareholders' equity	2,644	2,558
Tier 1 notes	346	346
<b>Total Equity</b>	<b>2,990</b>	<b>2,905</b>

- Investment in new technology reflected in higher intangibles
- Simple debt structure and low leverage

# Assets under management



# Investment portfolio

As at 31 Dec 2019	U K Insurance target allocation	U K Insurance current holding	Total Group income yield	Total Group interest rate duration (years)
Investment grade (incl private placements)	68.0%	64.3%	2.3%	2.84
High yield	6.0%	6.9%	5.4%	1.51
<b>Credit</b>	<b>74.0%</b>	<b>71.2%</b>	<b>2.6%</b>	<b>2.71</b>
Sovereign	5.0%	1.7%	1.8%	0.64
<b>Total debt securities</b>	<b>79.0%</b>	<b>72.9%</b>	<b>2.5%</b>	<b>2.67</b>
Infrastructure debt	5.0%	4.9%	2.5%	0.19
Commercial real estate loans	4.0%	3.7%	3.4%	-
Investment property	5.0%	5.1%	5.3%	-
Cash and cash equivalents	7.0%	13.4%	0.8%	0.00
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>2.4%</b>	<b>1.95</b>

- 2.8% of total debt securities rated as 'AAA' and 58.6% rated as 'AA' or 'A'
- Average duration of total debt securities was 2.5 years

# Reinsurance

## Motor Excess of Loss (unlimited)

Accident year	Deductible £m
2020	1
2019	1
2018	1 <sup>1</sup>
2017	1
2016	1
2015	1
2014	1
2013	3
2012	3
2011	3
2010	10

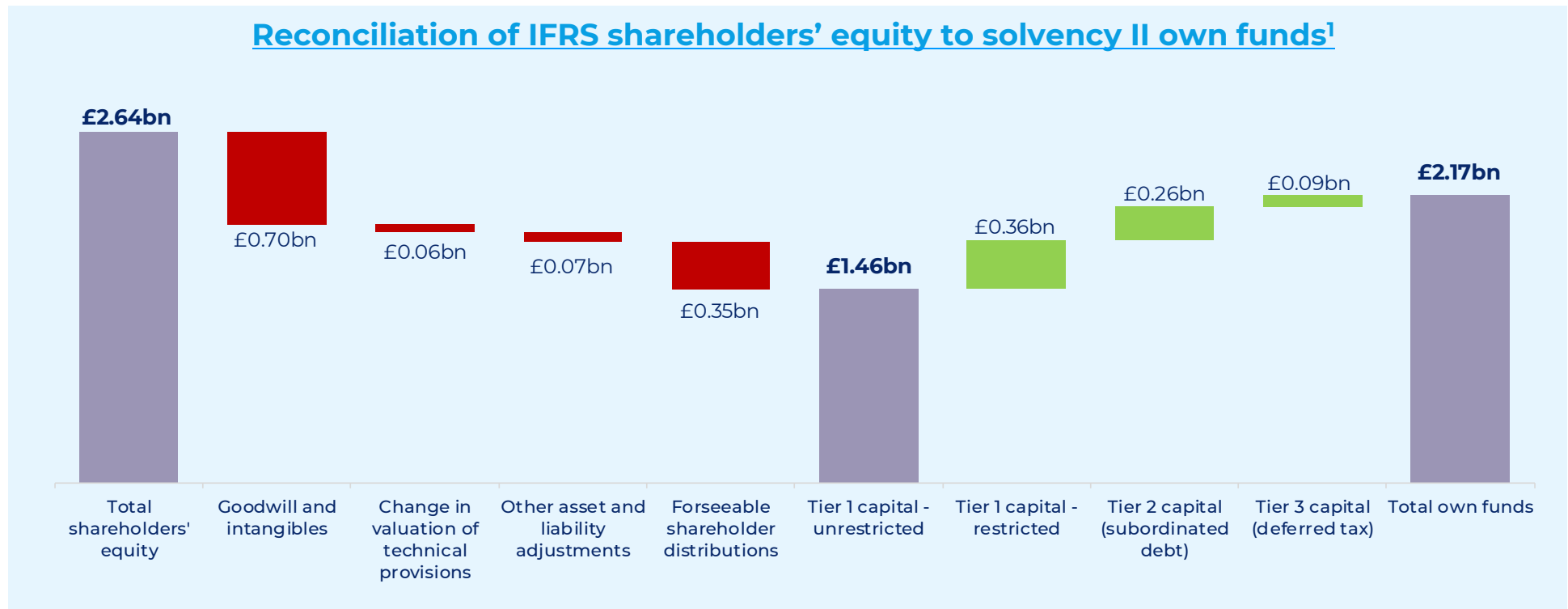
- Cover renewed on 1 January 2020
- Retained £1m deductible (indexed) with 100% placement of all layers
- Cover is unlimited in size and has an unlimited amount of cover reinstatements
- Placed 100% on a traditional, uncapitalised basis
- Placed with a panel of reinsurers who are at least 'A+' rated

## Property catastrophe

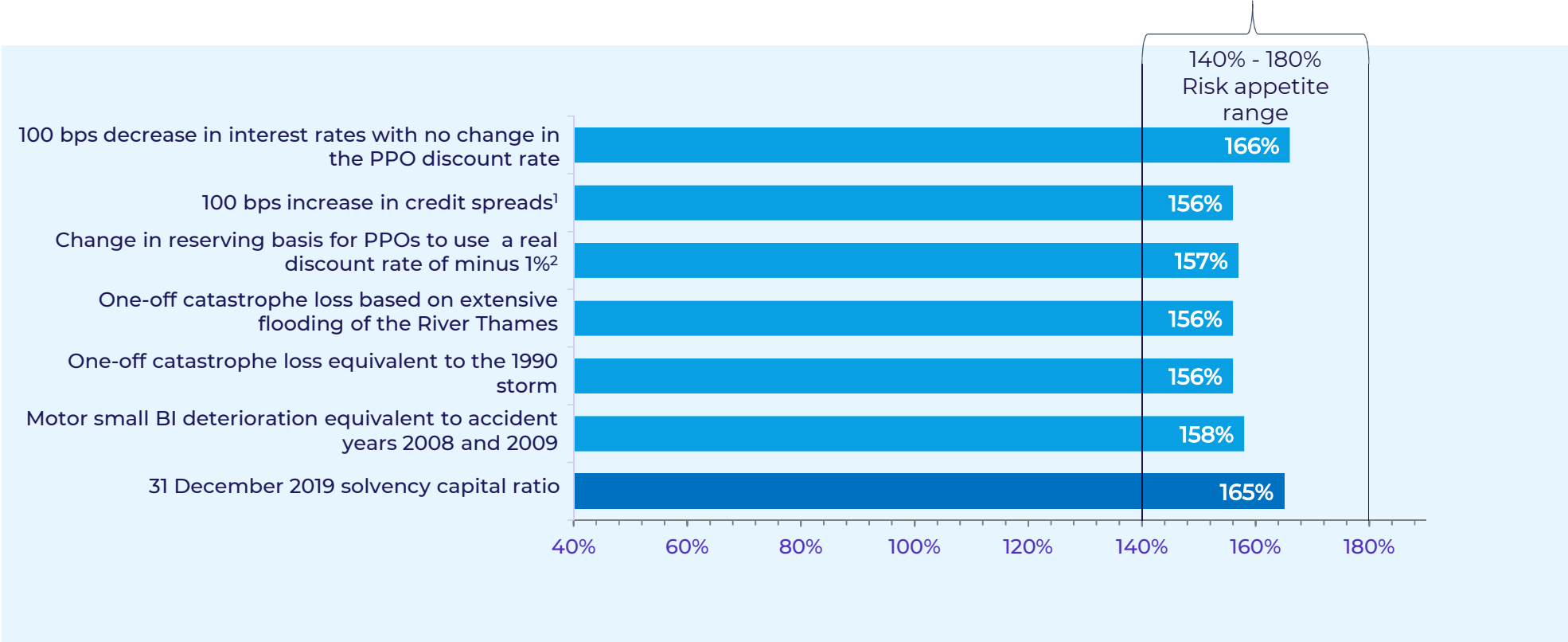
Accident year	Limit £m	Deductible £m
2019/20	c. 1,132	c. 132
2018/19	c. 1,205	c. 139
2017/18	c. 1,275	c. 150
2016/18	1,250	c. 150
2015/16	1,350	c. 150
2014/15	1,400	c. 150
2013/14	1,300	c. 150

- Cover renewed on 1 July 2019
- Retained deductible of 15.6% of gross earned premium (c. £132m)
- Limit is 133.6% of gross earned premium, (c. £1,132m), equivalent to a modelled 1 in 200 year loss
- Cover has one full reinstatement for all programme and additional reinstatement up to £570m
- Placed with a panel of reinsurers who are all at least 'A-' rated and c.60% placed on 3 year basis (at July 2017) at a fixed price (reinsurance rate online)

# IFRS to Solvency II bridge



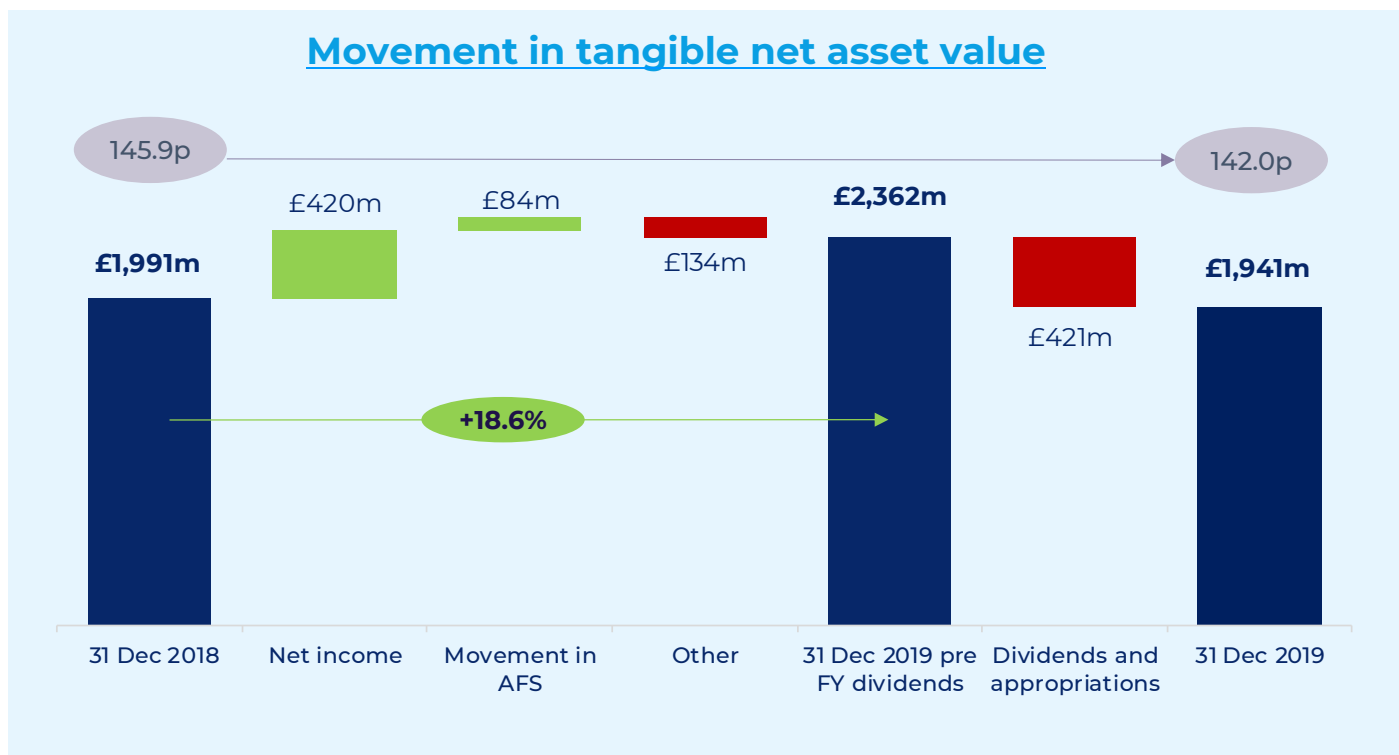
# Solvency sensitivity analysis



1. Only includes the impact on AFS assets (excludes illiquid assets such as infrastructure debt) and assumes no change to the SCR  
 2. The PPO real discount rate used in an actuarial judgement which is reviewed annually based on the economic outlook for wage inflation relative to the EIOPA discount rate curve



# Book value and TNAV

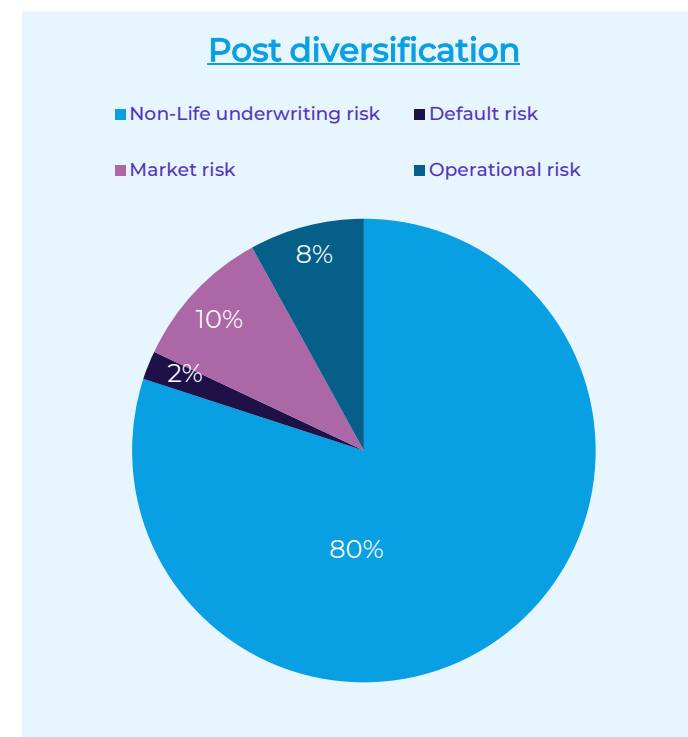


	31 Dec 2019	31 Dec 2018
Net asset value per share (pence)	<b>193.4</b>	187.5
Tangible net asset value per share (pence)	<b>142.0</b>	145.9

**Total unrealised AFS reserves of £47.5m (net of tax) as at 31 December 2019**

# Solvency capital requirements by risk type

	31 Dec 2019	31 Dec 2018	Comments
Non-Life underwriting risk	<b>1,029</b>	892	
- Premium risk	<b>445</b>	331	Reflects restructuring costs in 2020
- Reserve risk	<b>319</b>	306	Includes books in run-off
- Catastrophe risk	<b>258</b>	238	Home and Commercial driven
- Other underwriting	<b>8</b>	17	Risk margin volatility
Default risk	<b>24</b>	17	
Market risk	<b>135</b>	232	Lower AUM and volatility
Operational risk	<b>97</b>	91	
<b>U K Insurance solvency capital requirement</b>	<b>1,284</b>	<b>1,232</b>	
Other entity Solvency capital requirement	<b>32</b>	33	
<b>Group solvency capital requirement</b>	<b>1,316</b>	<b>1,294</b>	



# Return on tangible equity and earnings per share calculations

## Return on tangible equity (RoTE)

	2019 £m	2018 £m restated
Profit before tax	<b>509.7</b>	580.5
Add back: Restructuring and one-off costs	<b>11.2</b>	-
Coupon payments in respect of Tier 1 notes	<b>(16.6)</b>	(16.6)
Adjusted profit before tax	<b>504.3</b>	563.9
Tax charge	-	(108.5)
Tax charge (using the 2019 UK standard tax rate of 19%)	<b>(95.8)</b>	-
<b>Adjusted profit after tax</b>	<b>408.5</b>	<b>455.4</b>
Opening shareholders tangible equity	1,991.4	2,230.8
Closing shareholders' tangible equity	1,941.1	1,991.4
<b>Average shareholders' tangible equity</b>	<b>1,966.3</b>	<b>2,111.1</b>
<b>RoTE</b>	<b>20.8%</b>	<b>21.6%</b>

## Earnings per share (EPS)

	2019 £m	2018 £m restated
Profit after tax	419.9	472.0
Coupon payments in respect of Tier 1 notes	(16.6)	(16.6)
Profit for the calculation of EPS	403.3	455.4
Weighted average number of shares (millions)	1,367.2	1,366.5
<b>Basic earnings per share (pence)</b>	<b>29.5</b>	<b>33.3</b>

# 2019 segmental results

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total Group
GWP	1,651.6	586.6	436.0	528.9	3,203.1
Net earned premium	1,507.7	573.6	425.2	478.4	2,984.9
Net insurance claims	(1,043.3)	(268.4)	(284.4)	(251.5)	(1,847.6)
Commission expenses	(39.9)	(55.7)	(27.2)	(88.7)	(211.5)
Operating expenses	(345.6)	(136.7)	(94.0)	(117.4)	(693.7)
<b>Underwriting profit / (loss)</b>	<b>78.9</b>	<b>112.8</b>	<b>19.6</b>	<b>20.8</b>	<b>232.1</b>
Investment return	88.6	16.7	5.6	23.7	134.6
Instalment and other operating income	135.1	21.1	13.9	10.1	180.2
<b>Operating profit / (loss)</b>	<b>302.6</b>	<b>150.6</b>	<b>39.1</b>	<b>54.6</b>	<b>546.9</b>
Restructuring and one-off costs	-	-	-	-	(11.2)
<b>Operating profit after restructuring and one-off costs</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>535.7</b>
Finance costs	-	-	-	-	(26.0)
<b>Profit before tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>509.7</b>
Tax	-	-	-	-	(89.8)
<b>Profit after tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>419.9</b>
Loss ratio – current year	81.2%	54.0%	68.7%	66.3%	71.8%
Loss ratio – prior year	(11.9%)	(7.2%)	(1.8%)	(13.6%)	(9.9%)
Commission ratio	2.6%	9.7%	6.4%	18.5%	7.1%
Expense ratio	22.9%	23.8%	22.1%	24.5%	23.2%
<b>Combined operating ratio</b>	<b>94.8%</b>	<b>80.3%</b>	<b>95.4%</b>	<b>95.7%</b>	<b>92.2%</b>

## 2018 (restated) segmental results

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total Group
GWP	1,671.2	606.9	422.8	511.0	<b>3,211.9</b>
Net earned premium	1,541.8	667.8	414.7	465.2	<b>3,089.5</b>
Net insurance claims	(979.3)	(413.3)	(277.2)	(241.3)	<b>(1,911.1)</b>
Commission expenses	(30.9)	(62.6)	(19.0)	(87.9)	<b>(200.4)</b>
Operating expenses	(356.9)	(148.5)	(98.0)	(114.8)	<b>(718.2)</b>
<b>Underwriting profit / (loss)</b>	<b>174.7</b>	<b>43.4</b>	<b>20.5</b>	<b>21.2</b>	<b>259.8</b>
Investment return	105.9	15.9	5.2	27.6	<b>154.6</b>
Instalment and other operating income	137.5	24.6	18.3	11.6	<b>192.0</b>
<b>Operating profit / (loss)</b>	<b>418.1</b>	<b>83.9</b>	<b>44.0</b>	<b>60.4</b>	<b>606.4</b>
Restructuring and one-off costs	-	-	-	-	-
<b>Operating profit after restructuring and one-off costs</b>	-	-	-	-	<b>606.4</b>
Finance costs	-	-	-	-	<b>(25.9)</b>
<b>Profit before tax</b>	-	-	-	-	<b>580.5</b>
Tax	-	-	-	-	<b>(108.5)</b>
<b>Profit after tax</b>	-	-	-	-	<b>472.0</b>
Loss ratio – current year	81.4%	66.7%	70.7%	68.9%	<b>75.0%</b>
Loss ratio – prior year	(17.9%)	(4.9%)	(3.9%)	(17.1%)	<b>(13.1%)</b>
Commission ratio	2.0%	9.4%	4.6%	18.9%	<b>6.5%</b>
Expense ratio	23.1%	22.3%	23.6%	24.7%	<b>23.2%</b>
<b>Combined operating ratio</b>	<b>88.6%</b>	<b>93.5%</b>	<b>95.0%</b>	<b>95.4%</b>	<b>91.6%</b>

# Glossary of terms

Term	Definition
<b>Actuarial best estimate (“ABE”)</b>	The probability-weighted average of all future claims and cost scenarios. It is calculated using historical data, actuarial methods and judgement. A best estimate of reserves will therefore normally include no margin for optimism or, conversely, caution.
<b>Assets under management (“AUM”)</b>	This represents all assets management or administered by or on behalf of the Group, including those assets managed by third parties.
<b>Available-for-sale (“AFS”) Investment</b>	Available-for-sale investments are non-derivative financial assets that designated as such, or are not classified as loans and receivables, held to maturity, or financial assets at fair value through profit or loss.
<b>Average written premium</b>	The total written premium at inception divided by the number of policies.
<b>Capital</b>	The funds invested in the Group, including funds invested by shareholders and Tier 1 notes. In addition, subordinated loan capital in the Group’s balance sheet is classified as Tier 2 capital for Solvency II purposes.
<b>Claims frequency</b>	The number of claims divided by the number of policies per year.
<b>Combined operating ratio</b>	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. <b>Normalised combined operating ratio</b> adjusts loss and commission ratios for weather and changes to the Ogden discount rate.
<b>Commission expenses</b>	Payments to brokers, partners and price comparison websites for generating business.
<b>Commission ratio</b>	The ratio of commission expense divided by net earned premium.
<b>Company</b>	Direct Line Insurance Group plc (the “ <b>Company</b> ”).
<b>Current-year attritional loss ratio</b>	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.
<b>Current-year combined operating ratio</b>	This is calculated using the combined operating ratio less movement in prior-year reserves.

# Glossary of terms

Term	Definition
<b>Current-year operating profit</b>	This is calculated by total operating profit less movement in prior-year reserves.
<b>Direct own brands</b>	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 and commercial products sold under the Churchill brand.
<b>Earnings per share</b>	The amount of the Group's profit after deduction of the Tier 1 coupon payments allocated to each Ordinary Share of the Company.
<b>Expense ratio</b>	The ratio of operating expenses divided by net earned premium.
<b>Finance costs</b>	The cost of servicing the Group's external borrowings and includes the interest on ROU assets.
<b>Financial Conduct Authority ("FCA")</b>	An independent body responsible for regulating the UK's financial services industry
<b>Financial leverage ratio</b>	Tier 1 notes and financial debt (subordinated guaranteed dated notes) as a percentage of total capital employed.
<b>Gross written premium</b>	The total premiums from contracts that were accepted during the period.
<b>Group</b>	Direct Line Insurance Group plc and its subsidiaries (" <b>Direct Line Group</b> " or the " <b>Group</b> ").
<b>In-force policies</b>	The number of policies on a given date that are active and against which the Group will pay, following a valid insurance claim.
<b>Insurance liabilities</b>	This comprises insurance claims reserves and claims handling provision, which the Group maintains to meet current and future claims.
<b>International Accounting Standards Board ("IASB")</b>	A not-for-profit public interest organisation that is overseen by a monitoring board of public authorities. It develops IFRS standards that aim to make worldwide markets transparent, accountable and efficient.
<b>Investment income yield</b>	The income earned from the investment portfolio, recognised through the income statement during the period divided by the average assets under management (" <b>AUM</b> "). 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.
<b>Investment return</b>	The investment return earned from the investment portfolio, including unrealised and realised gains and losses, impairments and fair value adjustments.

# Glossary of terms

Term	Definition
<b>Investment return yield</b>	The return divided by the average AUM. The average AUM derives from the period's opening and closing balances.
<b>Loss ratio</b>	Net insurance claims divided by net earned premium.
<b>Management's best estimate</b>	These reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal ABE.
<b>Net asset value</b>	The difference between the Group's total assets and total liabilities, calculated by subtracting total liabilities (including Tier 1 notes) from total assets.
<b>Net earned premium</b>	The element of gross earned premium less reinsurance premium ceded for the period where insurance cover has already been provided.
<b>Net insurance claims</b>	The cost of claims incurred in the period less any claims costs recovered under reinsurance contracts. It includes claims payments and movements in claims reserves.
<b>Net investment income yield</b>	This is calculated in the same way as investment income yield but includes the cost of hedging.
<b>Ogden discount rate</b>	The discount rate set by the Lord Chancellor and used by courts to calculate lump sum awards in bodily injury cases.
<b>Operating expenses</b>	These are the expenses relating to business activities excluding restructuring and one-off costs.
<b>Operating profit</b>	The pre-tax profit that the Group's activities generate, including insurance and investment activity but excluding finance costs, restructuring and one-off costs.
<b>Periodic payment order ("PPO")</b>	These are claims payments as awarded under the Courts Act 2003. PPOs are used to settle some large personal injury claims. They generally provide a lump-sum award plus inflation-linked annual payments to claimants who require long-term care.
<b>Prudential Regulation Authority ("PRA")</b>	The PRA is a part of the Bank of England. It is responsible for regulating and supervising insurers and financial institutions in the UK.
<b>Reinsurance</b>	Contractual arrangements where the Group transfers part or all of the accepted insurance risk to another insurer.



# Glossary of terms

Term	Definition
<b>Reserves</b>	Funds that have been set aside to meet outstanding insurance claims and IBNR claims.
<b>Restructuring costs</b>	These are costs incurred in respect of the business activities where the Group has a constructive obligation to restructure its activities.
<b>Return on equity</b>	This is calculated by dividing the profit attributable to the owners of the Company after deduction of the Tier 1 coupon payments by average shareholders' equity for the period.
<b>Return on tangible equity ("RoTE")</b>	This is adjusted profit after tax divided by the Group's average shareholders' equity less goodwill and other intangible assets. Profit after tax is adjusted to exclude restructuring and one-off costs and to include the Tier 1 coupon payments dividend. It is stated after charging tax using the UK standard rate of 19% (
<b>Solvency II</b>	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.
<b>Solvency capital ratio</b>	The ratio of Solvency II own funds to the solvency capital requirement.
<b>Tangible equity</b>	This shows the equity excluding Tier 1 notes and intangible assets for comparability with companies who have not acquired businesses or capitalised intangible assets.
<b>Tangible net assets per share</b>	This shows the equity excluding Tier 1 notes and intangible assets per share for comparability with companies who have not acquired businesses or capitalised intangible assets.
<b>Underwriting result profit / (loss)</b>	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, excluding restructuring and other one-off costs.

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# 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", "ambition", "anticipates", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "over the medium term", "plans", "predicts", "projects", "propositions", "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 several 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 and guidance which are contained in this document specifically with respect to the return on tangible equity, solvency capital ratio, the Group's combined operating ratio, percentage targets for current year contribution to operating profit, prior-year reserve releases, cost reduction, reductions in expense and commission ratios, investment income yield, net realised and unrealised gains, capital expenditure 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 and/or are beyond the Group's control.

Forward-looking statements are not guaranteeing 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:

- United Kingdom ("UK") domestic and global economic business conditions;
- the outcome of discussions between the UK and the European Union ("EU") regarding the terms, following Brexit, of any future trading and other relationships between the UK and the EU;
- the terms of future trading and other relationships between the UK and other countries following Brexit;
- 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 or rates);
- the impact of competition, currency changes, inflation and deflation;
- the timing impact and other uncertainties of future acquisitions, disposals, partnership arrangements, joint ventures or combinations within relevant industries; and
- 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 because of new information, future events or otherwise, unless required to do so by applicable law or regulation. Nothing in this document constitutes or should be construed as a profit forecast.

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