Direct Line Group

peace of mind

now and in the future

ANNUAL REPORT & ACCOUNTS 2019

Our **vision** is to create a world where insurance is personal, inclusive and a force for good.

Our **purpose** is to help people carry on with their lives, giving them peace of mind now and in the future.

Protecting customers when it matters the most through our powerful **brands** offering a range of products.

Reaching customers **however** and **wherever** they shop.

We believe that by serving the needs of our customers we can **create value** for our people, our society, our planet and our shareholders.

2019 HIGHLIGHTS

Profit before tax
£509.7m
(2018: £580.5m)[2]

Return on tangible equity[1]
20.8%
(2018: 21.6%)[2]

Combined operating ratio[1,3]
92.2%
(2018: 91.6%)[2]

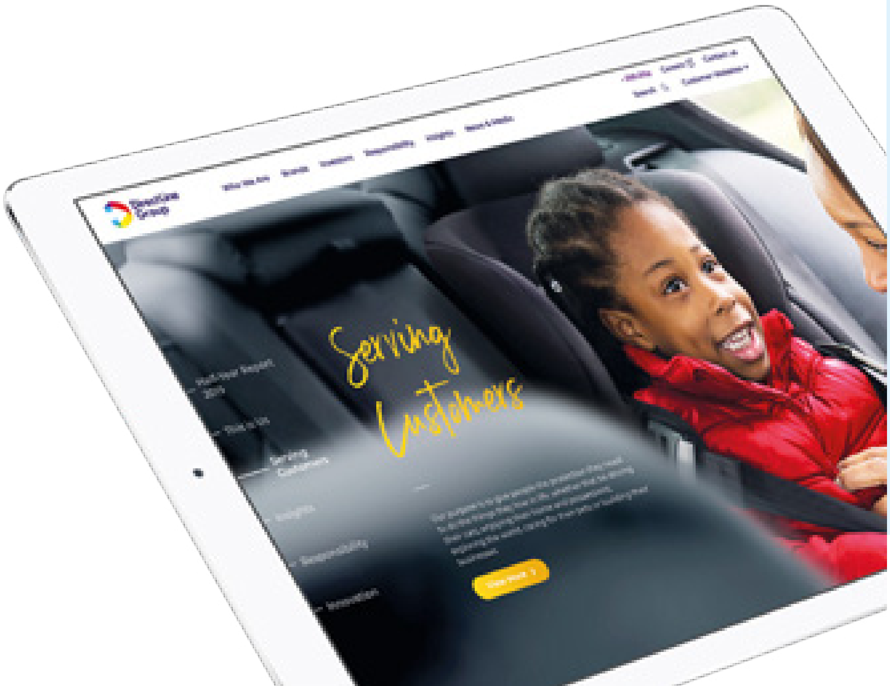
Solvency capital ratio[1,4]
165%
(2018: 170%)

Operating profit[1]
£546.9m
(2018: £606.4m)[2]

Capital returns[5]
£447.0m
(2018: £401.3m)

Notes:
1. See glossary on pages 222 to 224 for definitions and Appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.
2. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.
3. A reduction in the ratio represents an improvement as a proportion of net earned premium, while an increase in the ratio represents a deterioration. See glossary on page 222 for definitions.
4. Estimates based on the Group's Solvency II partial internal model.
5. See page 35 for the dividend policy.
6. ESG refers to environmental, social and governance issues.

For more information please visit
www.directlinegroup.co.uk



CONTENTS

Strategic report

Governance

Financial statements

Other information

Protecting customers when it matters

We've built a new technology platform to better support customers who become ill on holiday, easily accessible through any device.

PLEASE SEE DETAILS ON PAGE 49.

We operate across four market segments, providing peace of mind to our customers through a range of products, supported by a caring team.

Motor

We are Britain's leading personal motor insurer measured by in-force policies[1], mainly represented through our well-known brands Direct Line, Churchill, Privilege, and our new Darwin brand, and also through our partners.

Home

We are one of Britain's leading personal home insurers measured by in-force policies[1]. We reach our customers by selling home insurance products through our brands Direct Line, Churchill and Privilege, and our partners RBS and NatWest.

Rescue and other personal lines

We are one of the leading providers of rescue, travel and pet insurance in the UK. Green Flag is the third largest roadside recovery provider[2]. We are also the second largest travel and the fourth largest pet insurer[3], as well as providing insurance for mid-to-high-net worth customers.

Commercial

We protect commercial businesses through our brands, NIG, Direct Line for Business and Churchill. NIG sell products exclusively through brokers operating across the UK, whilst Direct Line for Business sell insurance policies direct via phone and online and Churchill sell insurance policies direct via phone, online and through price comparison websites ("**PCWs**").

Notes:
1. Includes Direct Line, Churchill, Privilege, Darwin and partner brands: RBS, NatWest, © Ipsos MORI Financial Research Survey (FRS) six months ended January 2020, 13,999 adults interviewed for motor insurance and 12,749 for home insurance.
2. Mintel Vehicle Recovery – UK, September 2019.
3. Mintel Pet Insurance August 2019 & Mintel Travel Insurance February 2020.

Darwin, our first new personal lines brand in 25 years, uses innovative pricing technology to provide great value insurance for customers.

PLEASE SEE DETAILS ON PAGE 22.

Powerful brands,

well known and cutting-edge

Our strong brands, each with their own personality, enable our customers to choose the right cover to protect their cars, homes, holidays, businesses and pets.

Direct Line

Direct Line stands for hassle-free insurance that fixes problems like no other. Our insurance products are available by phone and online.

Churchill

Churchill effortlessly takes care of real life problems, so customers can relax. Our insurance products are available by phone, online and through PCWs.

Green Flag

Green Flag offers an award-winning service at a lower cost, using local garages across the UK to provide a smarter alternative solution for breakdown. Available direct, via our insurance brands and through PCWs.

direct line for business

Direct Line for Business keeps up with the changing business needs of small and medium-sized enterprises. Our business insurance products are available by phone and online.

Darwin

Darwin is an evolution in motor insurance, smart and simple, the way it should be. Our motor insurance is available through PCWs.

Privilege

Privilege offers quick and efficient insurance at the best price. Our insurance products are available direct and through PCWs.

DLG Partnerships

DLG Partnerships specialises in providing personal insurance as well as roadside rescue and recovery products to some of the UK's most well-known brands.

DLG Auto Services

DLG Auto Services is our network of bodyshops across the UK, repairing more than 90,000 cars every year for our customers.

NIG

NIG are experts at commercial insurance. We sell via brokers across a number of specialisms including small and medium-sized enterprise, real estate and agriculture.

Reaching customers however it suits them

Consumers' buying behaviours are changing and we want to be everywhere our customers shop. That's why our insurance is offered through the four main routes to market.

Direct

We give our customers a reason to shop direct with our powerful brands and great propositions, because we want to deliver excellent value for our customers.

Price comparison websites

Strong brands and propositions are important but so are great prices. Our IT investment aims to improve our speed to market and enhance our pricing capabilities for customers.

Partnerships

We partner with big brands to offer insurance to their customers and look for ways to innovate to give people choice about how they insure the things they love.

Brokers

Many small and medium-sized commercial enterprises choose to arrange their insurance using brokers who understand their specific needs. We have an extensive, well-established broker network that offer our NIG insurance products to these customers.

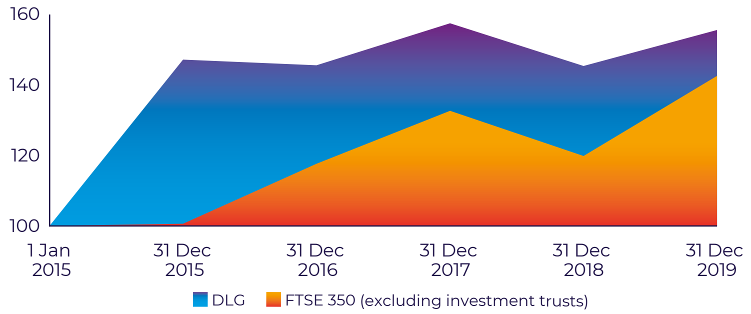
Our partnership with Starling Bank is reaching new customers through a simple digital system making it easy to apply for insurance.

PLEASE SEE DETAILS ON PAGE 23.

Proven Track record

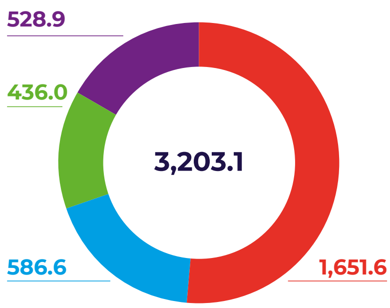
A strongly cash generative business

Total shareholder return (%)

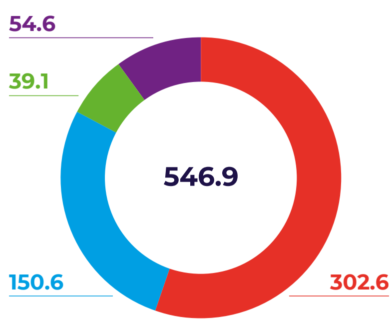


We have a track record of delivering strong returns to shareholders, having distributed £2.2 billion in dividends over the past five years. This together with our share price performance has delivered an attractive total shareholder return.

Gross written premium 2019 (£m)



Operating profit 2019 (£m)



Motor Home Rescue and other personal lines Commercial

See page 182

Competitive advantage

Transforming to drive competitiveness

We are transforming our technology and changing the way we work to increase the competitiveness of our business. Our aim is to improve the quality of the earnings of the group, with a greater proportion coming from current-year business, reflecting the Group's improved competitiveness.

WE ARE DRIVING TO ACHIEVE THIS THROUGH OUR SIX NEW STRATEGIC OBJECTIVES:

- **Best at direct**
- **Win on price comparison websites**
- **Extend our reach**
- **Technical edge**
- **Nimble and cost efficient**
- **Great people**

See pages 15 and 21 to 23

OUR FINANCIAL TARGETS

Costs: Expense ratio[1] of 20% in 2023	Current-year operating profit[1]: At least 50% by 2021[3]	Combined operating ratio ("COR")[1]: Between 93-95% throughout the medium term[4]	Return on tangible equity ("RoTE")[1]: At least 15% per annum over the long term
2019: 23.2%[2]	2019: 39%	2019: 93.5%	2019: 20.8%

See page 10

Notes:
1. See glossary on pages 222 to 224 for definitions and Appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.
2. Applies to operating expenses excluding restructuring and one-off costs.
3. Excludes restructuring and one-off costs.
4. Normalised for weather and changes to the Ogden discount rate.

Transforming our business for the long term

2019 was an exciting year for Direct Line Group as we launched three major new IT platforms aimed at improving the service we provide to our customers, announced the next stage of our strategy at the Capital Markets Day in November 2019, redefined our vision and purpose, and continued to develop our five-pillar sustainability strategy.

Despite challenging trading conditions in the motor insurance market, our model of disciplined underwriting and cost reduction underpinned a combined operating ratio of 92.2% (93.5% adjusted for normal weather and Ogden discount rate changes) and enabled us to grow our final dividend 2.9% to 14.4 pence. Profit before tax was down 12.2% to £509.7 million (2018 restated[1]: £580.5 million). The effect of benign weather in 2019 was more than offset by lower reserve releases, in part due to the change in the Ogden discount rate, and restructuring and one-off costs in 2019. In addition, realised gains and property revaluations which benefited our investment result in 2018 were not repeated. As we announced on 3 March 2020, in line with our capital management approach of growing the regular dividend in line with business growth and distributing surplus capital, we are also returning up to £150 million of surplus capital by way of a share buyback programme. More information on the intended share buyback is provided on page 36.

> 2019 was a year of delivering good results in a competitive environment and of building the capability to underpin the long-term sustainability of our business.

MIKE BIGGS
CHAIRMAN

Note:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.

New leadership and Board changes

2019 was also a significant year for leadership changes. After a decade leading the business, Paul Geddes stepped down as Chief Executive Officer ("**CEO**") and we welcomed Penny James as CEO following the Annual General Meeting ("**AGM**") in May 2019. Clare Thompson, former Independent Non-Executive Director ("**NED**"), also stepped down from the Board after the 2019 AGM.

In June 2019, Mike Holliday-Williams stepped down as an Executive Director. Responsibility for leading our Personal Lines businesses has been taken by three new Executive Committee members: Kate Syred as Managing Director of Household, Partnerships and Data; Gus Park as Managing Director of Motor, Pricing and Underwriting; and Mark Evans as Managing Director of Marketing and Digital. I would like to thank Paul, Clare and Mike for their exceptional contributions to the leadership of the Group.

Following a rigorous search process, the Group was also delighted to announce the appointment of Tim Harris as Chief Financial Officer ("**CFO**") and Board member in October 2019. I was delighted to welcome Tim as I believe we will benefit from his many years of experience as a leading director in the insurance industry.

In January 2020, Neil Manser, our Deputy CFO and previously Managing Director of NIG, was appointed as Chief Strategy Officer. Neil is a member of the Executive Committee and will lead the development of the Group's strategy and the alignment of priorities to help execute it.

After six years with the Group, our Human Resources Director, Simon Linares, will be retiring in March 2020. He will be succeeded by Vicky Wallis, who will join us from Santander UK in May 2020. I would like to thank Simon for his leadership in making Direct Line Group one of the best big companies to work for and wish him every success as he develops a career as a NED.

It has been my immense privilege to serve as your Chairman since before the Company's flotation in 2012. As I am approaching the ninth anniversary of my appointment, and as our new senior management team is now firmly established, I believe that the time is right for the Company to be searching for my successor. My fellow Directors, led by our Senior Independent Director ("**SID**"), Richard Ward, will carry out a thorough process in the coming months with the objective of identifying the right person to lead your Board, preserve this Group's enviable culture and support our talented people in the years to come.

Strategy

Direct Line Group's vision is to create a world where insurance is personal, inclusive and a force for good. Our purpose is to help people carry on with their lives, giving them peace of mind now and in the future. Our strategy recognises our strengths as a UK insurance expert with diversification of distribution and product and is defined by six strategic objectives. These are: being the best at direct; winning on price comparison websites; extending our reach; using our technical edge; being nimble and cost efficient; and empowering great people.

The Board continues to oversee the ambitious programme of investment in major IT systems, aimed at improving the Group's digital offering, pricing and underwriting capability, customer experience and operational efficiency. Whilst this new technology is beginning to be implemented, there is still much to do to transform our business. The Board continues to support our senior executives realising the potential of our business, by introducing more agile working practices, particularly in the areas of our business that are at the forefront of delivering change.

Dividend and capital management

The Group's solvency capital ratio as at 31 December 2019, prior to the proposed dividend and share buyback was 191%. This resulted from good capital generation from the business, supported by higher unrealised mark-to-market gains on the Group's available-for-sale investments, as credit spreads narrowed. This strong capital generation allowed us to continue to invest high levels of capital expenditure to support the Group's strategic objectives.

The Board has recommended a final dividend of 14.4 pence per share (2018: 14.0 pence), an increase of 0.4 pence per share (2.9%). If approved, the total regular dividend of 21.6 pence per share will represent a 2.9% growth on 2018's regular dividend (21.0 pence per share).

The Board has also approved a share buyback of up to £150 million which it expects to complete by the end of July 2020. After taking into account these dividends and share buybacks, the solvency capital ratio was 165% as at 31 December 2019. This reflects the Board's continued confidence in the Group's capital position and the sustainability of its earnings. In normal circumstances, the Board expects the Group to operate around the middle of its solvency capital ratio risk appetite range of 140% to 180%.

Brexit

We prepared for the possibility of a disruptive Brexit. As is well known, following the Government winning a significant House of Commons majority in the December 2019 general election, the UK left the EU on 31 January ("**Brexit**") with "a deal", so that essentially there have been no substantive changes in practice to the trading and other arrangements between the UK and the EU, at least during the "implementation period" which is due to last until 31 December 2020, unless extended. Nonetheless, the terms, if any, of any future trading relationship between the UK and the EU, and between the UK and other key countries, are not yet known and there remains uncertainty and at least the possibility of a disruptive end to the implementation period.

Although we are predominantly a UK business, we do, for example, have exposure to financial markets and import goods and services to fulfil insurance claims. We have been monitoring events carefully and have proactively taken steps to mitigate the likely impact on the Group to the extent we consider it to be appropriate and proportionate to do so, given the considerable uncertainties; however, in the event of a disruptive end to the implementation period the Group would not be immune.

Linking remuneration to performance

We remain focused on ensuring that executive pay is aligned with the Group's strategy of targeting sustainable shareholder and customer value. This is primarily achieved by the Annual Incentive Plan ("**AIP**") and Long-Term Incentive Plan ("**LTIP**") being aligned to performance measures shareholders consider important. This is underpinned by the delivery of a significant proportion of remuneration through shares and shareholding requirements.

The Company's share price on 31 December 2019 was 312.5 pence (2018: 318.7 pence). Total shareholder return ("**TSR**"), which includes dividend payments, was 7.0% for the year (2018: minus 7.7%). Since the Group's Capital Markets Day in November, the share price has responded positively. It has continued to perform strongly at the beginning of 2020 and has significantly outperformed the wider non-life insurance sector. Over the past five years, shareholders have received a TSR of 56% compared to the FTSE 350 (excluding investment trusts) of 43%. Since the 2012 Initial Public Offering ("**IPO**"), the Board has declared cumulative dividends, including special dividends, equivalent to approximately 118% of the IPO share price. More information on the Group's remuneration policy and share awards are disclosed in the Directors' remuneration report on pages 106 to 138.

A sustainable and responsible business and an inclusive and collaborative culture are critical to the Group's commercial success.

GOVERNANCE HIGHLIGHTS

Culture

Your Board recognises that culture and capability are key enablers for achieving the Company's strategic objectives and encourages an open and inclusive culture and an environment in which people can be themselves.

See pages 86 to 87

Effectiveness

The effectiveness of your Board's and its Committees' performance is considered annually in an effectiveness review.

See page 86

Culture and Sustainability

The Board believes that a sustainable and responsible business and an inclusive and collaborative culture are critical to making the Group more commercially successful. The Board encourages openness and an environment where people can be themselves. The Board promotes this culture through the Group's Code of Business Conduct which sets out for our employees the vision, purpose and values of the organisation and aims to preserve the Group's reputation for high standards of conduct.

Through our five-pillar sustainability strategy, we aim to deliver long-term sustainability for customers, our people and shareholders and other stakeholders and ensure that we have a positive impact on society and protect the environment. During the year, we sought views from a range of stakeholders including customers, suppliers, investors, commercial partners, non-governmental organisations and policymakers on what really matters to them. Further details of this exercise as well as progress on each of our sustainability pillars are shown on pages 59 to 71.

Among other things, this strategy has further assisted the Board in considering the interests of all of our stakeholders. The Strategic report includes a statement on how the Board promotes the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in section 172(1) of the Companies Act 2006. The Corporate Governance report contains examples of how the Board has engaged with and considered the interests of our stakeholders and the effect of doing so on principal decisions taken by the Company during the financial year.

Our Customers

Meeting the needs of our customers is central to the Group's corporate strategy. Along with its investment in IT capability to improve the efficiency and effectiveness of the business, the Board encourages a range of customer experience initiatives which are designed to deliver increased levels of customer satisfaction. The Board oversees the Group's conduct towards its customers, aiming to ensure that fair customer outcomes are achieved, and active and constructive dialogue with its insurance regulators on customer conduct matters.

Our People

We encourage a culture that celebrates difference and empowers people so that they can thrive. The Group's people are fundamental to the Group's success and sustainability and I would like to thank each of them for their hard work, initiative and commitment. Their positive energy, high levels of engagement, embodiment of the Group's values and dedication to serving our customers have helped our businesses progress and have put us in a strong position for the future.

I would also like to thank each member of the Board for their significant contribution, commitment and service, and I look forward to working with them in 2020, supporting management in the execution of the Group's ambitious strategy.

MIKE BIGGS
CHAIRMAN

Accountability

Your Board provides shareholders with an assessment of the Group's position and prospects. We monitor and review the effectiveness of the Group's risk management and internal control systems.

See pages 90 to 92

Remuneration

Your Remuneration Committee focuses on ensuring a close correlation between creating value for shareholders, and remunerating Executive Directors and senior executives appropriately.

See pages 106 to 138

Shareholder and stakeholder relations

Your Board maintains strong relationships and regular interaction with shareholders. Their continued support for the Group's strategic aims is important. Your Board also has regard to the interests of other stakeholders.

See pages 88 to 89

Laying the foundations for future success

Direct Line Group has amazing people, a passion for great customer service and leading brands. It is especially exciting to be part of a business that is putting in place a transformation programme that is firmly focused on laying the foundations for our future success. There have been many highlights this year, and I am thrilled that in the midst of significant business change, a highly competitive market and an evolving regulatory backdrop, we have delivered another good set of financial results, with improved quality, demonstrating our discipline and the value of our business model. Overall, I'm pleased with our progress against the strategic and financial targets we set out at our Capital Markets Day in November.

Core strengths that are hard to replicate

As a UK-focused company, we have the ability to be a deep specialist in a market unlike any other in the world, while the range of channels and products gives us real diversification and scale that many of our peers do not have. This lets us pivot as dynamics shift in the market and this flexibility has supported our track record of delivering good returns.

Across the business, we have a number of real strengths. First and foremost, we are a people business, which means we really care and have a passion to serve our customers. Secondly, we have a strong balance sheet with further opportunities to improve its effectiveness. And thirdly, we successfully combine strong brands and rich data because we are a direct player and have leading claims skills supported, for example, by our own accident repair centres. This combination is hard to replicate and we believe this provides a platform for real long-term value.

We have delivered another good set of financial results, with improved quality, demonstrating our discipline and the value of our business model.

PENNY JAMES
CHIEF EXECUTIVE OFFICER

Strategy to transform our business

The Group aims to create a world where insurance is personal, inclusive and a force for good. We'll do this by helping people carry on with their lives, giving them peace of mind, now and in the future. Because that's how we believe we will secure long-term sustainability in the changing world ahead.

Our six strategic objectives set out a clear path for us to realise our potential and are set out in the table below. The first three aim to ensure that our products are easy to use and available everywhere. The second three are underlying skills which are designed to help us deliver great value and an excellent customer experience.

Our 2020 priorities are all aligned to these six strategic objectives and in the first half of 2020 we will focus on continuing the development and roll out of our technology change. Our plans include moving towards launching Direct Line and Churchill motor new business onto our new platform, launching Darwin on two more PCWs, rolling out a new claims system for Green Flag and building Contractors into NIG's new Commercial Combined product. At the same time we are completing the re-engineering of our technology platform to support these new systems and enhance productivity.

STRATEGIC OBJECTIVES

	Why	Key drivers
Best at direct	A direct relationship with our customers provides an opportunity for profitable growth by meeting a broader set of customer needs, and the foundation for future product and service innovation.	– Strong brand power – Outstanding customer service – Valuable and differentiated propositions – Unique data insights
Win on price comparison websites	PCWs will continue to be the biggest market for new business and therefore our primary route for profitable growth.	– Strong brand recognition – Strong technical risk pricing – Fast modelling deployment – Fast and flexible use of primary and third-party data
Extend our reach	Our new platform makes it easier for us to onboard new books of business. We plan to use this to explore inorganic growth opportunities through partnerships and acquisitions.	– Ability to integrate data and customer journeys with partners – Flexible and scalable platforms to integrate portfolios – Excellent service and brands to support partner strategies
Technical edge	We aim to create a great experience for our customers and embed sustainable competitive advantage by leveraging our strengths in repair, data and claims insight and management.	– Real insight and expertise – Valuable and timely data – Control and delivery of the value chain
Nimble and cost efficient	We aim 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 better enable us to exploit our advantages within each product and channel.	– Increasing pace of change needed to respond to changes in our markets and consumer behaviour – Increasing demand for more simple, easy to use and flexible products
Great people	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.	– Importance of diverse skillsets required to win; for example, data and analytics, digital, technicians that can deal with evolving car technology

We are also heavily focused on improving efficiency in order to meet our cost targets. We have launched a consultation in our head office areas which aims to improve our speed of delivery at a lower cost by implementing more agile principles including moving to multi-disciplinary teams and away from working in functional silos. We are also looking to rationalise our site footprint over the next two years.

Whilst landing technology change and improving efficiency are key objectives in 2020, we are also continuing to drive our brand health with exciting plans for Direct Line and continuing to position Churchill as a PCW-first brand. These plans are all designed with fantastic customer experience and propositions at their heart.

Supporting our activities and central to the long-term sustainability of the business, we have deeply embedded and fundamental principles:

- Our values sit at the very heart of our everyday behaviours. They were created ground up and represent in full technicolour our identity.
- Our sustainability pillars bring environmental, social and governance factors into the heart of our strategic thinking, whether that's our customers, our people, our society, our planet, or the importance of strong governance – they all play central roles in delivering our business in a sustainable way.

Investing in technology and new ways of working

While these core strengths persist today, we recognise that to succeed in the future we need to continue to change and we are on an ambitious transformation journey to increase the competitiveness of our business.

Like many data driven consumer markets, ours is digitising fast and our success will be predicated on combining great customer-focused brands with a strong technology foundation. Our journey has three overlapping phases, with each of our different parts of the business moving through these phases at a different pace.

The first has been building the key technology blocks, which is characterised by high investment expenditure. The run costs are being managed alongside careful expenditure on organisational change and on existing systems that are set to be phased out.

That technology is beginning to land and although there is still much to do in this ambitious and complex programme, we are now moving into the second phase: our business transformation. From this phase, we plan to improve our cost position by reducing double run-costs and improving efficiency. We also aim to further increase the accuracy and speed of our pricing and underwriting; improve our competitiveness and responsiveness to change; and enhance our customer experience.

Through increased competitiveness and by increasingly adopting more agile working practices, particularly in the areas of our business that are at the forefront of delivering change, we believe we can realise the incredible potential of our business to innovate faster and grow. This is the third phase of our transformation.

To succeed in the future we need to continue to change.

External environment

We have continued to operate within a highly dynamic and evolving regulatory landscape, influenced by the views and initiatives from several parties, including the UK Government, the FCA and the PRA. During 2019, both the FCA and the PRA have been focused on Brexit preparations, amongst other activities.

Regulation

A main FCA focus has continued to be on pricing practices generally, including its Market Study on General insurance pricing practices. For some time we have been actively taking steps regarding pricing, as well as working with the ABI and holding proactive discussions with the FCA on potential remedies. We are supportive of the FCA Market Study, the outcomes of which are due for publication in June 2020. The FCA has also been focused on firms' culture and governance, operational resilience, management of regulatory change, the general insurance distribution chain, vulnerable customers, affordability as it relates to consumer credit, complaint handling and the appropriate establishment of customers' demands and needs as per the requirements under the Insurance Distribution Directive.

The PRA has continued to focus generally on the pillars of its financial risk framework, namely reserving, pricing, reinsurance and investments, as well as operational resilience, cyber underwriting risk and the financial risks arising from climate change.

Climate change

We are committed to playing our part in helping the UK become a sustainable, low carbon economy. We intend to set a challenging target to be carbon neutral as a business and aim to be compliant with the Taskforce on Climate-related Financial Disclosures ("**TCFD**") by the end of 2020. This year, our objective was to ensure that our investments in investment-grade bonds were tilted more towards companies with better environmental, social and governance ("**ESG**") credentials and we were delighted that relevant portfolios had an average ESG rating of 'A'. This represents 87% of the credit investments in the portfolio and 62% of our total investment portfolio. We also recycled 98% of our total waste and since 2014 have sourced 100% of our electricity from renewable sources. In order to achieve our goal of long-term sustainability it is important that we give back more to the planet than we take out.

Consumer trends

New products, new routes to market and technology, particularly in cars, are emerging. In response we are preparing for a shift in the risk pool and an increase in the importance of data and analytics. Our new brand Darwin is using new pricing technology for motor customers who purchase via the PCW channel and our new motor insurance platform is being rolled out to make customer journeys easier. In our accident repair centres we are preparing for the future by investing in specialist equipment to repair cars with advanced driver-assistance systems ("**ADAS**") technology, as well as supporting FiveAI's recent trial of autonomous vehicles and partnering with Europe's largest car-subscription service Drover.

Business performance

In 2019, we delivered £546.9 million of operating profit, a combined operating ratio of 92.2% and a return on tangible equity of 20.8%.

Direct own brands in-force policies grew by 1.4% to 7.3 million (2018 restated: 7.2 million) as Green Flag and Commercial direct own brands continued their strong growth, offset by lower volumes in Motor and Home. Total in-force policies were 1.9% lower than 2018, primarily due to lower Travel policies as lower packaged bank account volumes reduced and lower Motor and Home partner volumes reflecting previously announced partner exits.

Gross written premium was 0.3% lower than in 2018 (2019: £3,203.1 million, 2018: £3,211.9 million). The impact of lower average premiums in Motor and Home and lower partnership volumes were almost fully offset by strong growth in Green Flag and Commercial direct own brands. The second half of 2019 saw gross written premium increase by 3.4% compared to the first half of 2019 (H1 2019: £1,575.1 million; H2 2019: £1,628.0 million) as performance across Motor and Home direct own brands improved.

The current-year attritional loss ratio improved by 1.0 percentage point (2019: 71.6%, 2018 restated: 72.6%) with Home, Rescue and other personal lines and Commercial all improving and Motor remaining broadly steady. This demonstrates the benefits of our focus on underwriting discipline and claims management in a competitive market.

Claims related to large weather events totalled £6 million in 2019 compared with £75 million in 2018 and expectations of £65 million for both years. The results also include a £16.9 million charge arising from the change in the Ogden discount rate to minus 0.25%, from the assumed rate of 0% in the first half of 2019 (2018: release of £54.8 million).

We made good progress on costs in 2019, reducing operating expenses before restructuring and one-off costs by £24.5 million to £693.7 million. We aim to reduce operating expenses, excluding amortisation and depreciation charges, by £50 million from 2018 to 2021, and in 2019 we achieved £11 million of this target and aim to achieve the remaining £39m over the next two years. Lower operating expenses helped to maintain the expense ratio at 23.2% (2018 restated: 23.2%). Of the estimated £60 million restructuring and one-off costs announced at our Capital Markets Day, that we expect over 2019 and 2020, we incurred £11.2 million in 2019 (2018: £nil).

Overall, the combined operating ratio was 92.2%. When normalised for weather and Ogden discount rate changes the ratio was 93.5% (2018 restated: 93.3%), towards the lower end of our 93% to 95% medium term target range.

Profit before tax was down 12.2% to £509.7 million (2018 restated: £580.5 million). The impact of benign weather in 2019 was more than offset by lower reserve releases, in part Ogden discount rate-related, non-repeat of investment and property gains and restructuring and one-off costs in 2019.

We made further progress to improve the quality of our earnings; the current-year contribution to operating profit, normalised for weather and Ogden discount rate changes, increased by three percentage points to 39%[1], as the Group was more than able to offset lower investment gains and the £9.6 million one-off gain from the sale of our Bristol office in 2018. We continue to target the proportion from current-year to be more than 50% by the end of 2021.

Return on tangible equity was 20.8%, ahead of our 15% hurdle.

Our business transformation

We are on an ambitious transformation journey to increase the competitiveness of our business.

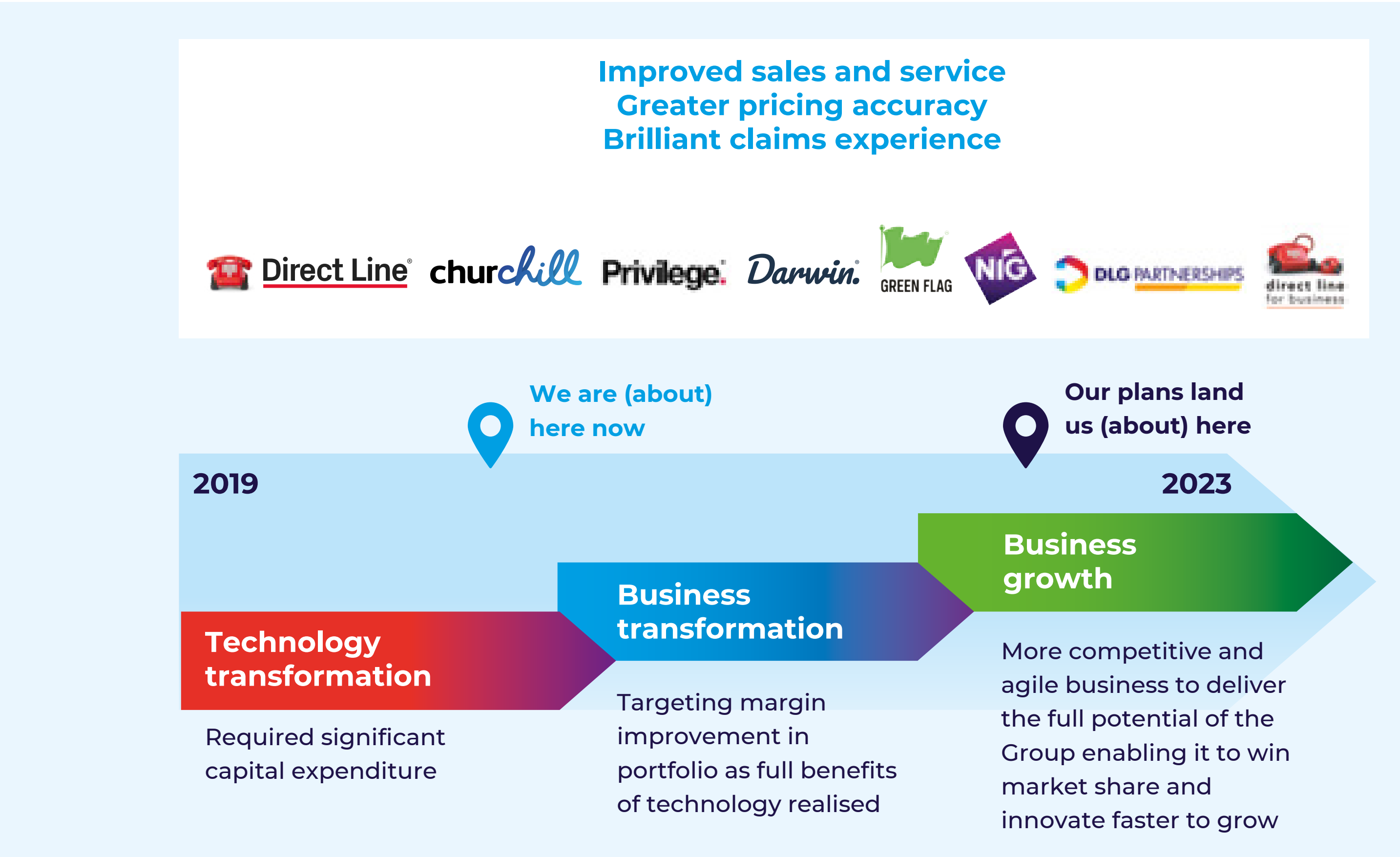
> We are aiming for a win for the customer in the creation of true value.

A company that cares

First and foremost, we are a people business, which means we really care and have a passion to serve our customers.

Find out more on page 61

Note:
1. See glossary on pages 222 to 224 for definitions and appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.



UK storms and Coronavirus

The recent storms, Ciara and Dennis, in February have shown how important it is to be with the right insurer and we are proud with how we supported our customers during these difficult times. We estimate that the claims costs of these storms will be in the region of £35 million, net of Flood Re recoveries, across our Home and Commercial businesses compared to an expected annual weather cost of around £64 million. It is too early to assess any additional claims from storm Jorge. In addition, the Coronavirus outbreak (specifically the disease COVID-19) has the potential to impact the 2020 result of our Travel business. We have Travel reinsurance protection to mitigate the cost of an event over a 28-day period to £1 million up to a limit of £10 million. The full coverage, if utilised, can be reinstated once on the same terms. Currently, incurred claims are around £1 million. Like all businesses, we are subject to the consequences of disruption to financial markets and global supply chains which, over time, could impact the performance of our investments and the cost and speed of fulfilling customers' claims.

Outlook

The Group targets a combined operating ratio of 93% to 95% for 2020 and over the medium term, normalised for weather. By the end of 2021, the Group aims to increase the annual proportionate contribution from current-year operating profit to more than half of the Group's total operating profit.

The targeted improvement in current-year underwriting profitability is supported by the significant investment the Group is making in building future capability. This investment aims to improve the current-year loss ratio by delivering additional pricing sophistication and supporting multiple initiatives to combat fraud. In addition, the Group is targeting improved efficiency through self-service and digitalisation and a reduction in operating expenses[1] by £50 million between 2018 and 2021 and we aim to improve our operating expense ratio to 20% by 2023. We reiterate our ongoing target of achieving at least a 15% return on tangible equity per annum.

Looking ahead to 2020 and beyond, we are aiming for a triple win:

- a win for the Group and those invested in its success – our shareholders and our people;
- a win for the customer in the creation of true value; and
- a win for society and the planet as we know our long-term success is intrinsically linked with the success of the community and environment around us.

Our fundamental strengths as a business continue to bring benefits and I'm proud that our transformation programme gives us the opportunity to further enhance the ability of the Group to offer value for customers and shareholders.

PENNY JAMES
CHIEF EXECUTIVE OFFICER

Note:
1. Excluding amortisation, depreciation and restructuring and one-off costs.

Long-term sustainability

Underpinning our vision, purpose and strategy are deeply embedded and fundamental principles which are central to how we make decisions and enable us to build our business for the long term.

Vision

We want to create a world where insurance is personal, inclusive and a force for good

Purpose

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

STRATEGIC OBJECTIVES

Best at direct	To be the UK's leading direct insurer because we anticipate our customers' needs and develop services and products they want to buy.
Win on price comparison websites	To deliver a step change in our pricing and trading capability so that our leading PCW brands win customers from our competitors.
Extend our reach	To utilise the potential of our investments and capabilities to win more customers through acquisitions and brand partnerships.
Technical edge	To use our data, scale, skill and insight across claims, pricing and underwriting to deliver value to customers.
Nimble and cost efficient	To transform into an agile, cost effective business to drive efficiency and simplicity for us and our customers.
Great people	A home for empowered people who celebrate difference, and challenge the status quo to deliver for our customers.

See page 15

SUSTAINABILITY PILLARS

Customers

People

Society

Planet

Governance

See pages 59 to 71

VALUES

Do the right thing

Aim higher

Take ownership

Say it like it is

Work together

Bring all of yourself to work

See page 75

Transforming our business

We are transforming every part of our business to ensure that our products are easy to use and available everywhere. The 2019 transformation in action highlights demonstrate how we deliver great value and an excellent customer experience.

Win on price comparison websites

Churchill has had a makeover!

Our customers have always loved Churchie, the leading[1] PCW brand, but we know that our customers' expectations are changing. The original 'nodding dog' has been replaced by a CGI Churchie. The new ad aims to make life feel that little bit more effortless – as we believe it should do for all our customers allowing them to just... chill.

Great people

Building Darwin

We wanted to use our experience and expertise to shake things up by bringing in a team of data scientists and engineers to build Darwin from scratch as a 'start-up' within the business. The fusion created by having great people within the business and bringing in great people with different skills helped us to develop Darwin's machine learning algorithms on cloud-based technology. As a result, not only does Darwin have the capability to price individual risk much more efficiently, it also offers a full digital customer experience.

Technical edge

New travel system

Customers value convenience which is why we've built a technology platform that gives our customers a seamless digital experience on their travel insurance policy. Our customers can buy online, upgrade and renew from their smartphone, tablet or PC. There are two major benefits – we now offer an intuitive, full online medical screening, while using up to date medical risk scoring technology. We also offer customers the ability to submit their claims online allowing them to track and manage the progress of their claim, no matter what time of day.

Note:
1. Kantar Brand Power Share – H2 2019. Churchill ranked third in this index with the top two brands not sold via the PCW channel.

Best at Direct

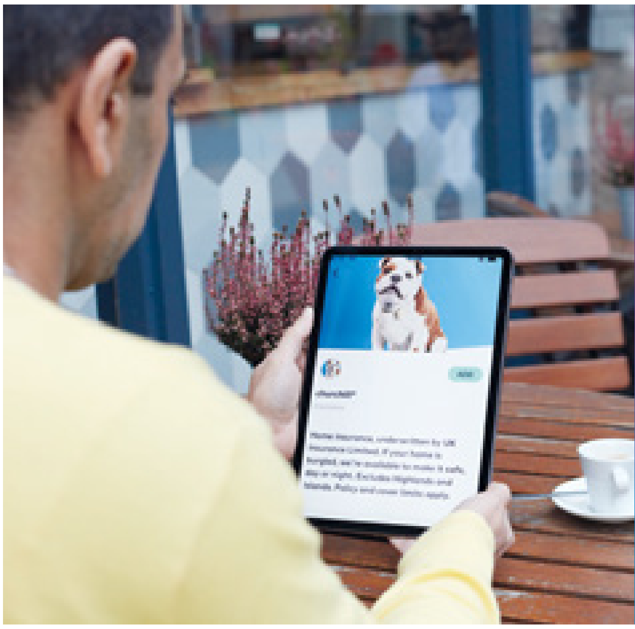
Enhancing the Direct Line proposition

Since relaunching in 2014, Direct Line has relentlessly pursued its goal of being Britain's greatest fixer. This year, it improved its onward travel process for motor insurance and cut the dispatch time for some home insurance replacements to within two hours of making a claim.

Nimble and cost efficient

Digitising our processes

Technology is overhauling the way we deliver greater efficiency. This year we've digitalised claims processes to create a more nimble journey for our customers and drive cost savings for us. Our robotics function processes 50,000 transactions a week, with capacity to expand and automate more processes.



Extend our reach

Starling Bank partnership launched

With more and more people managing their lives digitally, this year we partnered with Starling Bank, using their in-app Marketplace to offer banking customers Churchill home insurance. Using API (Application Programming Interface) technology customers are directed straight to the Churchill brand quote and buy system and can choose to have some of their details pre-populated.

Delivering for our stakeholders

We have unique strengths which allow us to deliver sustainable value for our stakeholders.

Our strengths

We have a number of incredible strengths, from strong brands to rich data to leading claims skills, that are hard to replicate and provide real long-term value.

People
We are a business that really cares, with people who have a passion to serve our customers.

Brands
We know how to build brand value and have some of the most loved brands in the UK.

Data and technology
We harness our brands to design more personalised products and services as well as easier customer journeys.

Capital strength
We have a strong balance sheet with further opportunities to improve its effectiveness.

This is how we make our money

+ Premiums

− Claims

− Costs

+ Investment return and other income

− Tax

= Surplus

REINVEST IN OUR BUSINESS

This is how we create value

- We have a number of the UK's most loved brands giving us a deep understanding of changing market dynamics and customer needs
- Our long-established position in the UK insurance market and vertically integrated business model gives us a platform to continually enhance our pricing capability
- Data analytics and digital capability power our counter-fraud capability meaning we can pin-point fraud cases and control claims costs
- As a leading motor insurer we benefit from running a network of 21 accident repair centres creating high operating efficiency
- Cost reduction targets are important to the sustainable success of the Group providing opportunities for greater business agility
- Our investment in technology aims to increase our competitiveness allowing digitalisation where customers can enjoy self-serve
- We invest in a diversified investment portfolio which aims to provide for current and future claims payments
- We pride ourselves on strong ESG credentials because we know sustainability and commercial success go hand in hand
- We manage our tax obligations responsibly contributing either directly or indirectly over £950 million in tax to the Exchequer this year
- As a major contributor of taxes we are proactive in working with HMRC to ensure that new tax legislation is appropriate and tax anomalies are identified
- Over the past five years we have consistently delivered strong shareholder returns having distributed £2.2 billion in dividends
- Investing in the business has enabled us to keep pace with changing customer needs, improve operational performance and create cutting-edge products and services

A Triple win

We aim to deliver a sustainable and thriving business that generates attractive shareholder returns.

We are aiming for a triple win:

A win for the Group

A win for the Group and those invested in its success – our shareholders and our people.

A win for the customer

A win for the customer in the creation of true value.

And a win for society and the planet

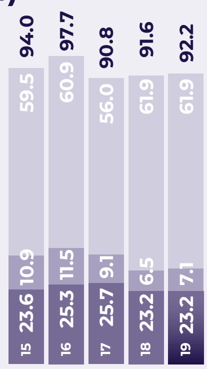
And a win for society and the planet as we know our long-term success is intrinsically linked with the success of the community and environment around us.

RETURNS TO SHAREHOLDERS

Strong performance

These key performance indicators assess our performance against our strategy.

Combined operating ratio[1,2] (%)



Definition

A measure of financial year underwriting profitability. A COR of less than 100% indicates profitable underwriting. The COR is the sum of claims, expense and commission ratios and compares the cost of doing business against net earned premium generated.

Aim

We aim to make an underwriting profit. The target in the medium term is a COR in the range of 93% to 95% normalised for weather.

Performance

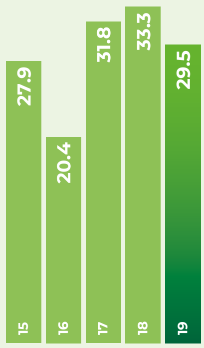
See Finance review page 32

Remuneration

We base part of the AIP awards on profit before tax. COR is closely linked to this.

See pages 108 and 114

Basic earnings per share[1] (pence)



Definition

This is calculated by dividing the earnings attributable to shareholders less coupon payments in respect of Tier 1 notes by the weighted average numbers of Ordinary Shares in issue.

Aim

We have not set a target. However, growing earnings per share is considered an indicator of a healthy business.

Performance

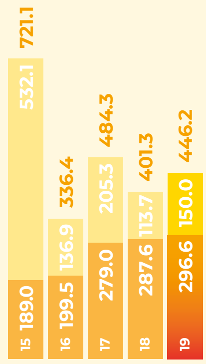
See Finance review page 35

Remuneration

This is a broad measure of earnings and reflects the results of the Group after tax less Tier 1 coupon payments. We base part of the AIP awards on profit before tax.

See pages 108 and 114

Capital returns (£m[1])



Definition

The amount of cash paid in dividends to shareholders and amount of share buybacks funded from the Group's retained profits. (See page 29 for dividend breakdown).

Aim

We aim to grow the regular dividend in line with business growth. Additionally, we look to return any capital to shareholders which is expected to be surplus to our requirements for a prolonged period.

Performance

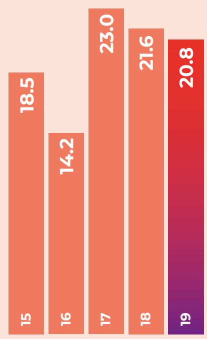
See Finance review page 35

Remuneration

We base LTIP awards partly on relative total shareholder return performance, which includes dividends. Directors also receive dividends on their beneficial shareholdings and accrue these on unvested LTIP awards.

See pages 108 and 118

Return on tangible equity[1,2] (%)



Definition

The return generated on the capital that shareholders have in the business. This is calculated by dividing adjusted earnings by average tangible equity.

Aim

We aim to achieve at least a 15% RoTE per annum over the long term.

Performance

See Finance review page 35

Remuneration

We base the LTIP awards partly on adjusted RoTE over a three-year performance period.

See pages 108 and 118

Notes:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.
2. See glossary on pages 222 to 224 and Appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.
3. Estimates based on the Group's Solvency II partial internal model for 2016 to 2019. Solvency capital coverage based on the standard formula for 31 December 2015.

Changes to our KPIs in 2019

Our metrics are reviewed annually and updated as appropriate to ensure they remain an effective measure of delivery against our objectives. For 2019, the review of these metrics resulted in the following changes:

– Dividend per share has been replaced by capital returns which includes ordinary and special dividends and share buybacks.

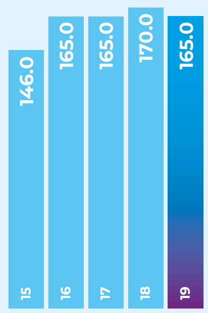
Key for Combined operating ratio

Expense ratio | Commission ratio | Loss ratio

Key for Capital returns

Ordinary | Special | Buybacks

Solvency capital ratio[3] (%)



A risk-based measure expressing the level of capital resources held as a percentage of the level of capital that is required under Solvency II.

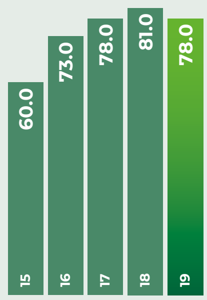
Under normal circumstances, the Group aims to maintain a solvency capital ratio around the middle of the risk appetite range of 140% to 180%.

See Finance review page 36

Risk management within our risk appetite, which includes an assessment of capital strength, acts as a gateway for the AIP awards and underpin for LTIP awards.

See page 108

Employee engagement (%)



Engagement is about being proud to work for Direct Line Group and helping us to succeed. It means that employees are not just happy or satisfied, but doing something to help us achieve our company goals.

To make the Group best for employees and best for our customers. We gauge employee engagement through our employee opinion survey and we aim for high employee engagement scores each year.

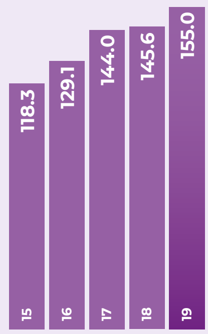
See People page 63

The AIP awards include a weighting to a balance of employee metrics, including engagement.

See pages 108 and 116

Net promoter score[4] (points)

Direct Line Brand



Net promoter score ("**NPS**") is an index that measures the willingness of customers to recommend products or services to others. It is used to gauge customers' overall experience with a product or service, and customers' loyalty to a brand.

We aim to increase our net promoter score over time.

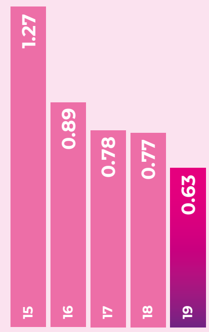
See Customers page 62

The AIP awards include a weighting to a balance of customer metrics, including NPS.

See pages 108 and 115

Customer complaints[5] (%)

Principal underwriter[6]



The number of complaints we received during the year as a proportion of the average number of in-force policies.

This measure indicates where our customer service has not met expectations to the extent that the customer has initiated a complaint. We aim to improve this over time.

See Customers page 61

The AIP awards include a weighting to a balance of customer metrics, including complaints.

See pages 108 and 115

4. On an aggregated 12-month rolling basis, with 2013 rebased to 100.
5. FCA complaints reporting requirements have changed for periods after 29 June 2016. Before 29 June 2016, only complaints resolved after two business days were classed as FCA reportable. From July 2016 all complaints resolved are classed as FCA reportable.
6. For the Group's principal underwriter, U K Insurance Limited.

Good results; buyback launched

Financial highlights

Grew direct own brand in-force policies by 1.4% with strong growth in Green Flag and Commercial direct own brands. Total in-force policies were lower as partnership volumes reduced.

Total Group gross written premium was broadly steady as underwriting discipline resulted in fewer Motor and Home policies and lower premiums which was largely offset by growth in Green Flag and Commercial direct own brands.

Operating expenses before restructuring and one-off costs of £693.7 million (2018 restated: £718.2 million) were in line with target of less than £700 million. Restructuring and one-off costs were £11.2 million (2018: £nil).

Combined operating ratio was 92.2%. Adjusting for normal weather and changes to the Ogden discount rate, the combined operating ratio of 93.5% (2018 restated: 93.3%) was towards the lower end of the Group's medium-term target range of 93% to 95%. The current-year Motor loss ratio was broadly stable.

Profit before tax was down 12.2% to £509.7 million (2018 restated: £580.5 million). The impact of benign weather in 2019 was more than offset by lower reserve releases, in part Ogden discount rate-related, non-repeat of investment and property gains and restructuring and one-off costs in 2019.

Proposed final ordinary dividend of 14.4 pence, an increase of 2.9% on 2018. Announcing a £150 million share buyback and awarding our people £500 of free shares each.

Strong capital position with a solvency capital ratio of 165% after proposed capital distributions (2018: 170%).

"We delivered a good result in 2019, trading well through a difficult market, while staying on track with our transformation and maintaining our balance sheet strength."

TIM HARRIS
CHIEF FINANCIAL OFFICER

	FY 2019 £m	FY 2018[1,2] £m
In-force policies (thousands)	**14,789**	15,073
Of which: direct own brands (thousands)	**7,290**	7,188
Gross written premium	**3,203.1**	3,211.9
Of which: direct own brands	**2,227.8**	2,228.9
Net earned premium	**2,984.9**	3,089.5
Underwriting profit	**232.1**	259.8
Instalment and other operating income	**180.2**	192.0
Investment return	**134.6**	154.6
Operating profit	**546.9**	606.4
Restructuring and other one-off costs	**(11.2)**	–
Operating profit after restructuring and one-off costs	**535.7**	606.4
Finance costs	**(26.0)**	(25.9)
Profit before tax	**509.7**	580.5
Tax	**(89.8)**	(108.5)
Profit after tax	**419.9**	472.0
Key metrics		
Current-year attritional loss ratio[3,4]	**71.6%**	72.6%
Loss ratio[3,4]	**61.9%**	61.9%
Commission ratio[3,4]	**7.1%**	6.5%
Expense ratio[3,4]	**23.2%**	23.2%
Combined operating ratio[3,4]	**92.2%**	91.6%
Return on tangible equity[4]	**20.8%**	21.6%
Investment income yield[4]	**2.4%**	2.5%
Net investment income yield[4]	**2.1%**	2.0%
Investment return yield[4]	**2.2%**	2.4%
Basic earnings per share (pence)	**29.5**	33.3
Diluted earnings per share (pence)	**29.2**	32.9
Return on equity	**15.5%**	17.3%
Dividend per share		
– interim (pence)	**7.2**	7.0
– final (pence)	**14.4**	14.0
– total ordinary (pence)	**21.6**	21.0
– special (pence)	**–**	8.3
	31 Dec 2019	31 Dec[1] 2018 Restated
Net asset value per share (pence)	**193.4**	187.5
Tangible net asset value per share (pence)	**142.0**	145.9
Solvency capital ratio post-dividends[5]	**165%**	170%

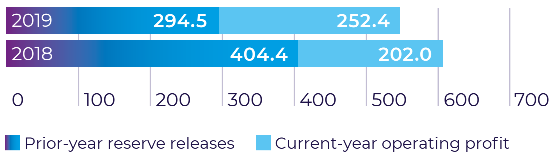
Notes:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.
2. In-force policies, including direct own brands, as at 31 December 2018 have been restated to included 41,000 policies omitted from the previously reported amounts.
3. A reduction in the ratio represents an improvement as a proportion of net earned premium, while an increase in the ratio represents a deterioration. See glossary on pages 222 to 224 for definitions.
4. See glossary on pages 222 to 224 for definitions and appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.
5. See note 4 on page 1, reported after proposed dividends.

Performance

Operating profit[1]

	FY 2019 £m	FY 2018[2] Restated £m
Underwriting profit	**232.1**	259.8
Instalment and other operating income	**180.2**	192.0
Investment return	**134.6**	154.6
Total operating profit	**546.9**	606.4

Operating profit



Notes:
1. See glossary on pages 222 to 224 for definitions and appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.
2. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.

Underwriting profit decreased to £232.1 million (2018 restated: £259.8 million) as lower prior-year reserve releases of £294.5 million, including the effects of changes to the Ogden discount rate detailed below, were partially offset by lower operating expenses and reduced weather-related claims of £6 million (2018: £75 million weather-related claims).

The combined operating ratio was 92.2% (2018 restated: 91.6%). The current-year attritional loss ratio improved by 1.0 percentage point to 71.6% (2018 restated: 72.6%). Home, Rescue and other personal lines and Commercial all improved, and Motor remained broadly steady. The loss ratio relating to major weather events improved by 2.2 percentage points to 0.2%, partially offset by a 0.6 percentage point increase in the commission ratio. The expense ratio was stable as lower expenses were offset by a reduction in earned premium. Overall, the current-year combined operating ratio improved by 2.6 percentage points to 102.1%.

Instalment and other operating income decreased to £180.2 million (2018: £192.0 million), due primarily to the non-repeat of a £9.6 million property gain in 2018. Other income, including from our in-house accident repair network, remained broadly stable.

Investment return decreased to £134.6 million (2018: £154.6 million) as a result of a reduction in assets under management reducing investment income, the non-repeat of £13 million of fair value adjustments in 2018 and a reduction in realised gains.

Operating profit decreased by £59.5 million to £546.9 million (2018 restated: £606.4 million) as a result of reductions in underwriting profit, instalment and other operating income and investment return. Current-year operating profit, as a proportion of total operating profit, improved, making progress towards the Group's target of achieving more than half of the Group's annual operating profit from current-year earnings by the end of 2021.

Effect of Ogden discount rate changes on claims reserves net of reinsurance

	Motor £m	Commercial £m	FY 2019 Total £m	Motor £m	Commercial £m	FY 2018 Total £m
Prior year	**15.9**	**1.0**	**16.9**	(47.9)	(3.5)	(51.4)
Current year	**–**	**–**	–	(2.7)	(0.7)	(3.4)
Total claims reserve increase / (decrease)	**15.9**	**1.0**	**16.9**	(50.6)	(4.2)	(54.8)

The Civil Liability Act 2018 introduced a new framework for setting the personal injury Ogden discount rate, requiring the Government to reset the Ogden discount rate by reference to low risk rather than very low or zero risk investments. Following a Government review, as dictated by the terms of the Civil Liability Act 2018, on 15 July 2019 the Lord Chancellor announced a new Ogden discount rate of minus 0.25% to take effect from 5 August 2019. Compared to an assumed Ogden discount rate of 0% this resulted in a £16.9 million increase in reserves split across the Motor and Commercial segments. In 2018, following the granting of royal assent for the Act in December 2018, the Group reviewed the Ogden discount rate for reserves for large bodily injury claims and selected an assumed rate of 0% for reserving purposes as at 31 December 2018. This resulted in a reserves release of £54.8 million in 2018.

In-force policies and gross written premium

In-force policies (thousands)

At	31 Dec 2019	31 Dec 2018[1,2]
Direct own brands	**3,921**	3,950
Partnerships	**122**	144
Motor	**4,043**	4,094
Direct own brands	**1,765**	1,789
Partnerships	**829**	862
Home	**2,594**	2,651
Rescue	**3,450**	3,532
Travel	**3,648**	3,759
Pet	**157**	156
Other personal lines	**122**	126
Rescue and other personal lines	**7,377**	7,573
Of which: Green Flag direct	**1,063**	935
Direct own brands	**541**	514
NIG and other	**234**	241
Commercial	**775**	755
Total in-force policies	**14,789**	15,073
Of which: direct own brands	**7,290**	7,188

Notes:
1. Commercial direct own brands include Direct Line for Business and commercial products sold under the Churchill brand, the Churchill in-force policies were previously reported within NIG and other. Prior periods have been re-presented accordingly.
2. In-force policies, including direct own brands as at 31 December 2018 have been restated to include 41,000 policies previously omitted from previously reported amounts.

Total in-force policies reduced to 14.8 million (31 December 2018: 15.1 million), primarily due to lower volumes in policies attached to packaged bank accounts, small reductions in Motor and Home own brands, and reductions in Home partnerships as Prudential and Sainsbury's partnerships are closed to new business. Own brands in-force policies grew to 7.3 million (2018 restated: 7.2 million), with growth in Green Flag and Commercial direct own brands partly offsetting the overall reduction.

Gross written premium

	FY 2019 £m	FY 2018[1] £m
Direct own brands	**1,591.7**	1,608.8
Partnerships	**59.9**	62.4
Motor	**1,651.6**	1,671.2
Direct own brands	**407.7**	412.6
Partnerships	**178.9**	194.3
Home	**586.6**	606.9
Rescue	**167.5**	163.4
Travel	**151.3**	143.9
Pet	**72.6**	72.4
Other personal lines	**44.6**	43.1
Rescue and other personal lines	**436.0**	422.8
Of which: Green Flag direct	**79.0**	69.6
Direct own brands	**149.4**	137.9
NIG and other	**379.5**	373.1
Commercial	**528.9**	511.0
Total gross written premium	**3,203.1**	3,211.9
Of which: direct own brands	**2,227.8**	2,228.9

Note:
1. Commercial direct own brands includes Direct Line for Business and commercial products sold under the Churchill brand that we previously reported within NIG and other. Prior periods have been re-presented accordingly.

Gross written premium of £3,203.1 million (2018: £3,211.9 million) reduced slightly by 0.3% as modest declines in Motor and Home were partially offset by increases in Commercial and Rescue and other personal lines. Direct own brands gross written premium of £2,227.8 million (2018: £2,228.9 million) was broadly steady.

Underwriting profit and combined operating ratio

	FY 2019	FY 2018[1] restated
Underwriting profit (£ million)	**232.1**	259.8
Loss ratio	**61.9%**	61.9%
Commission ratio	**7.1%**	6.5%
Expense ratio	**23.2%**	23.2%
Combined operating ratio	**92.2%**	91.6%

Note:
1. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.

The Group's combined operating ratio of 92.2% (2018 restated: 91.6%) increased by 0.6 percentage points, primarily due to an increase in the commission ratio. Weather-related claims reduced in 2019 and there was no repeat of the weather-event related claims experienced in the first half of 2018. The resulting improvements to the Home loss ratio were largely offset by increases in the Motor loss ratio as the contribution from prior-year reserve releases reduced. Normalised for weather and the Ogden discount rate change, the combined operating ratio was approximately 93.5%[1], towards the lower end of the Group's medium-term target range of 93% to 95%. This includes a 0.6 percentage point impact from the Ogden discount rate change in July 2019.

The loss ratio was stable at 61.9% (2018 restated: 61.9%) as a number of factors offset each other. The current-year attritional loss ratio improved by 1.0 percentage point as the Group benefited from benign weather and this was offset by lower prior-year reserve releases in part due to Ogden discount rate changes.

The commission ratio has increased primarily as a result of increased profit-share payments and volume related payments to PCWs.

The expense ratio has remained steady at 23.2% as lower costs were fully offset by lower earned premium. Operating expenses excluding restructuring and one-off costs fell by £24.5 million to £693.7 million in 2019, with reductions across all major cost categories except for insurance levies.

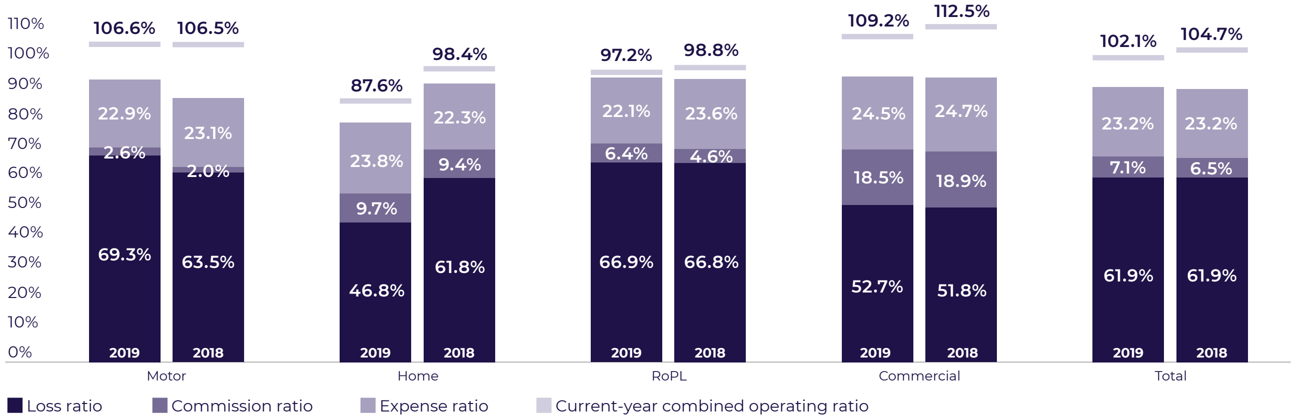
Note:
1. See glossary on pages 222 to 224 for definitions and appendix A – Alternative performance measures on pages 225 to 228 for reconciliation.

Ratio analysis by division

	Notes	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total Group £m
For the year ended 31 December 2019						
Net earned premium	4	**1,507.7**	**573.6**	**425.2**	**478.4**	**2,984.9**
Net insurance claims	4	**1,043.3**	**268.4**	**284.4**	**251.5**	**1,847.6**
Prior-year reserve releases	34	**180.5**	**41.4**	**7.6**	**65.0**	**294.5**
Major weather events		**n/a**	**(3.0)**	**n/a**	**(3.0)**	**(6.0)**
Attritional net insurance claims		**1,223.8**	**306.8**	**292.0**	**313.5**	**2,136.1**
Loss ratio – current-year attritional		**81.2%**	**53.5%**	**68.7%**	**65.6%**	**71.6%**
Loss ratio – prior-year reserve releases		**(11.9%)**	**(7.2%)**	**(1.8%)**	**(13.6%)**	**(9.9%)**
Loss ratio – major weather events[1]		**n/a**	**0.5%**	**n/a**	**0.7%**	**0.2%**
Loss ratio – reported	4	**69.3%**	**46.8%**	**66.9%**	**52.7%**	**61.9%**
Commission ratio	4	**2.6%**	**9.7%**	**6.4%**	**18.5%**	**7.1%**
Expense ratio	4	**22.9%**	**23.8%**	**22.1%**	**24.5%**	**23.2%**
Combined operating ratio	4	**94.8%**	**80.3%**	**95.4%**	**95.7%**	**92.2%**
Current-year combined operating ratio		**106.6%**	**87.6%**	**97.2%**	**109.2%**	**102.1%**
For the year ended 31 December 2018[2] (restated)						
Net earned premium	4	1,541.8	667.8	414.7	465.2	3,089.5
Net insurance claims	4	979.3	413.3	277.2	241.3	1,911.1
Prior-year reserve releases	34	276.3	32.6	16.1	79.4	404.4
Major weather events		n/a	(65.0)	n/a	(10.0)	(75.0)
Attritional net insurance claims		1,255.6	380.9	293.3	310.7	2,240.5
Loss ratio – current-year attritional		81.4%	57.0%	70.7%	66.8%	72.6%
Loss ratio – prior-year reserve releases		(17.9%)	(4.9%)	(3.9%)	(17.1%)	(13.1%)
Loss ratio – major weather events[1]		n/a	9.7%	n/a	2.1%	2.4%
Loss ratio – reported	4	63.5%	61.8%	66.8%	51.8%	61.9%
Commission ratio	4	2.0%	9.4%	4.6%	18.9%	6.5%
Expense ratio	4	23.1%	22.3%	23.6%	24.7%	23.2%
Combined operating ratio	4	88.6%	93.5%	95.0%	95.4%	91.6%
Current-year combined operating ratio		106.5%	98.4%	98.8%	112.5%	104.7%

Notes:
1. Home and Commercial claims for major weather events, including inland and coastal flooding and storms.
2. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.

Ratio analysis by division



The movement in the current-year attritional loss ratio is an indicator of underlying accident year performance as it excludes prior-year reserve releases and claims costs from major weather events. The Group's current-year attritional loss ratio of 71.6% improved by 1.0 percentage point compared to 2018, demonstrating good progress on the Group's target to improve current-year underwriting profitability. This was primarily due to improvements in escape of water claims in Home and small improvements across other divisions.

Prior-year reserve releases continued to be significant at £294.5 million (2018: £404.4 million), equivalent to 9.9% of net earned premium (2018: 13.1%) and were concentrated towards more recent accident years. In 2019, prior-year reserves increased by £16.9 million in relation to a change in the Ogden discount rate to minus 0.25% (2018: £54.8 million reserve release). Assuming current claims trends continue, prior-year reserve releases are expected to continue to reduce further in future years, although they are expected to remain a significant contribution to profits.

The Group's current-year combined operating ratio improved by 2.6 percentage points to 102.1% (2018 restated: 104.7%) as a 2.2 percentage point improvement in claims due to major weather events and a 1.0 percentage point improvement to the current-year attritional loss ratios were partially offset by a 0.6 percentage point increase in the commission ratio.

Operating expenses before restructuring and one-off costs

	Note	FY 2019 £m	FY 2018[1] £m restated
Staff costs[2]		**261.5**	269.9
IT and other operating expenses[2,3]		**158.0**	167.6
Marketing	10	**113.9**	121.2
Insurance levies[4]	10	**81.5**	67.6
Depreciation and amortisation[5,6]	10	**78.8**	91.9
Total operating expenses before restructuring and one-off costs		**693.7**	718.2

Notes:
1. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.
2. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
3. IT and other operating expenses include information technology costs, professional fees and property costs.
4. Insurance levies were previously reported in IT and other operating expenses. Comparative data for the year 31 December 2018 has been re-presented accordingly.
5. Depreciation and amortisation include a £1.3 million impairment charge for year ended 31 December 2019 (2018: £1.5 million), which relates to capitalised software development costs for ongoing IT projects primarily relating to development of new systems.
6. Includes depreciation on right-of-use assets of £14.2 million (31 December 2018: £14.1 million).

Operating expenses before restructuring and one-off costs reduced by £24.5 million to £693.7 million (2018 restated: £718.2 million), meeting the Group's 2019 target of reducing operating expenses to under £700 million. This resulted in an unchanged expense ratio of 23.2% (2018 restated: 23.2%). The Group saw reductions in all major cost categories with the exception of insurance levies, where there have been increases in both the Motor Insurers' Bureau and the Financial Services Compensation Scheme levies.

The Group has continued to invest in its technology transformation and other operational efficiency improvements. The core areas of focus include self-service and digitalisation, process improvement and automation, as well as reducing costs through targeted procurement activity.

Instalment and other operating income

	Note	FY 2019 £m	FY 2018 £m
Instalment income		**114.0**	119.9
Other operating income:			
Revenue from vehicle recovery and repair services[1]	7	**28.3**	25.1
Vehicle referral income	7	**19.1**	17.2
Legal services income	7	**11.3**	11.2
Other income[2,3]	7	**7.5**	18.6
Other operating income	7	**66.2**	72.1
Total instalment and other operating income		**180.2**	192.0

Notes:
1. Revenue from vehicle recovery and repair services includes salvage income previously reported in other income. Comparative data for the year ended 31 December 2018 has been re-presented accordingly.
2. Other income includes mainly fee income from insurance intermediary services.
3. In 2018 other income included a £9.6 million gain on the sale of a property.

Instalment and other operating income decreased by £11.8 million, primarily as a result of the non-repeat of a £9.6 million property gain in 2018.

Investment return

	Note	FY 2019 £m	FY 2018 £m
Investment income		**146.4**	159.2
Hedging to a sterling floating rate basis		**(22.1)**	(30.8)
Net investment income		**124.3**	128.4
Net realised and unrealised gains excluding hedging		**10.3**	26.2
Total investment return	6	**134.6**	154.6

Investment yields

	FY 2019	FY 2018
Investment income yield[1]	**2.4%**	2.5%
Net investment income yield[1]	**2.1%**	2.0%
Investment return yield[1]	**2.2%**	2.4%

Note:
1. See glossary on pages 222 to 224 for definitions and appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.

Total investment return decreased by £20.0 million to £134.6 million (2018: £154.6 million). This was due to a reduction in investment income, primarily as a result of lower assets under management, and a reduction in realised and unrealised gains excluding hedging, which was predominantly driven by investment property revaluations (2019: (£6.2) million, 2018: £12.7 million).

The investment income yield for 2019 reduced to 2.4% (2018: 2.5%). The net investment income yield was higher at 2.1% (2018: 2.0%) as a result of decreased hedging costs. In 2020, the Group expects a net investment income yield around 2.0%.

The Group's investment strategy aims to deliver several objectives, which are summarised below:

- to ensure there is sufficient liquidity available within the investment portfolio to meet stressed liquidity scenarios;
- to match periodic payment orders ("**PPO**") and non-PPO liabilities in an optimal manner; and
- to deliver a suitable risk-adjusted investment return commensurate with the Group's risk appetite.

Reconciliation of operating profit

	Note	FY 2019 £m	FY 2018[1] £m restated
Motor	4	**302.6**	418.1
Home	4	**150.6**	83.9
Rescue and other personal lines	4	**39.1**	44.0
Commercial	4	**54.6**	60.4
Operating profit	4	**546.9**	606.4
Restructuring and one-off costs		**(11.2)**	–
Operating profit after restructuring and one-off costs		**535.7**	–
Finance costs	4	**(26.0)**	(25.9)
Profit before tax	4	**509.7**	580.5
Tax		**(89.8)**	(108.5)
Profit after tax		**419.9**	472.0

Note:
1. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.

Operating profit by segment

All divisions contributed to profit in 2019, demonstrating the diversity of the Group's multi-product, multi-brand and multi-channel portfolio. Motor operating profit reduced, primarily due to the effects on prior-year reserve releases of Ogden discount rate changes in both 2018 and 2019. Home operating profit improved, primarily due to underwriting actions, claims indemnity initiatives and benign weather. Rescue operating profit of £45.1 million (2018 restated: £40.2 million) is included in the Rescue and other personal lines result.

Restructuring and one-off costs

In order to support its cost reduction targets, the Group announced approximately £60 million of restructuring and one-off costs across 2019 and 2020 at its Capital Markets Day in November. The Group incurred £11.2 million of restructuring and one-off costs in 2019 with the remainder expected to be incurred in 2020.

Finance costs

Finance costs were broadly steady at £26.0 million (2018 restated: £25.9 million) and include finance costs which were incurred on the Group's leased assets following the fully retrospective adoption of IFRS 16 'Leases' on 1 January 2019.

Effective corporation tax rate

The effective tax rate for 2019 was 17.6% (2018: 18.7%), which was lower than the standard UK corporation tax rate of 19.0% (2018: 19.0%) driven primarily by an increase in respect of prior-year over provisions, tax relief for the Tier 1 coupon payments offset by a reduction in disallowable expenses.

Profit for the year and return on tangible equity[1,2]

Profit for the year was £419.9 million (2018 restated: £472.0 million) in line with the reduction in operating profit.

Return on tangible equity decreased to 20.8% (2018 restated: 21.6%) due primarily to a £46.9 million decrease in adjusted[2] profit after tax to £408.5 million (2018 restated: £455.4 million). Profit after tax in 2019 was adjusted for restructuring and one-off costs. Profit after tax in both 2019 and 2018 was adjusted for coupon payments in respect of Tier 1 notes.

Notes:
1. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.
2. See glossary on pages 222 to 224 for definitions and appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.

Earnings per share[1]

Basic earnings per share decreased by 11.4% to 29.5 pence (2018 restated: 33.3 pence). Diluted earnings per share decreased by 11.2% to 29.2 pence (2018 restated: 32.9 pence) mainly reflecting the reduction in profit after tax.

Note:
1. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.

Cash flow

The Group's cash and cash equivalents decreased by £196.1 million (2018: £212.1 million decrease) to £896.3 million.

The Group generated operating cash flows before movements in working capital of £370.3 million (2018: £440.9 million), a reduction of £70.6 million due to the reduction in profit for the year adjusted for non-cash movements. After taking into account movements in working capital, the Group generated £182.4 million (2018: £125.2 million), an increase of £57.2 million. The Group has considerable assets under management, the cash generated from these reduced by £94.2 million to £373.9 million following reductions in the Group's assets under management, as a result of dividend payments, and proceeds from the maturity of AFS debt securities. Net cash generated from operating activities was £462.1 million (2018: 491.6 million).

The Group continued to invest significantly in its major IT programmes (2019: £175.7 million, 2018: £142.4 million). The Group paid out £420.7 million (2018: 503.8 million) in dividends in the year, comprising the 14.0 pence 2018 final dividend, the 8.3 pence 2018 special dividend and the 7.2 pence first interim dividend annual in the half-year results in 2019.

Net cash used in investing activities of £187.6 million and net cash used in financing activities of £470.6 million offset the £462.1 million generated from operating activities and resulted in a net decrease in cash and cash equivalents of £196.1 million (2018: £212.1 million decrease) to £896.3 million (2018: £1,092.4 million). The levels of cash and other highly liquid sources of funding that the Group holds to cover its claims obligations is continually monitored to ensure that the levels remain within the Group's risk appetite.

Net asset value

At 31 December	Note	2019 £m	2018[1] £m restated
Net assets[2]	16	**2,643.6**	2,558.2
Goodwill and other intangible assets	16	**(702.5)**	(566.8)
Tangible net assets	16	**1,941.1**	1,991.4
Closing number of Ordinary Shares (millions)	16	**1,366.6**	1,364.6
Net asset value per share (pence)	16	**193.4**	187.5
Tangible net asset value per share (pence)	16	**142.0**	145.9

Notes:
1. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.
2. See glossary on pages 222 to 224 for definitions and appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.

Net assets at 31 December 2019 increased to £2,643.6 million (31 December 2018 restated: £2,558.2 million) and tangible net assets decreased to £1,941.1 million (31 December 2018 restated: £1,991.4 million) reflecting the 2019 retained profit and, increases in available-for-sale reserves. This was offset by additional expenditure on intangible assets as the Group continued to invest in the business.

Balance sheet management

Capital management and dividend policy

The Group aims to manage its capital efficiently and generate long-term sustainable value for shareholders, while balancing operational, regulatory, rating agency and policyholder requirements.

The Group aims to grow its regular dividend in line with business growth.

Where the Board believes that the Group has capital which is expected to be surplus to the Group's requirements for a prolonged period, it would intend to return any surplus to shareholders. In normal circumstances, the Board expects that a solvency capital ratio around the middle of its risk appetite range of 140% to 180% of the Group's solvency capital requirement ("**SCR**") would be appropriate and it will therefore take this into account when considering the potential for special distributions.

In the normal course of events the Board will consider whether or not it is appropriate to distribute any surplus capital to shareholders once a year, alongside the full-year results.

The Group expects that one-third of the annual dividend will generally 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. The Board may revise the dividend policy from time to time. The Company may consider a special dividend and/or a repurchase of its own shares to distribute surplus capital to shareholders.

The Board has recommended a final dividend of 14.4 pence per share (2018: 14.0 pence), an increase of 0.4 pence per share (2.9%). The Board has also approved a share buyback of up to £150 million which it expects to complete by the end of July 2020. This reflects the Board's continued confidence in the Group's capital position and the sustainability of its earnings. In normal circumstances, the Board expects the Group to operate around the middle of its solvency capital ratio risk appetite range of 140% to 180%.

The final dividend will be paid on 21 May 2020 to shareholders on the register on 14 April 2020. The ex-dividend date will be 9 April 2020.

Capital analysis

The Group is regulated under Solvency II requirements by the PRA on both a Group basis and for the Group's principal underwriter, U K Insurance Limited. In its results, the Group has estimated its Solvency II own funds, SCR and solvency capital ratio as at 31 December 2019.

Capital position

At 31 December 2019, the Group held a Solvency II capital surplus of £0.85 billion above its regulatory capital requirements, which was equivalent to an estimated solvency capital ratio of 165%, post capital distributions of proposed final dividends and share buyback.

The Group's SCR and solvency capital ratio are as follows:

At 31 December	2019	2018
Solvency capital requirement (£ billion)	**1.32**	1.26
Capital surplus above solvency capital requirement[1] (£ billion)	**0.85**	0.89
Solvency capital ratio post-capital distributions	**165%**	170%

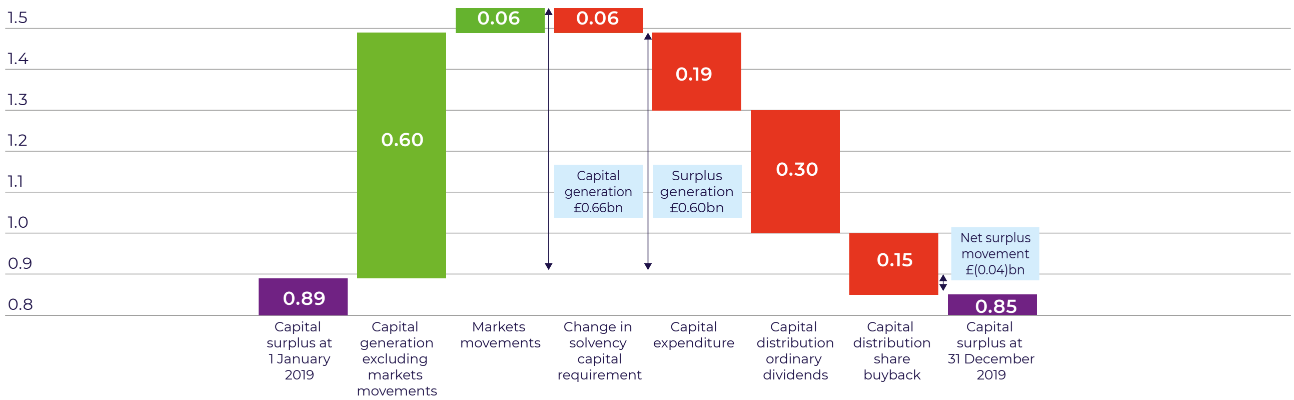
Movement in capital surplus

	2019 £bn	2018 £bn
Capital surplus at 1 January	**0.89**	0.91
Capital generation excluding market movements	**0.60**	0.47
Market movements	**0.06**	(0.06)
Capital generation	**0.66**	0.41
Change in solvency capital requirement	**(0.06)**	0.13
Surplus generation	**0.60**	0.54
Capital expenditure	**(0.19)**	(0.15)
Management capital action	**–**	–
Capital distribution – ordinary dividends[2]	**(0.30)**	(0.30)
Capital distribution – special dividends[2]	**–**	(0.11)
Capital distribution – share buyback	**(0.15)**	–
Net surplus movement	**(0.04)**	(0.02)
Capital surplus at 31 December	**0.85**	0.89

Note:
1. Foreseeable dividends included above are adjusted to exclude the expected dividend waivers in relation to shares held by the employee share trusts, which are held to meet obligations arising on the various share option awards.

In 2019, the Group generated £0.66 billion of Solvency II capital offset by £0.19 billion of capital expenditure and capital distribution of £0.45 billion for the 2019 dividend and share buyback. The increased capital expenditure

Movement in capital surplus (£bn)



reflects the significant investment the Group is making in building future capability including the development of the next generation core personal lines IT systems. In 2020, the level of expenditure is expected to be approximately £150 million. Thereafter, expenditure levels are expected to reduce to around £100 million from 2021.

Change in solvency capital requirement

	2019 £bn
Solvency capital requirement at 1 January	**1.26**
Model and parameter changes	**(0.07)**
Exposure changes	**0.13**
Solvency capital requirement at 31 December	**1.32**

The Group's SCR has increased by £0.06 billion in the year. Model and parameter changes reduced the SCR by £0.07 billion. Exposure changes, as a result of restructuring costs, Solvency II technical provisions movements and volume and mix changes of assets under management, led to an increase in the SCR of £0.13 billion.

Scenario and sensitivity analysis

The following table shows the impact on the Group's estimated solvency capital ratio in the event of the following scenarios as at 31 December 2019. The impact on the Group's solvency capital ratio arises from movements in both the Group's solvency capital requirement and own funds.

	Impact on solvency capital ratio	
Scenario	**31 Dec 2019**	31 Dec 2018
Motor small bodily injury deterioration equivalent to accident years 2008 and 2009	**(7pts)**	(7pts)
One-off catastrophe loss equivalent to the 1990 storm	**(9pts)**	(8pts)
One-off catastrophe loss based on extensive flooding of the River Thames	**(9pts)**	(8pts)
Change in reserving basis for PPOs to use a real discount rate of minus 1%[1]	**(8pts)**	(10pts)
100bps increase in credit spreads[2]	**(9pts)**	(11pts)
100bps decrease in interest rates with no change in the PPO real discount rate	**1pt**	(1pt)

Notes:
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. Only includes the impact on AFS assets (excludes illiquid assets such as infrastructure debt) and assumes no change to the SCR.

Own funds

The following table splits the Group's own funds by tier on a Solvency II basis.

At 31 December	2019 £bn	2018 £bn
Tier 1 capital before foreseeable capital distributions	**1.80**	1.76
Foreseeable capital distributions	**(0.35)**	(0.31)
Tier 1 capital – unrestricted	**1.45**	1.45
Tier 1 capital – restricted	**0.37**	0.35
Tier 1 capital	**1.82**	1.80
Tier 2 capital – subordinated debt	**0.26**	0.26
Tier 3 capital – deferred tax	**0.09**	0.09
Total own funds	**2.17**	2.15

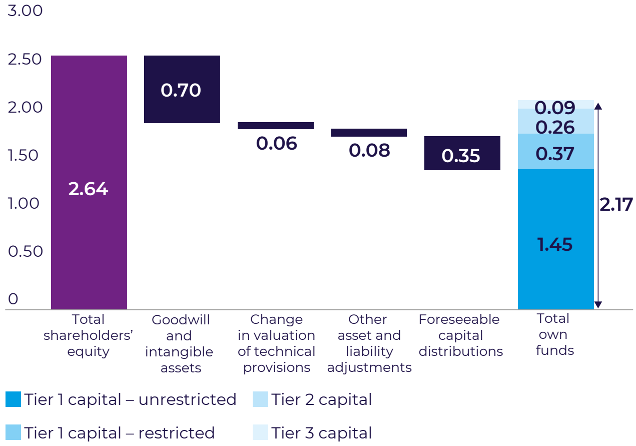
During 2019, the Group's own funds increased from £2.15 billion to £2.17 billion. Tier 1 capital after foreseeable capital distributions represents 84% of own funds and 138% of the estimated SCR. Tier 2 capital relates solely to the Group's £0.26 billion subordinated debt. The amount of Tier 2 and Tier 3 capital permitted under the Solvency II regulations is 50% of the Group's SCR and of Tier 3 alone is less than 15%. Therefore, the Group currently has no ineligible capital. The maximum amount of Restricted Tier 1 capital permitted as a proportion of total Tier 1 capital under the Solvency II regulations is 20%. Restricted Tier 1 capital relates solely to the Tier 1 notes issued in 2017.

Reconciliation of IFRS shareholders' equity to solvency II own funds

At 31 December	2019 £bn	2018 £bn
Total shareholders' equity	**2.64**	2.56
IFRS 16 'Leases' adjustment to remove restated equity movement[1]	**–**	0.01
Goodwill and intangible assets	**(0.70)**	(0.57)
Change in valuation of technical provisions	**(0.06)**	(0.15)
Other asset and liability adjustments	**(0.08)**	(0.09)
Foreseeable capital distributions	**(0.35)**	(0.31)
Tier 1 capital – unrestricted	**1.45**	1.45
Tier 1 capital – restricted	**0.37**	0.35
Tier 1 capital	**1.82**	1.80
Tier 2 capital – subordinated debt	**0.26**	0.26
Tier 3 capital – deferred tax	**0.09**	0.09
Total own funds	**2.17**	2.15

Note:
1. No adjustment has been made for IFRS 16 'Leases' in 2018 on a Solvency II basis.

Reconciliation of IFRS shareholders' equity to solvency II own funds (£bn)



Leverage

The Group's financial leverage decreased by 0.6 percentage points, and continued to remain conservative at 18.6% (2018 restated: 19.2%). The decrease was primarily due to the increase in shareholders' equity as a result of improvements to the valuation of the Group's AFS investments.

At 31 December	2019 £m	2018[1] £m restated
Shareholders' equity	**2,643.6**	2,558.2
Tier 1 notes	**346.5**	346.5
Financial debt – subordinated debt	**259.0**	259.5
Total capital employed	**3,249.1**	3,164.2
Financial-leverage ratio[2]	**18.6%**	19.2%

Notes:
1. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.
2. Total IFRS financial debt and Tier 1 notes as a percentage of total IFRS capital employed.

Credit ratings

Moody's Investors Service provide insurance financial-strength ratings for U K Insurance Limited, the Group's principal underwriter. Moody's rate U K Insurance Limited as 'A1' for insurance financial strength (strong) with a stable outlook.

Reserving

The Group makes provision for the full cost of outstanding claims from its general insurance business at the balance sheet date, including claims estimated to have been incurred but not yet reported at that date and claims handling costs. The Group considers the class of business, the length of time to notify a claim, the validity of the claim against a policy, and the claim value. Claims reserves could settle across a range of outcomes, and settlement certainty increases over time. However, for bodily injury claims the uncertainty is greater due to the length of time taken to settle these claims. The possibility of annuity payments for injured parties also increases this uncertainty.

The Group seeks to adopt a conservative approach to assessing liabilities, as evidenced by the favourable development of historical claims reserves. Reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal actuarial best estimate. This margin is set by reference to various actuarial scenario assessments and reserve distribution percentiles. It also considers other short and long-term risks not reflected in the actuarial inputs, as well as management's view on the uncertainties in relation to the actuarial best estimate.

The most common method of settling bodily injury claims is by a lump sum. When this includes an element of indemnity for recurring costs, such as loss of earnings or ongoing medical care, the settlement calculations apply the statutory discount rate (known as the Ogden discount rate) to reflect the fact that payment is made on a one-off basis rather than periodically over time. The Ogden discount rate changed from 2.5% to minus 0.75% in 2017 in England, Wales and Scotland, reflecting the low interest rate environment, and case law holding that claimants were entitled to invest purely in zero risk investments, i.e. index-linked gilts. The Civil Liability Act 2018 changed the law in two ways: firstly, by requiring the Government to review the Ogden discount rate at least every five years, and secondly to do so by reference to low risk rather than very low or zero risk investments.

At year-end 2018, the Group decided that it was likely that the Ogden discount rate would change in 2019 and selected an estimate of 0% to value its lump sum bodily injury reserves. When the Ogden discount rate review process subsequently concluded in July 2019, the discount rate increased from minus 0.75% to minus 0.25% for England and Wales. The Ogden discount rate is a devolved matter in Scotland and Northern Ireland and it has remained at minus 0.75% in Scotland, and at 2.5% in Northern Ireland.

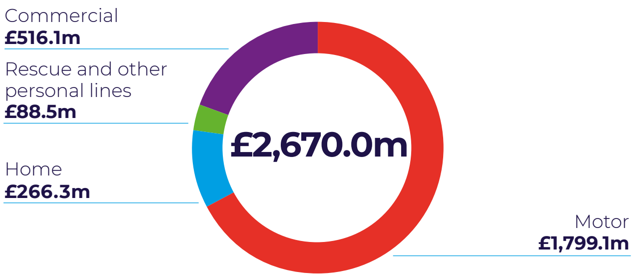
The Group reserves its large bodily injury claims at the relevant discount rate for each jurisdiction, with the overwhelming majority now reserved at minus 0.25% as most will be settled under the law in England and Wales. The Ogden discount rate will be reviewed again at the latest in 2024. There has been an ongoing reduction in large bodily injury exposures as a result of continued positive prior-year development of claims reserves, and a higher proportion of reserves being covered by reinsurance as a result of the decision to opt for a lower reinsurance attachment point from 2014 onwards.

If the claimant prefers, large bodily injury claims can be settled using a PPO. This is an alternative way to provide an indemnity for recurring costs, making regular payments, usually for the rest of the claimant's life. These claims are reserved for using an internal discount rate, which is progressively unwound over time. As it is likely to take time to establish whether a claimant will prefer a PPO or a lump sum, until a settlement method is agreed, the Group makes assumptions about the likelihood that claimants will opt for a PPO. This is known as the PPO propensity. In line with the Group's experience, and the negative Ogden discount rate, the assumed PPO propensity has reduced in 2019.

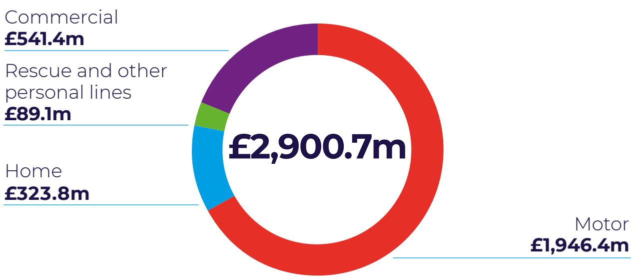
The Group's prior-year reserve releases were £294.5 million (2018: £404.4 million) with good experience in large and small bodily injury claims being a key contributor.

Looking forward, the Group expects to continue setting its initial management best estimate conservatively. Assuming current claims trends continue, the contribution from prior-year reserve releases will reduce over time, although it is expected to remain significant.

Claims reserves net of reinsurance 2019



Claims reserves net of reinsurance 2018



Sensitivity analysis – the discount rate used in relation to PPOs and changes in the assumed Ogden discount rate

The table below provides a sensitivity analysis of the potential net impact of a change in a single factor (the internal discount rate used for PPOs and separately the Ogden discount rate) with all other assumptions left unchanged. Other potential risks beyond the ones described could have additional financial impacts on the Group.

	Increase / (decrease) in profit before tax[1,2]	
At 31 December	**2019 £m**	2018 £m
PPOs[3]		
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	**48.5**	50.7
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(66.5)**	(70.1)
Ogden discount rate[4]		
Impact of the Group reserving at a discount rate of 0.75% compared to minus 0.25% (2018: 1% compared to 0%)	**53.3**	56.2
Impact of the Group reserving at a discount rate of minus 1.25% compared to minus 0.25% (2018: minus 1% compared to 0%)	**(75.0)**	(76.3)

Notes:
1. These sensitivities are net of reinsurance and exclude the impact of taxation.
2. These sensitivities reflect one-off impacts at 31 December and should not be interpreted as predictions.
3. The sensitivities relating to an increase or decrease in the real discount rate used for PPOs illustrate a movement in the time value of money from the assumed level of 0% for reserving. The PPO sensitivity has been calculated as the direct impact of the change in the real discount rate with all other factors remaining unchanged.
4. Ogden discount rate sensitivity has been calculated as the direct impact of a permanent change in the discount rate in England and Wales with all other factors remaining unchanged. The Group will consider the statutory discount rate when setting its reserves but not necessarily provide on this basis, as was the case at the year ended 31 December 2018. This is intended to ensure that reserves are appropriate for current and potential future developments.

The PPO sensitivity above is calculated on the basis of a change in the internal discount rate used for the actuarial best estimate reserves as at 31 December 2019. It does not take into account any second order impacts such as changes in PPO propensity or reinsurance bad debt assumptions.

Reinsurance

The objectives of the Group's reinsurance strategy are to reduce the volatility of earnings, facilitate effective capital management, and transfer risk outside the Group's risk appetite. This is achieved by transferring risk exposure through various reinsurance programmes:

- Catastrophe reinsurance to protect against an accumulation of claims arising from a natural perils event. The retained deductible is 15.6% of gross earned premium (£132.5 million at 31 December 2019) and cover is placed annually on 1 July up to a modelled 1-in-200 year loss event of 133.6% of gross earned premium (£1,132.5 million at 31 December 2019). At the last renewal, 1 July 2019, approximately 60% of the reinsurance programme was placed on a fixed price basis (reinsurers' rate on line) as the final year of a three-year contract.
- Motor reinsurance to protect against a single claim or an accumulation of large claims which renews on 1 January. The retained deductible is at an indexed level of £1 million per claim, providing a substantial level of protection against large motor bodily injury claims. This programme was renewed on 1 January 2020.
- Commercial property risk reinsurance to protect against large individual claims with a retained deductible of £4.0 million which renews annually on 1 July.

Investment portfolio

The investment strategy aims to deliver several objectives, which are summarised below:

- to ensure there is sufficient liquidity available within the investment portfolio to meet stressed liquidity scenarios
- to match PPO and non-PPO liabilities in an optimal manner
- to deliver a suitable risk-adjusted investment return commensurate with the Group's risk appetite

Asset and liability management

The following table summarises the Group's high-level approach to asset and liability management.

Liabilities	Assets	Characteristics
More than 10 years, for example PPOs	Property and infrastructure debt	Inflation linked or floating
Short and medium term – all other claims	Investment-grade credit, short-term high yield and subordinated financial debt	Key rate duration matched
Tier 1 equity	Investment-grade credit	Fixed
Tier 2 sub-debt (swapped fixed to floating)	Commercial real estate loans and cash	Floating
Surplus – tangible equity	Investment-grade credit, cash and government debt securities	Fixed or floating

Asset allocation and benchmarks – U K Insurance Limited

The current strategic asset benchmarks for U K Insurance Limited are detailed in the following table:

At 31 December	**Benchmark holding 2019**	**Actual holding 2019**	Benchmark holding 2018	Actual holding 2018
Investment-grade credit[1]	**65%**	**62.5%**	65%	61.3%
High yield	**6%**	**6.9%**	6%	6.7%
Investment-grade private placements	**3%**	**1.8%**	3%	1.7%
Credit	**74%**	**71.2%**	74%	69.7%
Sovereign	**5%**	**1.7%**	5%	2.6%
Total debt securities	**79%**	**72.9%**	79%	72.3%
Infrastructure debt	**5%**	**4.9%**	5%	5.0%
Commercial real estate loans	**4%**	**3.7%**	4%	3.4%
Cash and cash equivalents	**7%**	**13.4%**	7%	13.9%
Investment property	**5%**	**5.1%**	5%	5.4%
Total investment holdings	**100%**	**100.0%**	100%	100.0%

Investment holdings and yields – total Group

	2019			2018		
	Allocation (£m)	**Income (£m)**	**Yield (%)**	Allocation (£m)	Income (£m)	Yield (%)
Investment-grade credit[1]	**3,676.8**	**82.1**	**2.3%**	3,606.6	99.6	2.7%
High-yield	**390.8**	**21.2**	**5.4%**	393.9	18.8	4.8%
Investment-grade private placements	**104.0**	**2.8**	**2.6%**	101.0	2.8	2.7%
Credit	**4,171.6**	**106.1**	**2.3%**	4,101.5	121.2	2.9%
Sovereign	**99.8**	**2.3**	**1.8%**	156.9	2.8	1.5%
Total debt securities	**4,271.4**	**108.4**	**2.5%**	4,258.4	124.0	2.8%
Infrastructure debt	**278.1**	**7.0**	**2.5%**	289.6	6.9	2.3%
Commercial real estate loans	**205.7**	**6.9**	**3.4%**	201.6	6.2	3.7%
Cash and cash equivalents	**896.3**	**7.9**	**0.8%**	1,092.4	6.2	0.5%
Investment property	**291.7**	**16.2**	**5.3%**	322.1	15.9	5.1%
Total Group	**5,943.2**	**146.4**	**2.4%**	6,164.1	159.2	2.5%

Notes:
1. Asset allocation at 31 December 2019 includes investment portfolio derivatives, which have been included and have a mark-to-market asset value of £81.8 million included in investment grade credit (31 December 2018: mark-to-market asset value of £11.8 million). This excludes non-investment derivatives that have been used to hedge interest on subordinated debt and operational cash flows.
2. Net of bank overdrafts: includes cash at bank and in hand and money market funds.

At 31 December 2019, total investment holdings of £5,943.2 million were 3.6% lower than at the start of the year, primarily reflecting the cash paid in 2019 for dividends partially offset by an increase in fair value of debt securities. Total debt securities were £4,271.4 million (31 December 2018: £4,258.4 million), of which 2.8% were rated as 'AAA' and a further 58.6% were rated as 'AA' or 'A'. The average duration at 31 December 2019 of total debt securities was 2.5 years (31 December 2018: 2.5 years).

At 31 December 2019, total unrealised gains, net of tax, on available-for-sale ("**AFS**") investments were £47.5 million (31 December 2018: £36.8 million unrealised losses).

Tax Management

The Board recognises that the Group has an important responsibility to manage its tax position effectively. The Board has delegated day-to-day management of taxes to the Chief Financial Officer and oversight is provided by the Audit Committee.

These arrangements are intended to ensure that the Group: complies with applicable laws and regulations; meets its obligations as a contributor and a collector of taxes on behalf of the tax authorities; and manages its tax affairs efficiently, claiming reliefs and other incentives where appropriate.

Tax authorities

The Group has open and cooperative relationships with the tax authorities with whom it deals in the countries where the Group operates, namely the UK, the Republic of Ireland, South Africa and India.

Tax policy and governance

The Group's tax policy has been reviewed and approved by the Audit Committee in 2019. The Group Tax team supports the Chief Financial Officer in ensuring the policy is adhered to at an operational level.

For more information please see our published Group Tax policy on the Group's website at https://www.directlinegroup.co.uk/en/who-we-are/governance/other-policies.html.

Total tax contribution

The Group's direct and indirect tax contribution to the UK Exchequer is significantly higher than the UK corporation tax that the Group pays on its profits. The Group collects taxes relating to employees and customers on behalf of the UK Exchequer and other national governments. It also incurs a significant amount of irrecoverable value added tax relating to overheads and claims. Taxes borne and collected in other tax jurisdictions have not been included in this note as the amounts are minimal in the context of the wider UK Group.

During 2019 the sum of taxes either paid or collected across the Group was £956.6 million. The composition of this between the various taxes borne and collected by the Group is shown below.

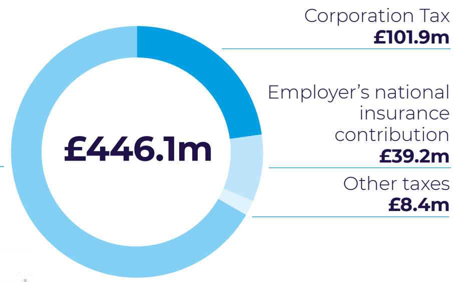
Total taxes borne

At 31 December	2019 £m
Current-year corporation tax charge	101.9
Irrecoverable value added tax incurred on overheads	102.8
Irrecoverable value added tax embedded within claims spend	193.8
Employer's national insurance contributions	39.2
Other taxes	8.4
Total	**446.1**

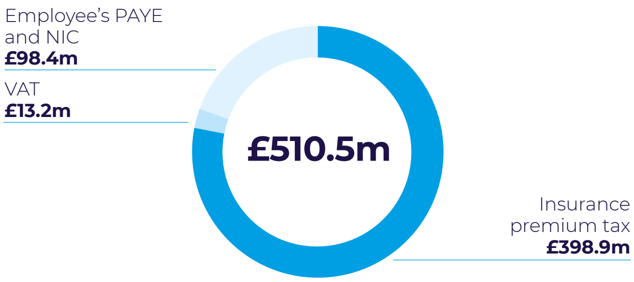
Total taxes collected

At 31 December	2019 £m
Insurance premium tax	398.9
Value added tax	13.2
Employee's pay as you earn and national insurance contributions	98.4
Total	**510.5**

Total taxes borne by tax type (£m)



Total taxes collected by tax type (£m)



TIM HARRIS
CHIEF FINANCIAL OFFICER

Market overview

Market changes and developing trends impact our customers. This year we examined our external environment, our internal capabilities and how to position ourselves for the long-term success of the business.

Our response

Distribution

Non-traditional competitors and intermediaries may change how products are accessed by customers.

Insurers extend their reach by using new capability to secure more customers through PCWs, acquisitions and partnerships.

See pages 22, 23 and 49

Our first three strategic objectives aim to ensure that our products are easy to use and available everywhere, all underpinned by data expertise, IT investment and business agility.

- New motor insurance platform launched for Privilege new business across all distribution channels including price comparison websites. We also became the first major insurer to partner with Starling Bank, using their accessible marketplace to offer Churchill home insurance.
- Launched our new travel system and migrated our RBS and NatWest customers onto the new platform which provides an end-to-end digital solution for over 1.6 million customers. It is fully optimised for tablet and mobile, provides online medical screening and self-service upgrades and is fully automated for certain claims.

Regulatory

The FCA Market Study on General insurance pricing practices may impact on how the market approaches pricing and contracts

Increased consumer, investor and regulatory focus on Brexit and wider market uncertainty.

See pages 56 and 61

Our aim is for customers to value the protection, service and security our products offer, being clear about pricing and ultimately giving people numerous reasons to stay with our brands.

- We are supportive of the FCA Market Study on General insurance pricing practices, building on the steps we have taken over the last five years. We want a level playing field so the industry can improve outcomes for long-standing customers.
- The Group has proactively considered a variety of possible implications of a disruptive end to the Brexit implementation period, taking into account the political and economic environment.

Technology and Consumers

New products, new routes to market and technology may emerge offering tailored products due to changing consumer expectations on ease, flexibility, sustainability and transparency.

Improving car technology may change the risk pool and increase the importance of data and analytics.

See pages 22 and 45

Future success will be predicated on combining great customer-focused brands with a strong technology foundation where new customer platforms can make it easier for us to onboard new books of business and gain new insight on claims trends.

- Our new brand Darwin is using new pricing technology for motor customers who purchase via the PCW channel and our new motor insurance platform is being rolled out to make customer journeys easier.
- We are preparing for the future by investing in specialist equipment to repair cars with ADAS technology, supported FiveAI's trial of autonomous vehicles and partnered with Europe's largest car-subscription service Drover.

Markets

Our response to the individual markets we operate in can be found on pages 44 to 51.

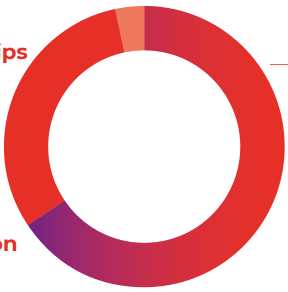
Motor

Own brand in-force policies reduced by 0.7%, with an overall reduction in in-force policies of 1.2% to 4.0 million.

Own brand gross written premium reduced by £17.1 million to £1,597.1 million, overall gross written premium reduced by 1.2%.

Operating profit of £302.6 million was £115.5 million lower than prior year, primarily due to lower prior-year reserve releases of Ogden discount rate changes in 2018 and 2019.

Gross written premium by channel



In-force policies ('000s)

4,043

(2018: 4,094)

Gross written premium

£1,651.6m

(2018: £1,671.2m)

Operating profit

£302.6m

(2018: £418.1m)

Combined operating ratio

94.8%

(2018: 88.6%)

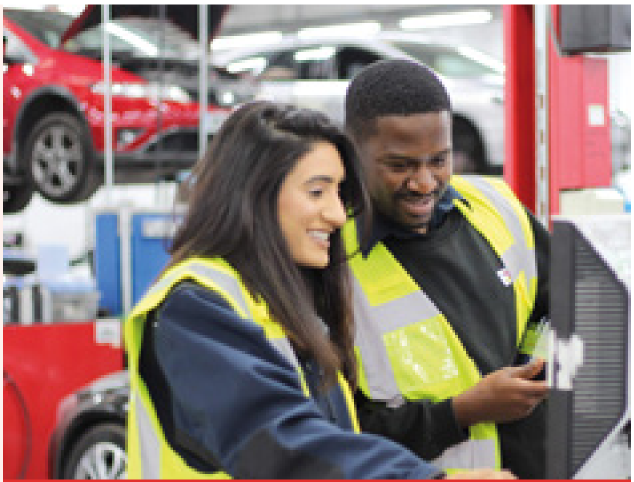
	2019	2018
In-force policies (thousands)	4,043	4,094
Of which direct own brands	3,921	3,950
Gross written premium	£1,651.6m	£1,671.2m
Loss ratio	69.3%	63.5%
Commission ratio	2.6%	2.0%
Expense ratio	22.9%	23.1%
Combined operating ratio	94.8%	88.6%
Operating profit	£302.6m	£418.1m

Overview

In 2019, the Group maintained a focus on underwriting discipline and indemnity management in a highly competitive market, and this strategy helped to deliver an improvement in the current-year attritional loss ratio to 81.2% (2018: 81.4%). Excluding the effect of changes to the Ogden discount rate in both 2018 and 2019, operating profit was down £49 million, primarily due to lower bodily injury reserve releases and lower investment returns.

The Group's Motor in-force policy count stabilised during the second half of the year as some signs of premium inflation returned to the market, with new business sales on price comparison websites strengthening during the last quarter. The Group began to expand its underwriting footprint with the introduction of its Darwin brand in 2019, and the deployment of the Group's next generation underwriting platform was completed for new business in its Privilege brand.

The Group continued to invest in its in-house vehicle repair network and other initiatives designed to help manage claims inflation. In 2019 the Group opened its twenty first site, in Weybridge, and completed more than 90,000 in-house repairs across the network during the year.



Preparing for the future

By 2025 40% of all vehicles are forecast to be fitted with some form of ADAS in the near future, changing the skills our people will need to fix the cars of the future. ADAS features, such as Autonomous Emergency Braking, rely on sensors to operate presenting challenges for our network of accident repair centres because the technology sits in some of the most collision intensive aspects of cars.

It will overhaul the bodyshop industry because ADAS technology requires calibration when accidents occur. The Group has invested in our specialist repair facility in Birmingham, acquiring calibration kits and recruiting technicians who have the expertise to assess and fix this technology. By anticipating this change the Group is investing in our people, adding to our skills base and maximising the prospects of delivering efficient repairs for our customers.

Performance

Motor in-force policies reduced by 1.2% to 4.0 million with gross written premium also reducing by 1.2% to £1,651.6 million as the Group continued to focus on maintaining target loss ratios in a highly competitive market.

Own brands in-force policies reduced slightly by 0.7%. Strong new business growth was achieved in Churchill following the brand's re-launch in October and a strengthened proposition for the price comparison website channel. Retention reduced slightly, but remained strong across direct own brands and partnerships.

A number of pricing initiatives have helped to support new business competitiveness. Motor risk-adjusted prices increased by 3.1% in 2019 while targeted changes to the risk mix reduced average premiums by 3.7%. This led to Motor average premium[1] falling slightly in 2019.

The current-year attritional loss ratio in Motor improved by 0.2 percentage points to 81.2% (2018: 81.4%). Claims severity experience was consistent through 2019 with underlying inflation at the upper end of the Group's long-term expectations of 3% to 5%. Frequency was lower as a result of improvements to risk mix, counter fraud initiatives as well as benign weather.

In total, prior-year reserve releases were £95.8 million lower year-on-year at £180.5 million and included an increase in reserves of £15.9 million as a result of the change in the Ogden discount rate to minus 0.25% from an assumed rate of 0% (2018: £47.9 million release). Bodily injury claims reserves continued to develop favourably.

Motor's reported combined operating ratio increased by 6.2 percentage points to 94.8% (2018 restated: 88.6%). Small improvements in the current-year attritional loss and expense ratios were offset by a 0.6 percentage point increase in the commission ratio, primarily due to increased volume related commission payments to price comparison websites, and a 6.0 percentage point reduction in prior-year reserve releases.

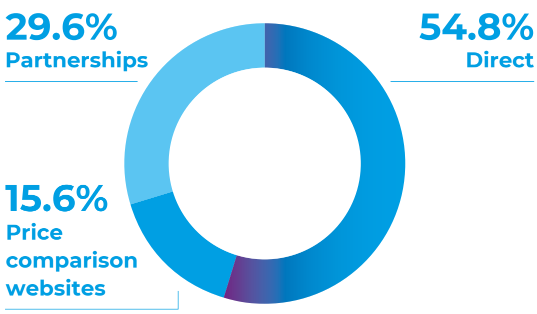
Note:
1. Average incepted written premium excluding IPT for Motor own brands (excluding Darwin and Privilege policies underwritten on the Group's new IT platform) for year-end 31 December 2019.

Home

Total in-force policies 2.2% lower at 2.6 million. Own brand in-force policies were 1.3% lower at 1.8 million.

Total gross written premium was 3.3% lower at £586.6 million as a number of partnership schemes continued to run-off. Own brand gross written premium was 1.2% lower.

Total operating profit was £66.7 million higher than 2018 reflecting improvements to escape of water claims and benign weather in 2019.



In-force policies ('000s)

2,594

(2018: 2,651)

Gross written premium

£586.6m

(2018: £606.9m)

Operating profit

£150.6m

(2018: £83.9m)

Combined operating ratio

80.3%

(2018: 93.5%)

	2019	2018
In-force policies (thousands)	2,594	2,651
Of which direct own brands	1,765	1,789
Gross written premium	£586.6m	£606.9m
Loss ratio	46.8%	61.8%
Commission ratio	9.7%	9.4%
Expense ratio	23.8%	22.3%
Combined operating ratio	80.3%	93.5%
Operating profit	£150.6m	£83.9m

Overview

In 2019, total Home and own brand policy counts fell slightly as the Group maintained underwriting discipline in a competitive market.

Home's current-year attritional loss ratio was 3.5 percentage points lower as pricing, underwriting and claims handling actions initiated in 2018 restored escape of water claims inflation to a level near the bottom end of historic long-term averages after a number of years of elevated inflation.

The shift in distribution of Home's business from partners to price comparison websites continued in 2019. The Group maintained strong retention rates across all brands. RBS Group Home in-force policies remained broadly flat, with an increase in the proportion of three-year fixed price policies. Run-off partnerships (Sainsbury's and Prudential) continued to perform in line with expectations. The Group also launched an affinity partnership with Starling Bank acting as an introducer to the Group's Churchill brand.

Peace of mind when it matters most

When taking out home insurance most customers hope they will not have to use it and it's normally during distressing situations that they find out the value of that purchase. The flooding in Lincolnshire in 2019 was that moment of truth for many of our customers, when we needed to help get their lives back on track. In the village of Wainfleet All Saints a state of emergency was declared, several hundred properties had to be evacuated and access to many others became impossible.

Our team were stationed in the local community centre and at Wainfleet market place to assist everyone in need and provide some peace of mind. Our emergency response vehicle was mobilised in the area to provide customers with a physical location where they could come and speak with us directly, have their queries answered and be reassured that we would take care of repairing the damage caused to their homes.

Performance

In-force policies for Home's own brands reduced by 1.3% in 2019 to 1.8 million policies due to a reduction in new business volumes. Partnership volumes reduced by 3.8%, Prudential and Sainsbury's partnerships are closed to new business and continued to run off in line with expectations.

Gross written premium was 3.3% lower than 2018, predominantly due to a reduction in partnership volume, as Prudential and Sainsburys continued to run off. Own brands gross written premium reduced by 1.2% primarily due to lower renewal premiums. Retention continued to be strong.

Home own brand risk-adjusted prices increased by 2.0% driven by new business, while pricing actions improved risk mix by 2.7% giving a small reduction in average premium[1] of 0.7%.

The current-year attritional loss ratio, excluding major weather event claims, improved by 3.5 percentage points to 53.5%, reflecting improvements to escape of water claims, disciplined underwriting and benign weather.

Home's 2019 experience was better than its long-term expectation of claims inflation which, excluding the impact of major weather events, remained at 3% to 5%.

The commission ratio of 9.7% was 0.3 percentage points higher compared to 2018 due to higher prior-year reserve releases and benign weather resulting in higher profit share payments to partners.

Home's combined operating ratio improvement was by 13.2 percentage points to 80.3% (2018 restated: 93.5%). This was driven primarily by a 9.2 percentage point improvement in claims relating to severe weather events, as 2019 had relatively benign weather and a 2.3 percentage point increase in prior-year releases due to favourable development on escape of water claims. Normalised for weather, the combined operating ratio was 4.7 percentage points better than 2018 at 86.9%[2] (2018 restated: 91.6%).

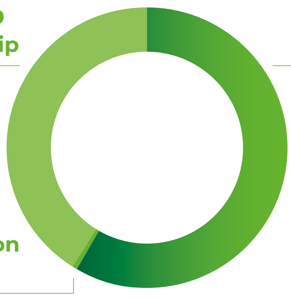
Notes:
1. Average incepted written premium excluding IPT for Home own brands for year ended 31 December 2019.
2. See glossary on pages 222 to 224 for definitions and appendix A – Alternative performance measures on pages 225 to 228 for reconciliation.

Rescue and other personal lines

Gross written premium grew 3.1% to £436.0 million supported by increases across all product lines.

In-force policy numbers reduced by 2.6% driven primarily by reductions in packaged bank customer volumes.

The Group's direct Rescue brand, Green Flag, grew in-force policies by 13.7%, to over 1 million policies, and gross written premium by 13.5% in the year.



Major milestone for Green Flag

Green Flag celebrated its 25th birthday as a brand this year by hitting the target of reaching one million direct customers after another year of double-digit growth. In another major milestone in its transformation it also provided customers with a more seamless experience by bringing best practice from its claims and sales & service teams to create "Centres of Excellence" in Leeds and Glasgow.

Green Flag was awarded Superbrand[1] status, in the latest annual ranking of the UK's strongest consumer brands. And its bold summer advertising campaign set out to show that it is a smarter, credible alternative to the competition, offering the same service for half the price.

Not content with challenging to be the number one breakdown brand, Green Flag wants to be famous for being a brand for motorists too. By building its online presence, it aims to attract new customers and further grow its business – all while providing an awesome experience for customers.

	2019	2018
In-force policies (thousands)	7,377	7,573
Of which Green Flag direct	1,063	935
Gross written premium	£436.0m	£422.8m
Of which: Rescue	£167.5m	£163.4m
Travel	£151.3m	£143.9m
Other personal lines	£117.2m	£115.5m
Loss ratio	66.9%	66.8%
Commission ratio	6.4%	4.6%
Expense ratio	22.1%	23.6%
Combined operating ratio	95.4%	95.0%
Operating profit	£39.1m	£44.0m

Note:
1. Visit www.superbrands.uk.com/2019superbrands for more information.

Overview

Rescue and other personal lines consists of Rescue products, including those sold through the Green Flag brand, and other personal lines insurance, including Travel, Pet and Creditor, which are sold through own brands and partnership arrangements.

Green Flag's ongoing transformation strategy, positioning itself as the market disrupter, gathered pace in 2019. Green Flag's direct in-force policy count passed 1 million in September and the Group has commenced building its next generation of underwriting and claims management platforms.

Travel launched its new policy and claims management platform in April 2019 with the migration of Ulster Bank, RBS and NatWest packaged current account customers. In 2019, the Group registered around 35,000 claims on the new system, with customers benefiting from faster settlement times and full online medical screening. The Group will continue to migrate its remaining partnership and own brand policies onto the new system.

Travel claims inflation remained in line with medium to long-term expectations during 2019. The Group did not see any adverse claims experience resulting from the collapse of Thomas Cook in September 2019. Brexit uncertainty remains a risk until the UK's implementation period ends, however, the possible withdrawal of the European Health Insurance Card ("**EHIC**") scheme may lead to customers relying more on travel insurance.

Performance

Rescue and other personal lines in-force policies reduced by 2.6% to 7.4 million. However, gross written premium increased by 3.1% to £436.0 million compared with 2018 as lower premium packaged bank account volume was replaced with higher premium own brand policies.

Green Flag Rescue continued to grow its higher average premium direct business during 2019, increasing in-force policies by 13.7% to 1.1 million. Gross written premium increased by 13.5% to £79.0 million.

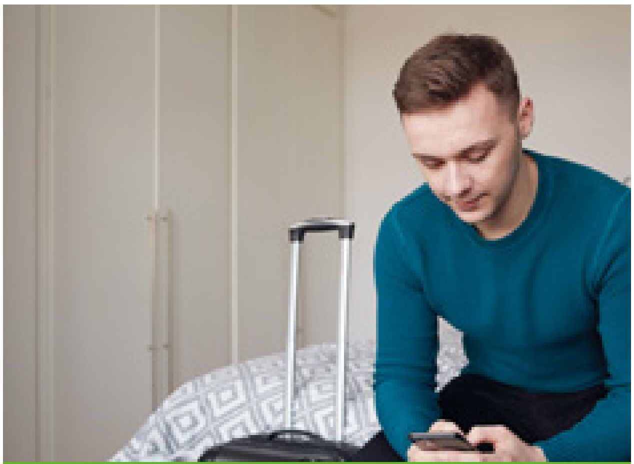
In-force policies for the Group's linked Rescue channel, where cover can be purchased with a Group Motor policy, reduced to 857,000, driven by the end of the Churchill "Free Rescue" campaign in July 2018. Rescue partnerships in-force policies reduced by 4.2%, where margins tend to be lower than for direct business, driven primarily by a reduction in packaged bank account volumes.

Total Other personal lines (comprising Travel, Pet and other) in-force policies reduced by 2.8% to 3.9 million primarily due to lower packaged bank account volumes in Travel. Pet in-force policies grew in 2019, reversing a period of lower volumes, and insurance packages tailored for UK Select Home and Motor customers saw strong growth in the year.

Gross written premium for total other personal lines increased by 3.5%.

The combined operating ratio for Rescue and other personal lines increased slightly by 0.4 percentage points to 95.4% (2018 restated: 95.0%) as a 1.5 percentage point improvement to the expense ratio was more than offset by an increase to the commission ratio. The loss ratio was broadly stable year-on-year.

Rescue's combined operating ratio of 81.5% was 3.5 percentage points better than 2018's ratio of 85.0%, as it benefited from lower claims frequency due to mild weather, the mix effects of own brand growth and lower expenses following front-line efficiency savings. Other personal lines combined operating ratio increased by 3.7 percentage points to 102.0%, due to lower prior-year reserve releases in UK Select and Travel, alongside additional headwinds in UK Select from higher large loss severity.



New Travel experience

Our new travel platform is enabling us to interact with customers through the channel that is most convenient for them. Online medical screening means customers can renew and update the level of cover they need without having to speak to a consultant, and our more intuitive risk rating features enables flexibility so that more competitive pricing is possible. There are now over 1.5 million live policies on the platform, and the enhanced capability allows us to process claims faster while regularly updating customers on the progress of their claim, so they know exactly what to expect.

36% of claims are for cancellation of a journey which can often be a stressful situation. We want to make it quick and painless by enabling customers to register their cancellation claim on the portal and easily upload any documents. We'll be able to tell them via email about the progress of their claim and pay them through BACS simply and efficiently.

This new digital capability complements our multilingual call centres and effective repatriation service, which is available for customers who have encountered more serious incidents while away.

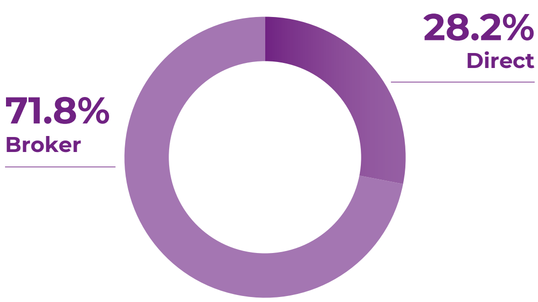
In addition, the Coronavirus outbreak (specifically the disease COVID-19) has the potential to impact the 2020 result of our Travel business. We have currently incurred claims of around £1 million, the majority for customer trips to regions where the Foreign & Commonwealth Office ("**FCO**") advise against all but essential travel. We ask customers to seek refunds or amendments to their trip from their travel provider in the first instance in line with FCO guidance. We have Travel reinsurance protection to mitigate the cost of an event over a 28 day period to £1 million up to a limit of £10 million. The full coverage, if utilised, can be reinstated once on the same terms.

Commercial

Total gross written premium increased by 3.5% with direct own brands increasing by 8.3%.

Strong performance in Direct Line for Business as it continued to roll out its new digital platform targeting small and micro businesses.

NIG focused on improving its technical pricing to support profitability.



Overview

The Commercial broker market continued to consolidate in 2019. Customers continued to seek cover in the direct market that was flexibly tailored to their individual needs and demonstrated knowledge of their trades. Against this backdrop, Commercial maintained underwriting discipline and grew its policy count. Commercial's current-year attritional loss ratio improved by 1.2 percentage points supported by pricing and underwriting initiatives.

Direct Line for Business continued to roll out its range of innovative propositions for small and micro businesses, including the launch of its Tradesperson insurance products. Its ongoing national marketing campaign enhanced awareness of both its traditional product offering and its newer micro business tailored propositions.

NIG exited less profitable relationships and targeted increased margins at the expense of policy count growth. The focus continued to be on profitability and delivering on its service proposition to be 'Effortless to Trade With'.

Commercial's broking and partnerships division signed six new partnerships including a referral agreement with American Express and two innovative partnerships with car-share start-up "YouMeCar" and flexible car leasing service, Drover.

	2019	2018[1]
In-force policies (thousands)	775	755
Of which: Commercial direct own brands	541	514
Gross written premium	£528.9m	£511.0m
Of which: Commercial direct own brands	£149.4m	£137.9m
NIG and other	£379.5m	£373.1m
Loss ratio	52.7%	51.8%
Commission ratio	18.5%	18.9%
Expense ratio	24.5%	24.7%
Combined operating ratio	95.7%	95.4%
Operating profit	£54.6m	£60.4m

Note:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'.

Performance

Commercial in-force policies increased by 2.6% compared with 2018 to 775,000, reflecting strong growth in Commercial direct own brands with NIG and other broadly stable.

Commercial direct own brands grew in-force policies by 5.2% as it continued to grow in its traditionally well performing areas of Van and Landlord, together with strong growth across the small and micro business products on its new platform. Gross written premium increased by 8.3% to £149.4 million with increases across all product lines.

NIG and other in-force policies numbers were 2.9% lower and gross written premium grew by 1.7% to £379.5 million. This reflected NIG's focus on underwriting discipline and underwriting margins.

Landlord emergency cover – for when you can't be there yourself

Our Landlord emergency cover has been introduced as an optional add-on to Direct Line for Business Landlord insurance. It provides peace of mind when the worst does happen, through our 24-hour emergency claims line which sends out a certified contractor to secure or prevent further damage to the property.

The cover includes call out charges and costs for labour and materials. Landlords can rest assured in the knowledge that a plumber or electrician, among other tradesmen, could be at their property within hours, even when they're not able to be there themselves. Tenants can also be authorised to ring us directly so there is no need for landlords to take on the role of the middle man when reporting emergencies.

With one less thing to worry about, looking after your property just became a little easier for landlords, who are increasingly concerned with the long-term investment potential of their property rather than just the short-term income it can provide.

The current-year attritional loss ratio in Commercial improved by 1.2 percentage points to 65.6% as risk selection remained the priority. Prior-year reserve releases were £14.4 million lower at £65.0 million. This was primarily due to lower general liability reserve releases on older accident years. 2019's result included a £1.0 million strengthening of prior-year reserves as a result of the change in the Ogden discount rate to minus 0.25% from an assumed rate of 0.0% (2018: £3.5 million release).

The combined operating ratio for Commercial increased slightly by 0.3 percentage points to 95.7% (2018 restated: 95.4%) as an improvement in the current-year attritional loss ratio of 1.2 percentage points and a reduction in claims related to severe weather were offset by the reduction in prior-year reserve releases.

Managing our Risks

Our aim is to make risk management simple, well understood and embedded. We will provide oversight which is pragmatic and commercial to help the business make good risk-based decisions and to move quickly whilst understanding the risks.

Managing risk in line with our strategy

Our management team, with oversight from the Board, and the Board Risk Committee, are responsible for developing our strategy. Our Strategic Planning Process aims to ensure we have developed clear objectives and targets, and identified the actions needed to deliver them, including the management of risk.

A key aspect of any effective Strategic Planning Process is to understand and manage those risks appropriately. To achieve this, the Risk Function works closely with the business to help it to identify and assess risks, which is done through setting and achieving targets as well as through its review and challenge of business plans in the Strategic Planning Process.

The Group's risk strategy is aligned with the Group strategy and supports business decision-making through the proactive identification, assessment and management of risks.

Our risk governance framework

The Risk Function continues to lead transformation and cultural change to drive ownership of risks in the business, recognising the Group's changing risk profile and the maturing control and governance environment.

To begin with, the focus was on establishing standards and governance, articulating the Group's risk appetite and ensuring we had appropriate capability across its three lines of defence. We now have an embedded Enterprise Risk Management Framework ("**Risk Management Framework**") with clear accountabilities and risk ownership designed to ensure that we identify, manage, mitigate and report on all key risks and controls through the three lines of defence model:

- First line: Management is responsible for embedding risk management into business as usual and change processes whilst creating transparent reporting of risks and management actions.
- Second line: The Risk Function is responsible for the design and recommendation to the Board Risk Committee of the risk management framework, its implementation across the Group and the provision of proportionate oversight of risks, events and management actions throughout the Group.
- Third line: Group Audit is responsible and accountable for providing an independent and objective view of the adequacy and effectiveness of the Group's risk management, governance and internal control framework.

See page 90 for governance structure

Risk appetite statement

Overarching risk objective

The Group recognises that its long-term sustainability is dependent on having sufficient economic capital to meet its liabilities as they fall due, thus protecting its reputation and the integrity of its relationship with policyholders and other stakeholders. As part of this, its appetite is for general insurance risk, focusing on personal lines retail and small and medium-sized enterprise insurance in the United Kingdom. The Group has appetite for non-insurance risks, as appropriate, to enable and assist it to undertake its primary activity of insurance.

Three strategic risk objectives

1. Maintain capital adequacy	2. Stable/efficient access to funding and liquidity	3. Maintain stakeholder confidence
The Group seeks to hold capital resources in the range of 140%-180% of the internal model solvency capital requirement.	The Group aims to meet both planned and unexpected cash outflow requirements, including those requirements that arise following a 1-in-200 year insurance, market or credit risk event.	The Group has no appetite for material risks resulting in reputational damage, regulatory or legal censure, poor customer outcomes, fines or prosecutions and other types of nonbudgeted operational risk losses associated with the Group's conduct and activities. The Group will maintain a robust and proportionate internal control environment.

Risk appetite

Our risk appetite statements are an expression of the level of risk the Group is prepared to accept to achieve its business objectives. The statements are used to drive risk-aware decision-making by key business stakeholders.

Our risk appetite statements are documented in our policies and include:

- monitoring whether the business remains within risk appetite, among other information, using key risk indicators;
- deriving the key risk indicators from the risk appetite statements to drive and monitor risk-aware decision-making;
- both qualitative and quantitative risk statements which are forward and backward-looking; and
- we review our risk appetite statements and key risk indicators annually.

Our Enterprise Risk Management Strategy and Framework

The Enterprise Risk Management Strategy and Framework document sets out, at a high level, the Group's approach to setting risk strategy and managing risks to the strategic objectives and day-to-day operations of the business.

Aligned to the three lines of defence model, not only does the risk management framework articulate the high-level principles and practices needed to achieve appropriate risk management standards, but it also demonstrates the inter-relationships between components of the risk management framework.

Within this, the risk management process is a key element in the development and ongoing maintenance of an accurate risk profile. The objective of the risk management process is to identify, assess, manage and monitor the risks that the Group is exposed to. See our climate change document[1] for specific information on how the business identifies and assesses the risks associated with climate change.

Within the risk management framework, Policies address specific risk areas and are aligned to the Group's risk appetite. Policies, where appropriate, are supported by underlying Minimum Standards which interpret Policies into a set of risk and control requirements to be implemented across the Group.

Note:
1. www.directlinegroup.co.uk/content/dam/dlg/corporate/Documents/investor-pages/2020.03.13_Identification_and_assessment_of_climate_risk_FINAL.pdf

Our risk culture

Our risk culture underpins our business and decision-making, and helps us embed a robust approach to managing risk. Our Risk Function drives ownership of risks in the business and ensures that risk consideration is integral to all decision-making. It also provides expert advice and guidance to business areas, whilst also challenging the effectiveness of controls to manage risk and compliance.

The Board is committed to promoting a culture of high standards of corporate governance, business integrity, ethics and professionalism in all our activities. An annual assessment of risk behaviours and attitudes is undertaken jointly by the Risk Function and Group Audit and considers a range of factors influencing risk culture.

We also have an annual Risk Communications Plan which features activity to reinforce the message that risk is everyone's responsibility. The Plan features staff awareness campaigns, articles on the intranet and, this year, the delivery of the imaginative 'Risk Heroes' campaign. 'Risk Heroes' enabled members of staff to harness social media and mobile phone photograph filters; and enabled Risk to engage with colleagues about the importance of risk management in a unique and conversational way.

The 'Risk Heroes' campaign generated over 3,600 click-throughs and online interactions during the campaign period. The amount of interest in the campaign, as measured by click-throughs and online interactions, suggests that, as a result of the Risk Communications Plan, as well as business as usual activity, the Risk Function was able to raise its visibility, and increase staff understanding of risk across the Group.

See pages 52 to 58

Principal risks and uncertainties

We carefully assess the principal risks facing us. Principal risks are defined as having a residual risk impact of £40 million or more on a 1-in-200 years basis, taking into account customer, financial and reputational impacts.

Principal risks	Management and mitigation examples
Insurance risk is the risk of loss due to fluctuations in the timings, amount, frequency and severity of an insured event relative to the expectations at the time of underwriting. Key drivers of the outlook for insurance risk across our business plan include reserving, underwriting, distribution, pricing and reinsurance risks.	This year, motor market premium inflation has not matched expectations of claims inflation, which has led to a slowdown in customer shopping behaviour and a reduction in new business. Increases in vehicle technology are also beginning to cause an increase in claims inflation. In response we are developing our ability to distinguish this trend between vehicles to more accurately price risk. We've also launched Darwin (see page 22) using machine learning rating models with the aim of growing market share in areas where we have lower penetration. Changes to the Ogden discount rate have led to uncertainty in pricing and reserving. To help mitigate this, underwriting guidelines are set for all transacted business and pricing is refined by analysing comprehensive data. We invest in enhanced external data to analyse and mitigate our exposures and we set our reserves using the latest internal and external data and trends. The continued political uncertainty (including post-Brexit) could also have an impact on claims inflation and market behaviour (for example, recession affects customer behaviour) and we continue to monitor this closely. Finally, climate change presents a risk of more frequent extreme events and key risk indicators are in place to monitor related risks across Home and Motor. (See Planet pillar on pages 68 to 71.)
Market risk is the risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. Key drivers of market risk are the sensitivity of the values of our assets and investments to changes in credit spreads, and our exposure to losses as a result of changes in interest rate term structure or volatility.	Concerns about the impacts of Brexit remain, and continuing US-China tensions could impact equity and credit markets within the global economy and lead to credit spread increases. To address this, we have an investment strategy which is approved by the Board and includes limiting exposure to individual asset classes and the amount of illiquid investments we hold. We also use risk reduction techniques such as hedging foreign currency exposures with forward contracts.
Operational risk is the risk of loss due to inadequate or failed internal processes or systems, human error or from external events. The principal risks within this category are Cyber, Operational Resilience, Partnership Contractual Obligations, Change, Outsourcing and Technology and Infrastructure risks.	Operational risks can arise within all areas of the business and can become manifest through inadequate or failed internal processes or systems, human error or from external events. The key drivers for us include people, data, cyber, technology and infrastructure, resilience, partnership contractual obligations, change, and outsourcing and suppliers. Our approach is proactively to manage our operational risks to mitigate potential customer detriment, regulatory or legal censure, financial and reputational impacts. We have in place appropriate operational processes and systems, including prevention and detection measures. These include processes which seek to ensure we can absorb and/or adapt to internal or external occurrences that could disrupt business operations. We are continuing to work to improve performance of our IT systems while focusing on developing future systems capability. With significant strategic investment in train we are actively strengthening our change implementation controls to further mitigate potential impacts related to data management, IT systems stability, cyber security, and the wider internal control environment during transition.

Principal risks	Management and mitigation examples
Operational risk (continued)	We have a mature process in place designed to enable us to maintain the right number of capable and engaged people, supported by activities that cultivate a positive culture through robust employment practices. Alongside this, we operate a strong procurement and supply chain framework for the sourcing, appointment and ongoing management of our suppliers and outsource providers. Our risk management framework is designed to enable us to capture risk information in a complete and consistent way, including proactive trend analysis, root cause analysis and read across to enable early warnings and a 'learning' risk environment.
Regulatory and conduct risk describes the risks arising out of breaches of and/or changes to law, regulatory rules, policy or interpretation, or to supervisory expectations or approach that have an adverse operational and financial impact as a result of reputational damage, regulatory or legal censure, fines or prosecutions, and any other type of non-budgeted operational risk losses, associated with our conduct and activities.	We maintain a constructive and open relationship with our regulators and have a culture of delivering on our commitments to our customers (see pages 61 to 62). The issue of pricing practices within the general insurance market continues to be a focus of the FCA and it's an issue to which we have devoted a lot of attention. Our conduct risk management framework is designed to deliver fair outcomes to customers and minimise our risk exposure. It is supported by a set of conduct pricing principles to enable the fair pricing of business across our book. We continue to develop our approach to seek to anticipate developments and to ensure that we can continue to provide good outcomes for our customers. Finally, we carry out planned risk-based monitoring of customer processes as well as more targeted thematic reviews to help us manage the risk of unfair customer outcomes.
Credit risk is the risk of loss resulting from defaults in obligations due and/or changes in credit standing of either issuers of securities, counterparties or any debtors to which the Group is exposed.	To manage credit risk, we set credit limits for each counterparty and actively monitor credit exposures. In addition, we only purchase reinsurance from reinsurers with at least A- rating and, for liabilities with a relatively long period of time to settlement, this rating is at least A+. Finally, we also have well defined criteria to determine which customers are offered and granted credit.
Strategic risk is the risk of direct or indirect adverse effects resulting from strategies not being optimally chosen, implemented or adapted to changing conditions.	Strategic risk is influenced by external developments such as Brexit and motor market conditions. To manage our risks, we have taken the following steps: – we agree, monitor and manage performance against the Board-approved plan and targets; – the Board leads an annual strategy and five-year planning process which considers our performance, competitor positioning and strategic opportunities; – as part of the timetable for the Strategic Plan, the Risk Function carries out a risk review of the Plan which is documented in the Group's Own Risk and Solvency Assessment and presented to the Board; and – we identify and manage emerging risks using established governance processes and forums.

Potential effects of Brexit

The UK left the EU ("**Brexit**") on 31 January 2020. At the date of this report there remains uncertainty as to when the implementation period will end (it is due to end on 31 December 2020 but could yet be extended, albeit requiring a change to the law) and as to what, if any, trading agreement may or may not be agreed between the UK and EU to take effect subsequent to the implementation period. There is also uncertainty as to what trading agreements may or may not be agreed with key non-EU countries to supersede such arrangements previously subject to EU trade agreements. Accordingly, there remains uncertainty as to the effect of Brexit on the Group.

If there is a smooth end to the implementation period with an agreed future trading agreement between the UK and the EU (and other key countries), and accordingly without significant disruption to the UK economy and to business generally, then any adverse impact on the Group (if any) would also not be expected to be significant. If, however, trade discussions (or the failure of them) were to lead to significant disruption then the impact on the Group could correspondingly also be disruptive and potentially material.

Internal review

Following the EU referendum result in 2016, which saw the UK vote to leave the EU, the Group established a Brexit Working Group comprising representatives from across the Group. It was identified that there was a risk that the UK could enter a prolonged period of reduced growth due to Brexit, potentially reducing insurance sales and the value of our investment portfolio. Whilst our operations are based mainly in the UK, Brexit-related issues which could impact adversely on the Group could include: changes to the value of sterling which impact claims and non-claims supplier costs; inflation; impacts on credit spreads which in turn could impact on the Group's investments and capital; recession; recruitment and retention of people; impacts on the speed of delivery and cost of goods and services required by the business including for fulfilling insurance claims made by customers, for example because of delays at borders caused by increased border regulations and by additional costs caused by increased tariffs and devaluation of sterling; availability of reinsurers authorised to write business in the UK; data transfers; the removal of the EHIC leading to greater reliance on travel insurance; travel disruption; increased use of Green Cards (internationally recognised certificates that act as proof of insurance, including in the EU); potential changes to direct and indirect tax; and the regulatory impact on our capital position.

Possible implications

The Group has proactively considered a variety of possible implications of a disruptive end to existing trading and other arrangements between the UK and the EU, including of a financial and operational nature; for example:

The Group's investment portfolio

The impact on the Group's investment portfolio and in particular credit spreads related to its debt securities and therefore Group solvency: A sensitivity analysis relating to credit spreads is provided on page 37 and on page 177. The Group has also considered Brexit impacts in its Investment Committee, and further information is provided on the work of the Investment Committee on pages 104 to 105. A disruptive end to previous arrangements between the UK and EU could impact adversely on the Group's investments and therefore capital and the solvency capital coverage ratio and the appropriateness of paying dividends.

Procurement and supply chain

In particular as part of the Group's ability to deal with claims made under insurance policies, the Group needs to acquire a wide range of goods and services. A significant amount and spread of goods, for example such as car parts, are sourced from within the EU. The Group has been in discussion with principal suppliers who took steps to increase stocks within the UK in the event of a potential 'hard' Brexit leading to disruption at borders. However, in the event of a lack of appropriate trading arrangements with the EU (and other countries) following the implementation period and for example in the event of the imposition of tariffs and quotas, the Group's ability to deal with claims in its normal ordinary course of business manner could be adversely impacted and there could be delays and extra costs.

The Republic of Ireland

The Group has a small amount of business in the Republic of Ireland, servicing a small Irish part of a UK partner's wider business. The Group had obtained approval in principle from the Central Bank of Ireland for the establishment of a formal third country branch in the Republic of Ireland, in order to be able to continue with this business post a 'hard' no-deal Brexit, should that have become necessary. It remains to be seen whether similar arrangements will be needed at the end of the implementation period.

Crisis management

The Group has also been focusing on Brexit from a potential crisis management perspective, with the objective of maintaining operational resilience in the event of a disruptive Brexit and with a view to being able to react better to events as they unfold, including during and following the implementation period.

.

Emerging risks

We define emerging risks as newly developing risks that are often difficult to quantify but may materially affect our business. Emerging risks are usually highly uncertain risks which are external to the Group and we take a proactive approach to the emerging risk management processes, with the objective of enabling us to:

- identify, manage and monitor a broad range of potential emerging risks; and
- mitigate the impact of emerging risks which could impact the delivery of the Plan.

We record each emerging risk within an Emerging Risk Register.

During 2019, the Risk Function has worked with subject matter experts from the business to enhance the quality and detail of emerging risk updates. Each risk is owned by a member of the Executive with subject matter experts in the Risk Function providing challenge and oversight; and emerging risks are monitored by the Risk Management Committee, Board Risk Committee and Board.

The emerging risk process is supplemented by deep dives on selected emerging risks which are reported to the Board Risk Committee for review and challenge.

Climate change

We recognise that climate change potentially poses material long-term financial risks to the business and is receiving increased scrutiny from regulators and investors. Climate change can be divided into three categories: physical, transition and liability risks, all of which can manifest themselves through a range of existing risks within the material risk register, including insurance, market, operational, strategic and reputational risks.

Physical risks

Physical risks are the direct risks which arise from weather-related events, including the potential to affect both the frequency and severity of natural catastrophes and other weather-related events in the UK. These are not only financial risks but also risks arising from the operational impacts of weather events; for example, vacating an office due to flooding, as happened to the Group in 2015.

Transitional risks

Transitional risks arise because efforts to mitigate climate change are driving a transition towards a lower-carbon economy, which creates risks and opportunities.

For example:

- Whilst insuring electric vehicles does not fundamentally change the business model, electric vehicles have their own unique risk profile, and pose different challenges to motor underwriters, accident repair centres, and to rescue products.
- Increased operating costs due to the potential increase in carbon costs and regulatory requirements are also likely to impact all participants in the industry. The Group monitors its own impact on the climate and has an established environmental management programme.
- Our business depends on the strength of its brands and its reputation with customers and distributors. As consumers become more aware and educated about climate change and environmental issues, research shows that they are putting their faith in brands that take their corporate responsibility seriously.

Liability risks

Liability risks arise when parties, who have suffered losses from climate change, seek to recover from those they believe may have been responsible. There is some potential exposure to liability risk through commercial liability insurance. There are two types of coverage that may have an elevated exposure to climate liability risk: insurance against the risks due to pollution on agricultural insurance policies, and professional indemnity covers. We have reinsured both of these risks.

In addition to the above risks, the impacts of potential physical, transition and liability risks arising in the wider economy can also have an indirect impact on the investment portfolio through their influence on the value of assets. Our largest asset portfolios are focused on corporate bonds. During 2018, we approved a significant new investment initiative which incorporates a greater focus on indices weighted by environmental, social and governance factors, which tilt the composition of the portfolio towards higher holdings and weightings of issuers with strong environmental, social and governance scores.

The risks and impacts of climate change are wide ranging. The Group is focusing increasingly on climate change, with related risk management activity including the monitoring of climate change through the Emerging Risk process, the formation of a Climate Change working group, and commencing the implementation of the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures. (see Planet pillar page 68).

Technological developments change consumer needs for insurance

In the near term, we expect data to emerge as a key area of innovation, as insurers learn to access and use new sources of customer data to improve their understanding of risk and improve customer journeys. We expect a greater focus on transparency and fairness and developments in new car technology, particularly automated driving and electric vehicles, are likely to be a new area for us to understand and compete in. We also expect price comparison websites to use digital technology and data to continue to build their role with customers. These changes could significantly affect the size and nature of the insurance market and the role of insurers. Our strategy is designed to help us transform our business and deliver insurance our customers want and need in the future.

Changes to traditional insurance business models

In the longer term (5 years+) potential disruption through the likes of major online retail organisations which have previously not been active in the insurance market and powerful new data sharing technologies, such as Open Banking and application programming interfaces ("**API**"), may create new and significant routes to market. We expect to see the lines between direct and intermediated distribution channels blend and blur – requiring new approaches to access the market. Our partnerships with Starling Bank, Tesla, and RBS and NatWest are helping us to develop new capabilities and provide new routes to market. Also connected technology and new ownership models may create demand for new types of insurance products to meet more specific needs, potentially combined with other services.

While the extent and timing of these changes are uncertain, our new strategy (pages 15 and 20 to 21) has been designed to help us respond to these and other market changes so that we can win in our chosen markets.

Viability Statement

In accordance with provision 31 of the 2018 UK Corporate Governance Code, the Directors have assessed the prospects of the Group for a period longer than the minimum 12 months required by the going concern statement.

The Strategic report, on pages 1 to 73 sets out the Group's financial performance, business environment, outlook and financial management strategies. It covers how the Group measures its regulatory and economic capital needs, and deploys capital. You can find discussion about the Group's principal risks and risk management in this section including how the Group has addressed the potential effects of Brexit. Note 3 to the consolidated financial statements starts on page 169 and sets out financial disclosures relating to the Group's principal risks. This covers insurance, market and credit risk, and the Group's approach to monitoring, managing and mitigating exposures to these risks.

Every year, the Board considers the strategic plan and an Own Risk and Solvency Assessment ("**ORSA**") for the Group. The plan makes certain assumptions in respect of the competitive markets in which the Group operates, and the delivery and implementation of the new customer systems. Appropriate aspects of the strategic plan are stress-tested to understand and help set capital and other requirements.

When reviewing the strategic plan, the Board considered the Group's prospects over the period that the plan covered and the conclusions of the ORSA, based on the Group's anticipated activities as set out in the strategic plan. This review included reviews of solvency, liquidity, assessment of principal risks, and risk management over a three-year period, with a further two years of indicative planning. The first year following approval of the strategic plan has greater certainty, so it was used to set detailed budgets across the Group. Outcomes for the subsequent years in the plan are less certain. However, the plan provides a robust planning tool for strategic decisions. The Board recognises that, in a strategic plan, uncertainty increases over time and, therefore, future outcomes cannot be guaranteed or accurately predicted.

Based on the results of these reviews, the Board has a reasonable expectation that the Company and the Group can continue in operation, and provide the appropriate degree of protection to those who are, or may become, policyholders or claimants in the period to 31 December 2023.

Understanding what matters most to our stakeholders

The Group's proud history gives it an established position in the UK general insurance market.

We've always been innovators from the moment we disrupted the market in the 1980s by giving people the opportunity to buy their insurance direct.

Our success comes from a breadth of expertise and relationships forged over many years. It rests on understanding the needs of the numerous individuals and organisations we interact with and how to respond to those needs. It also requires an open mind that forming new relationships and developing ways of doing things can improve how we operate.

The scale of our influence means it touches on a vast range of interests – everything from the service we offer customers, the support we provide our people, how we treat suppliers, how we deliver shareholder returns and our wider impact on society and the environment.

Our sustainability pillars

Customers
Earn our customers' trust by demonstrating how we are acting in their best interests.

People
Encourage a culture that celebrates difference and empowers people so that they can thrive.

Society
Use our expertise to improve outcomes for society and the communities we serve.

Planet
Protect our business from the impact of climate change and give back more to the planet than we take out.

Governance
Look to the long term for our stakeholders, build a reputation for high standards of business conduct and a sustainable business.

Listening to our stakeholders

How we act as a sustainable and responsible business is critical because we believe it will make us more commercially successful in the long term.

This year we've taken time to evaluate what really matters to our stakeholders. We've done this to understand what they value, the business impact it has on the Group and how we can use this insight to build a sustainable business for the future.

By using our five pillar ESG framework we asked stakeholders to prioritise a range of sustainability issues and then matched this against the priorities of the business.

We sought views from the business as well as a range of external stakeholders including customers, suppliers, investors, commercial partners, non-governmental organisations and policymakers that the business interacts with. Using in-depth interviews and surveys, we asked a series of questions around perceptions of responsible business, expectations including the most strategically important sustainability issues for the Group and future trends.

With this insight a business impact assessment was conducted where a robust assessment of risks, impacts and opportunities was considered and a significance rating was assigned for each topic.

The prioritisation exercise has highlighted the following priority areas:

1. Delivering great service to all customers
2. Communicating clearly and openly with customers
3. Investing in training and developing our people
4. Supporting employee wellbeing
5. Harnessing data and technology
6. Protecting customers' data
7. Upholding good labour standards

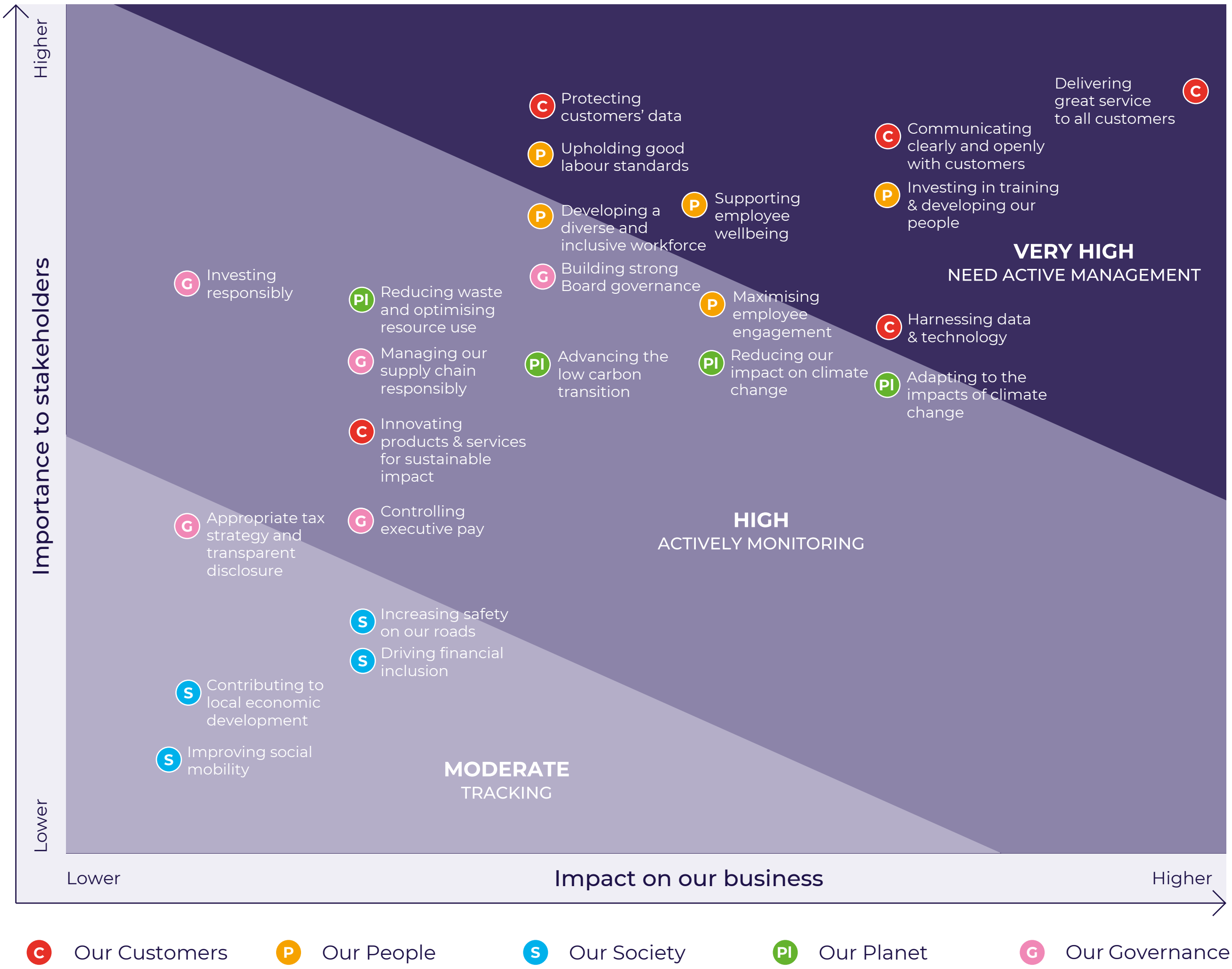
Taking a broader look at our matrix overleaf and at what our stakeholders told us, shows there are four important themes for the Group. These are:

– Meeting customer needs each and every day
– Investing in and supporting our great people
– Realising the potential of data and technology
– Understanding and managing the impact of climate change

We will now use this insight, alongside the other feedback we have received, to shape our five pillar ESG strategy and further inform those initiatives. Through this lens we can identify new opportunities helping to ensure future decision making of the running of our business reflects stakeholder views.

See pages 61 to 71

MATERIALITY MATRIX



Section 172(1) Statement

Direct Line Group is a leading motor, home and commercial insurer which depends on the trust and confidence of its stakeholders to operate sustainably in the long term. The Group seeks to put its customers' best interests first, invests in its employees, supports the communities in which it operates and strives to generate sustainable profits for shareholders.

The Directors of Direct Line Insurance Group plc have acted in accordance with their duties codified in law, which include their duty to act in the way in which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in section 172(1) of the Companies Act 2006.

Section 172 considerations are embedded in decision making at Board level and throughout the Group. Issues, factors and stakeholders which the Directors have considered when discharging their duty under section 172(1) are detailed on pages 61 to 73, 88 to 89 and throughout this Annual Report.

Our vision, purpose, sustainability pillars and values are set out in the Strategic report, as are the risks facing our organisation and the mitigating action we take, our environmental, social and governance practices, examples of stakeholder engagement and information about our engagement with employees, shareholders and suppliers. The Group's ESG activity, overseen by the Board, is described in the Strategic report on pages 59 to 73.

The Corporate Governance report contains examples of how the Directors have engaged and have had regard to our stakeholders and the effect of doing so on principal decisions taken by the Company during the financial year.

See pages 88-89

Customers

Earn our customers' trust by demonstrating how we are acting in their best interests.

Our people and their instinctive customer care drive real long-term value and is seriously difficult to replicate. We believe this gives us competitive advantage.

Customer Experience Pillars

Customer experience is at the heart of everything we do, and it is the central element that connects all our people regardless of role. This year we sent out over 1.5 million requests for customer feedback about their experiences with our brands. Our Executive Committee also attended a customer closeness workshop to hear first hand about what customers value and what they expect from us.

As a result we've developed our Customer Experience Pillars which provide a framework for the high-quality products and services we design and deliver for our customers. Using this customer framework, we hope to live our purpose of helping people carry on with their lives, giving them peace of mind now and in the future.

Feedback from our Customer Stories

"Direct Line has delivered, I want peace of mind and I've got that. With Direct Line I've got the trust." – Debbie

"They set really clear boundaries, they did what I would expect them to do." – Charlotte

Customer Pillars

Expectations
Manage and exceed my expectations

Ease
Make it as effortless as possible for me

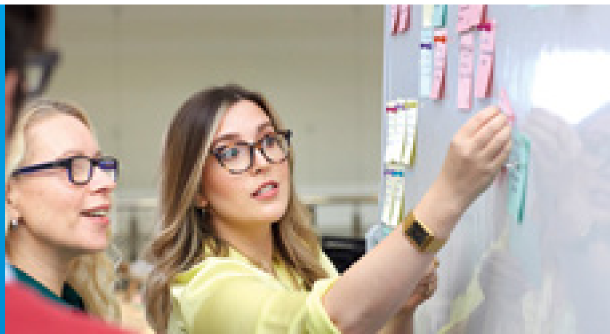
Personalisation
Treat me like a real person and not like a process

Fix-it
Identify the issue, own it and fix it

Trust
Earn my trust

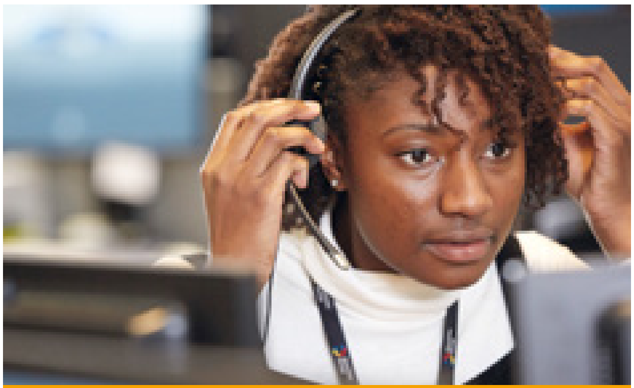
Empathy
Understand me and work hard to build a relationship

Taking action on pricing



While many customers shop around for insurance, we recognise that more needs to be done to promote competition in the market, particularly for long-standing customers. Prices should not keep rising for no reason. We want our customers to value the protection, service and security our products offer giving them reason to want to come back to us every year. The FCA Market Study on General insurance pricing practices Interim Report has proposed a number of remedies. Since establishing our own pricing review process in 2014 we have taken action to ensure we continue to earn our customers' trust:

- We have named Executives in place responsible for Group pricing.
- We've reviewed the premiums of customers who have been with us for five years or more resulting in inflation only, frozen or discounted prices.
- Our technology upgrade will provide greater transparency for customers.
- While auto-renewal is an important customer safeguard we believe that people should be able to opt-out easily.
- All our products are regularly reviewed to ensure that we continue to deliver value to all customers.



Bereavement Team

We recognise that customers sometimes need specialist support when experiencing difficult circumstances. We are proud of our new bereavement team who have undertaken specialist training to help customers during difficult circumstances. Those who have suffered a bereavement now have all of their queries dealt with in one place, while being supported through the process by our consultants who are experienced with the sensitive nature of these conversations.

"Pauline was extremely helpful and empathetic with my situation and ensured that the reason for my call was dealt with efficiently and completely, cannot commend her highly enough, please pass on my thanks."

"Very polite, courteous and professional during a very emotional time for me."

Health Assured

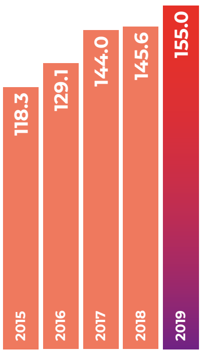
We are proud of our culture where we always aim to do the right thing by our customers. Given our internal focus on mental health our customer consultants told us they wanted to do more to support vulnerable customers who were finding it difficult to cope either because of their specific circumstances relating to their claim or in many cases because of personal issues. We have responded this year by testing an initiative aimed at assisting vulnerable customers. Some Claims colleagues have given Direct Line customers the option of a referral to Health Assured where they identify potential vulnerability during the conversation at the initial notification of loss. This will enable those customers who are struggling to receive the necessary support, through trained counsellors and a network of support organisations.

Customer satisfaction

Net promoter scores measure the willingness of customers to recommend our products and services. Driven by our customer pillars, our NPS scores are leading for any industry and have improved year-on-year. These scores drive real commercial benefits by helping us to attract and retain more customers, contributing to the one million new direct own brand policies we have added in the past five years.

Net promoter score

Direct Line Brand



Giving customers choice and flexibility

Like many data-driven consumer markets, ours is digitising fast and we believe our success will be predicated on combining customer focus and brand with a strong technology foundation.

We know customers value digital self-service which is why we have invested in new capability to give customers easier access to their documents making the whole journey simpler. We are providing greater product choice and flexibility at more accurate prices, achievable through our capacity to quickly adapt to market conditions and opportunities.

Behind the scenes we are transforming our processes, including policy administration and our claims system, making them more efficient so our consultants can focus on what matters most for customers.

"It was an honour to be one of the first consultants to use our new motor insurance platform which will transform our customers' experience." – Mary-Anne Hunter, Consultant, Customer Operations

People

Encourage a culture that celebrates difference and empowers people so that they can thrive.

We have nearly 11,000 people with a multitude of different skills, bringing their own diverse experiences and backgrounds into all that they do. We celebrate diversity from dress code to neurodiversity networks, from living our value of 'saying it like it is' to taking pride in our activity around mental health. We want all of our people to 'bring all of themselves to work' because that's how we'll continue to be a great place to work and attract and retain the best talent. That's why we continue to promote internal initiatives that recognise, support and applaud difference as well as support the things that matter to our people.

Listening to our people

Employee Representative Body

Our Employee Representative Body is comprised of elected representatives from across our business who are consulted on matters related to business strategy as well as future change programmes. The Employee Representative Body are a platform through which colleagues can share ideas and feedback progress.

Dialogue

Our engaged workforce reflects this with 88% of employees taking part in our employee opinion survey. This year 91% of respondents reported that they are proud to work for the Group, and we have retained the same high levels of employees reporting that they would tell others that Direct Line Group is a great place to work, at 85%. As of October 2019, our gross staff turnover rate was 17%.

Promoting diversity and inclusion

Our values sit at the very heart of our business. They were created ground up and represent in full technicolour our identity. Our people always want to 'aim higher' which is why we set up the Diversity and Network Alliance ("**DNA**") run by volunteers with action strands including gender, disability, working families, BAME, LGBT+ and social mobility. Led by our people, each strand represents the thoughts and needs of our people, helping to guide what we support externally and our people policies and strategy.

Our senior leadership team all have diversity and inclusion plans linked to their remuneration which helps support the promotion of diversity across the business.

We were one of the first ten companies to support the publication of our parental leave and flexible working policies on our external website. We are proud of our 'My Life' policies which includes up to 20 weeks full pay for co-parents on shared parental leave, as well as flexible working policies including up to 12 months unpaid lifestyle leave. While there is still progress to be made these policies embody our values and enable our people to bring all of themselves to work.

Thrive

Our women's network Thrive has continued to expand, giving more of our people the opportunity to benefit from the advice of external speakers to develop their skills. Covering issues such as imposter syndrome and securing your financial future, the network epitomises our 'say it like it is' value, encouraging people to be open about their career hopes and fears and what they can do to succeed. As a result, networking and mentoring has increased across the business.

Neuro-diversity

Neuro-diversity focuses on unleashing the potential of teams, as well as individuals, in the knowledge that our differences can stimulate bigger and better ideas, leveraging an untapped source of competitive advantage. Through our work with Auticon, who provide IT and data consultants on the autistic spectrum, we've been able to hire consultants into our pricing development team and ensure the right support network is in place for them to thrive.

Gender

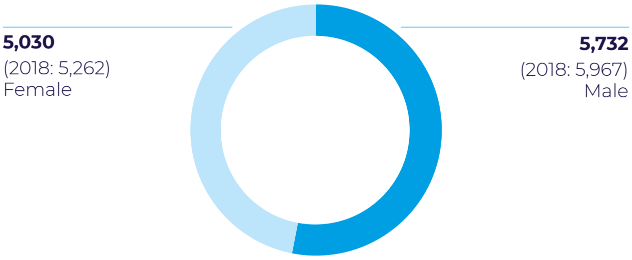
Women in Finance Charter

The Group set a target of 30% females in senior leadership positions by 2019 and we are proud to have achieved this through implementing measures including investment in female leadership programmes, utilising gender balanced shortlists and using gender decoders on our job advertisements to ensure the language is unbiased and attractive to all potential candidates .

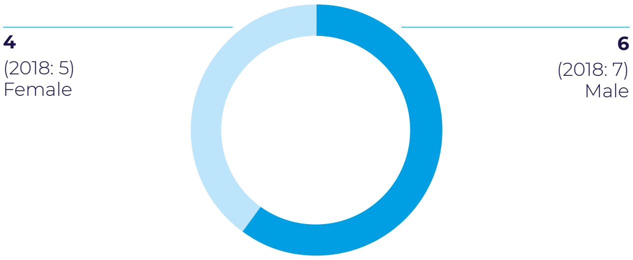
Hampton Alexander Review

The Hampton Alexander Review set targets for FTSE 350 companies to have at least 33% women on their Board and in leadership positions by 2020. The Group is ranked 32nd in the FTSE 250 for female Board representation, with 40% of the Board being female. In senior management positions 31% are women.

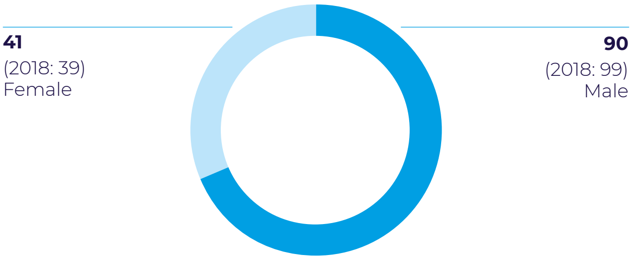
Gender diversity of all employees



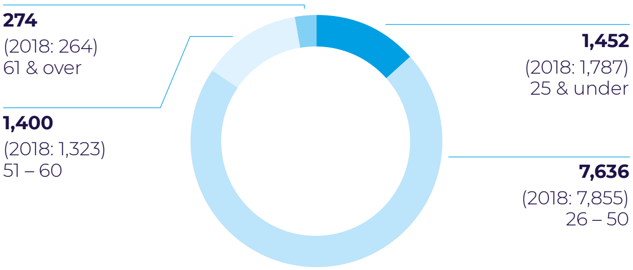
Gender diversity of Board of Directors



Gender diversity of senior managers



Age range of employees



Wellbeing through bringing your whole self to work

Mental health

We are determined to tackle the stigma associated with mental health, supporting everyone to be open about how they feel in and out of work. We have trained every people manager on dealing with mental health issues and have mental health first aiders on every floor of every site. This year we held our second mental health first aiders conference in Leeds with our remarkable people sharing learnings and best practice. Externally, we continue our partnerships with Mind, This Can Happen and supporting the Where's Your Head At campaign. We have also signed the One Mind at Work Charter which aims to develop and implement a gold standard for workplace mental health and wellbeing.

Financial health

Money can often be at the heart of many people's worries, but too often people are not comfortable talking about it or seeking help. This year we have launched a financial wellbeing initiative to assist our colleagues in gaining financial confidence through learning about savings accounts and wider financial education.

Pay

In April we increased the Group's company-wide minimum salary to £19,000 for full-time colleagues on 37.5 hours. This was 8% above the Living Wage Foundation rate outside London at the time, and 18% higher than the Government's national minimum wage.

Employee share incentive scheme

Nearly 80% of our people have shares in the company. All colleagues can benefit from the Group's Buy As You Earn share scheme where a free top up share is awarded for every two shares purchased. The Group's schemes are equivalent to an Employee Stock Purchase Plan and Employee Stock Ownership Plan in the US. Our 2019 performance saw colleagues receive £500 of free shares each. This builds on the four other free share awards the Group has issued since IPO which were worth approximately £1,400 (approximately £2,100 if all dividends had been reinvested) at 31 December 2019.

Annual Incentive Plan

Through our purpose of giving customers peace of mind now and in the future, the Group's Customer Experience agenda focuses on making the customer's journey as easy as possible whether they are taking out cover or making a claim. This is delivered through our people, and the Annual Incentive Plan ensures there is a strong link between pay and the Group's performance on these specific metrics. Our people are judged on their delivery for customers and awarded accordingly, as we know that a good experience will result in our customers valuing the service and security that our products offer and come back to us every year. Through regular engagement with our people we are closely tuned into the feedback we receive, and adapt our offering to align with it.

Human Rights

We have a range of policies and procedures that support our commitment to human rights. These include our :

- diversity policy (see page 63)
- wellbeing strategy (see page 64)
- Code of Business Conduct (see page 75)
- compliance with the Modern Slavery Act 2015 (see page 103)
- Ethical Code for Suppliers (see page 67)

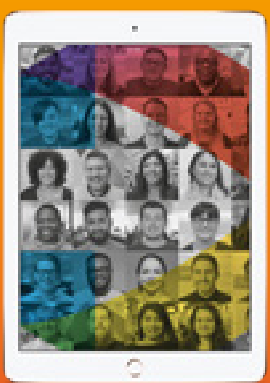
The page references above identify where more detail is provided on each of these important elements.

In many areas our employment policies and practices exceed those in the Universal Declaration of Human Rights. We have a vibrant wellbeing strategy which includes leading family related policies, and our diversity and inclusion practices are in line with the Universal Declaration of Human Rights. It is important to us that our people are fairly rewarded and our starting salaries are above those suggested by the Living Wage Foundation.

Proud to be here

We support our LGBT+ community through attendance at Pride events all over the UK. Through the LGBT+ strand, our people have worked together to organise events throughout the UK under the 'Proud to be here' Group banner. One of our values is 'bring all of yourself to work' and we welcome the opportunity to celebrate diversity amongst our people as well as supporting inclusion in business and society.

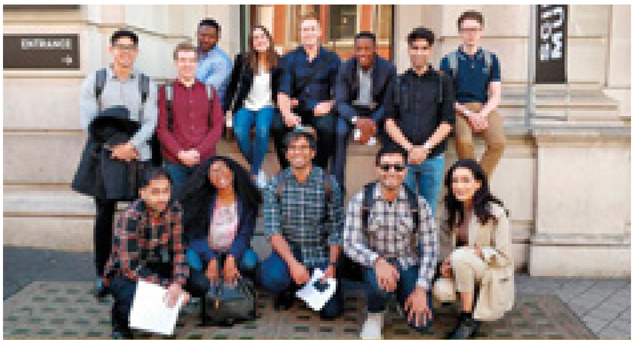
#ThisIsMe campaign



Through our #ThisIsMe campaign we created a platform to enable our people to share their stories about what makes them who they are using an enterprise social networking service and in a video shared internally and externally. By celebrating the diversity of all our people and encouraging conversation about what matters to them both within and outside of work, the campaign embodied our value of 'Bring All of Yourself to Work'.

Mental health first aiders

"Our mental health first aider programme has made it acceptable to talk about personal issues and made such a difference culturally. Because it matters to the business our mental health first aiders prioritise giving people support." – Alan Bint Conduct Regulatory Risk manager



Graduate and Apprenticeship programmes

We're delighted that our first cohort of graduates have completed our three-year programme and most have taken permanent roles within the business. The programme goes from strength to strength with over 80 graduates rotating across a variety of roles within the business. We also have over 220 apprentices developing technical expertise across various functions, while studying for vocational qualifications with over 160 apprentices having completed their programmes.

Society

Use our expertise to improve outcomes for society and the communities we serve.

We have always instinctively been there for society and the communities we serve but we are now consciously making this central to our strategic thinking.

Road safety

As a leading motor insurer, we see first hand the devastation that car accidents bring to those involved. That's why we make it our business to utilise our knowledge and experience with the aim of making the UK's roads safer for drivers and pedestrians alike. We do this through identifying issues to focus on and working with expert organisations to campaign for change.

Seat belt campaign

This year we worked with the Parliamentary Advisory Council for Transport Safety to conduct an analysis of seat belt wearing in the UK following the high number of deaths and serious injury among those not wearing seat belts. Through better enforcement, education and data collection there is the potential to increase seat belt wearing and ultimately reduce those numbers. Our aim is for the introduction of three penalty points for those flouting the law to form part of the Government's road safety plans.

Brake

As our partnership with the road safety charity Brake, continued this year, we have produced a series of reports analysing drivers' attitudes and behaviour towards speed as well as considering the value that drivers place on advanced driver assistance systems. We have also worked to increase awareness of campaigns aiming to make our roads safer and Brake's annual parliamentary reception celebrated the work of supporters and campaigners on road safety issues.

Community investment programme

We know that participating in fundraising and volunteering is linked to higher engagement levels amongst our people. That's why every one of our people can volunteer for 'One Day' during company time, with a charity of their choice and we run a network of Community and Social Committees across all of our sites. The Community and Social Committees receive central funding and support so they can enable our people to get involved in national appeals and create a bespoke programme of events, activities and fundraising to support the things that matter to everyone across the business.

StreetWise

Through the StreetWise consortium the Group has been working with FiveAI and TRL to trial autonomous vehicles on the streets of Bromley and Croydon. By testing the technology, analysing its performance in a complex environment with other road users and assessing passenger feedback we are gaining unique insight that will help to develop insurance solutions for new tech enabled mobility services.

The trials which took place throughout Autumn 2019 demonstrated how technology can be used to build a compelling automated, shared mobility solution that offers an alternative to the urban commuter and helps to reduce accident rates and lowers emissions.

Sprintathon

This year's Sprintathon took the form of a North versus South competition where colleagues from our Leeds offices and those based in Bromley competed in simultaneous sprint marathons to raise the largest amount of money for charities Stand Up To Cancer and Mind. Through this extraordinary group effort, in which over 600 of our people participated, more than £104,000 was raised. With so many people affected by cancer and mental health issues, Sprintathon brings together colleagues from across the business to fight for these significant causes.

Mind

Our people have raised over £170,000 for our corporate charity partner Mind, since starting our relationship. The effort and enthusiasm of our employees in raising money is making a profound contribution towards running Mind's Infoline which supports people to access the help they need. Our fundraising will enable around 33,000 more calls or four new Infoline advisers, a significant opportunity to help more people.

Million Makers

Direct Line for Business raised funds for The Prince's Trust as part of their Million Makers competition, which sees a number of businesses aim to raise £1 million to support young people in difficult situations.

Colleagues faced the challenge of raising as much money as possible by setting up an innovative small business venture. In a short period of time they turned £1,500 seed funding into an impressive £20,468.

Giving back to society

As a large UK company, we want to play our part in driving positive outcomes for society as a whole and we know that if we do business in the right way we can achieve this. Whether that's managing tax obligations responsibly, working with our local communities to support the things that matter to them, investing in training or treating our suppliers fairly.

Tax

We recognise the importance of managing our tax obligations responsibly and the Group's total tax contribution is £956.6 million which includes the Group's direct and indirect tax contribution. The diagram below reflects the Group's tax contribution. See the full tax contribution note and tax strategy on page 42.

Apprenticeships

A shortage of skills in the Body Repair Industry is making it increasingly difficult to attract young talent, impacting the sector as a whole. The Group has worked with the British Standards Institution and Thatcham to establish ways to support smaller body shops and repair centres who do not qualify for the apprenticeship levy. This year we've funded 33 new apprenticeships in our external network benefiting the industry and our business.

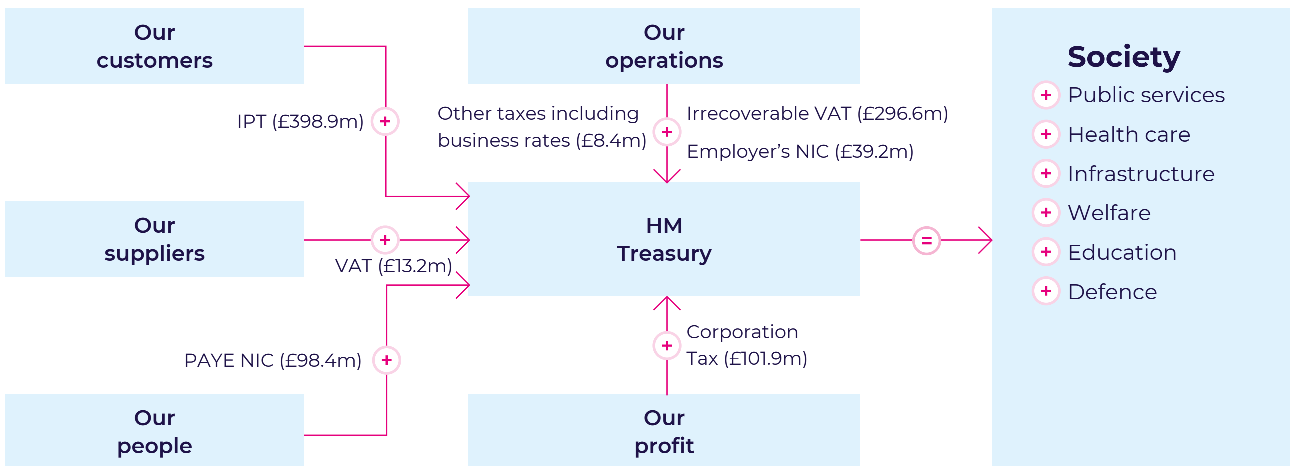
Social Mobility Pledge

We have taken time to consider how we could enhance our Diversity and inclusion strategy with a particular focus on promoting social mobility. We are proud to have signed the pledge and look forward to further embedding employee-led initiatives.

Suppliers

The Group is a long-standing signatory of the Prompt Payment Code which focuses on the requirement to ensure fair payment terms for our suppliers and partners. We acknowledge the importance of maintaining the highest standards of ethical conduct and behaviour in our business practices. We engage regularly with stakeholders to continue to refine and develop the processes that ensure compliance to our regulatory, legislative and social responsibilities.

Our Ethical Code for Suppliers requires that all our suppliers adhere to the core International Labour Organisation standards. The Modern Slavery Act 2015 is incorporated into our risk profiling and specific requirements are incorporated in our due diligence and assurance processes that align with the legislative requirements. We are committed to ensuring that modern slavery is not present in our supply chain.



See pages 42 in the Finance Review

Planet

Protect our business from the impact of climate change and give back more to the planet than we take out.

Fundamentally we believe that embracing sustainable practices leads to a better corporate culture, more reliable products and greater long-term profitability. We have long been conscious of our impact on the planet and have recently embedded the five sustainability pillars into the heart of our business strategy.

See page 59

Governance

The CEO has overall responsibility for climate change and environmental matters. The Chief Risk Officer who leads the Risk Function is responsible for overseeing the management of climate change-related financial risk to the Group and sponsors the 'Planet' pillar of the Group's sustainability framework. This includes the Risk Function's work in analysing and stress testing the potential future impact of climate change on the business.

These results are submitted, as part of the Group's Own Risk and Solvency Assessment ("**ORSA**"), to the Risk Management Committee, the Board Risk Committee and the Board.

Our Board Committees oversee the Group's environmental initiatives, climate-related disclosures and investment performance and are responsible for both assessing and managing climate-related risks and opportunities.

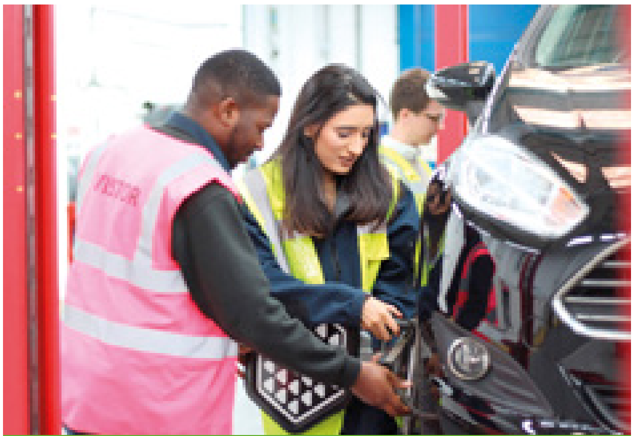
See page 57

Strategy

The UK is committed to the vision of a sustainable, low carbon economy which promotes green growth where individuals, businesses and wider society take advantage of new opportunities.

We are committed to playing our part in helping the UK become a sustainable, low carbon economy. Our ambition is to set a challenging but realistic target to be carbon neutral as a business. As part of our journey we aim to be TCFD compliant by the end of 2020 and drive change across the business by using technology, changing behaviours and maximising our investment power as a framework.

We are already making active choices in these three areas in order to reduce our carbon footprint.



Energy efficient repair centres

We have fitted new paint spray booths in three of our accident repair centres which is leading to operational energy efficiencies. Digital controls are allowing for more accuracy when painters are managing paint and bake cycles. We also have better capability in controlling how much power is driving air into the booths meaning we can reduce how much gas is used when jobs are not taking place. And because we now use automatic air recirculation we are using less power to draw in outside air. These actions could lead to savings in energy of up to 40%.

Technology

Technology is enabling the Group to maximise the opportunities to manage our environmental impact.

- **Full digital experience:** By providing customers with a full digital experience this will reduce the need to post and print policy documents.
- **Agile working:** Moving towards an agile working model is expected to reduce the footprint of the estate, require less energy and change the travel patterns for employees.
- **Cars of the future:** We are enhancing our understanding of electric vehicle adoption, including pricing risk, rescue products and our repair process. We have also invested in partnerships such as StreetWise and Move_UK to understand how autonomous vehicles and car sharing could reduce the number of vehicles on UK roads.

See page 58

2.1 million

pages of A4 saved in 2019

Behaviours

As a major UK employer, we believe it is important to support and encourage behavioural change outside and within our business. That's why we set up a network of Environmental Champions who have received accredited sustainability training to promote local awareness campaigns.

- **Investing in our estate:** We've continued to invest in our estate with new energy efficient boilers, LED lights, chillers and air conditioning units delivered across a range of sites.
- **Recycling coffee cups:** Following the success of our recycling partnership with SimplyCups in Bromley we have introduced the scheme to our Doncaster, Leeds, Manchester and Birmingham sites. In Bromley alone we recycled around 130,000 cups in 2019, so we are recycling an average of 11,000 cups per month.
- **Green incentives:** We have negotiated a catering contract offering a discount for colleagues who bring their own reusable cups saving nearly 14,000 disposable cups.
- **Plastic free catering solutions:** Through our partnership with Vegware, which provides fully compostable plant-based food containers, cutlery and cups, we have decreased waste from our onsite catering.

Investment

We actively choose what we invest in and our objective in 2019 was to ensure that our holdings in investment grade corporate bonds were tilted more towards companies with better ESG credentials. We delivered this by changing most portfolios to Bloomberg/MSCI ESG weighted benchmark indices and adding a new investment objective to all relevant guidelines, namely to achieve a minimum MSCI ESG rating of 'A' for the portfolio.

Our portfolio at a glance:

- At the end of 2019 100% of the investment-grade corporate bond portfolios had an average ESG rating of 'A'. This represents 87% of the credit investments in the portfolio and 62% of our total investment portfolio.
- Our investment policy is to encourage asset managers to invest in green bonds and at the end of 2019 1.5% of our bond portfolio was invested in green bonds, which is above the broad market weight.
- We invest £278 million in infrastructure loans which focus heavily on social infrastructure. At the end of 2019 89% of the portfolio was invested in hospitals, schools and other public service buildings.
- We hold a similar size commercial property portfolio. All assets in the portfolio must have an energy efficiency certificate of D or better which is one level above the government mandated level of E, or a plan and funds in place for achieving that level.

Risk Management

The Enterprise Risk Management strategy and framework sets out our approach to setting risk strategy and for managing risks to the strategic objectives and day-to-day operations of the business.

Within this, the risk management process is a key element in the development and ongoing maintenance of an accurate risk profile. The objective of the risk management process is to identify, assess, manage and monitor the risks that the directorate is exposed to.

Directorates are expected to follow the requirements set out in all applicable risk policies and minimum standards and report any notable control weaknesses in the Internal Risk and Control Assessment process.

The effects of climate change are wide-ranging, and the Group reflects the effects of climate change through the drivers of those risks which are defined in the Group Risk Taxonomy.

This has the effect of embedding the management of climate-related risks in normal processes for managing risks across our risk profile. Each directorate is required to have a clear understanding of Group risk appetite and how it cascades to their directorate, the risks that they are exposed to and the potential impacts of these risks.

We have defined the following time horizons for climate-related issues:

- Short (1 to 5 years)
- Medium (5 to 10 years)
- Long (10 years+)

As physical impacts from climate change and associated transition to a low carbon economy are likely to be gradual, there are limited impacts from physical risks directly attributable to climate change included in the financial plan. However, we are taking a number of steps to manage risks and take advantage of opportunities presented by climate change and the transition to a low carbon economy. Please see page 57 for further information.

Each year, business areas assess and identify all current and developing climate change-related risks and their likelihood of materialising either on an inherent or residual basis. These are rated using the Impact Classification Matrix allowing us to determine the relative significance of climate-related risks.

Weather-related events are modelled using the Group's Internal Economic Capital Model. These catastrophe models are regularly reviewed, using the latest scientific thinking, to ensure they align to our risk profile and to help ensure appropriate pricing. Large weather events are mitigated by our use of catastrophe reinsurance.

98.2%

of total waste recycled

Stress Test

The Group has participated in the PRA's 2019 insurance stress test which considered the impact of climate change on our business based on three hypothetical climate change scenarios:

- A rapid disorderly transition to a low carbon economy
- A slow more orderly transition that keeps global temperatures well within the Paris target of 2°C of warming
- A lack of action leading to warming in excess of 4°C by the end of the century

The exercise included the consideration of impacts to both liabilities (physical risk only) and investments (physical and transition risk) and the PRA specified high level assumptions for each scenario.

The next stage is for us to adapt these scenarios to match better to our own risk profile and use that as a basis for future climate change risk analysis, followed by the development of our own bespoke scenarios.

Metrics and targets

As part of our TCFD implementation plan we are developing our approach to reporting metrics and targets. This will include a challenging but realistic carbon neutral target for the business, alongside a long-term reporting framework, enabling us to track our performance against our sustainability strategy, as well as the financial impact of climate change-related risks and opportunities.

We currently target:

- A 57% reduction in Group-wide emissions and a 30% reduction in energy consumption by the end of 2020 against a 2013 like-for-like baseline. To date, the Group has achieved 53% and 29% respectively.
- As close to 100% of total waste being recycled or recovered for energy use.

We have also achieved the following:

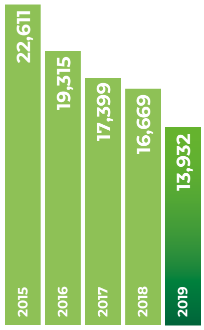
- **Recycling:** In 2019 the Group recycled 98.2% of its total waste compared to 98% in 2018. Excluding our paper, which is 100% recycled, the Group recycled 97.7% of its overall waste in 2019 as compared to 82.5% in 2018.
- **Electricity:** Since 2014 we have sourced 100% of our electricity from renewable sources.

CO_2 Emissions

We take pride in challenging ourselves to reduce emissions and energy consumption across the business. Being transparent about our energy use is a fundamental part of that challenge.

- We comply with the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013 and apply the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) which includes emissions associated with electricity consumption using both the Location-based Scope 2 and Market-based Scope 2 calculation methodologies.
- In 2019 our Scope 1 & 2 GHG emissions total were 13,932 tonnes meaning that over the last seven years we have achieved a 53% reduction in GHG emissions.
- We also continue to engage with the Carbon Disclosure Project (CDP) and received a 'B' rating for 2019.
- We also monitor the intensity metric of emissions per £ million of net earned premium and in 2019 this improved to 4.7 down from 5.4 for 2018. This is a measure of how efficiently insurance products are provided and allows us to compare our performance year-on-year and against other insurance companies.

Greenhouse gas emissions (tonnes)[1,3]



Emissions table

	Tonnes of CO_2e					
	2013[2]	2018 (restated)[3]		2019		% change (2013 to 2019)[5]
	Location-based	Location-based	Market-based[4,5]	Location-based	Market-based	
Scope 1	8,429	8,754	8,754	7,365	7,365	(13%)
Scope 2[6]	21,480	7,915	0	6,567	0	(69%)
Total (Scope 1 & 2)	**29,909**	**16,669**	**8,754**	**13,932**	**7,365**	(53%)
Intensity metric[7]	8.5	5.4	2.8	**4.7**	**2.5**	(45%)
Scope 3 (only transmission & distribution ("**T&D**") losses from electricity	1,774	675	675	558	558	(69%)
Total (Scope 1, 2 & 3 T&D losses)	**31,683**	**17,344**	**9,429**	**14,489**	**7,923**	(54%)
Intensity metric[7]	9.0	5.6	3.1	4.9	**2.7**	(46%)
Scope 3 (T&D losses from electricity, commuting, paper, business travel & waste)[8]	N/A 2013	17,836	17,836	16,489	16,489	
TOTAL ALL	N/A 2013	**34,505**	**26,590**	**30,421**	**23,854**	
Intensity metric[7]		11.2	8.6	10.2	8.0	

Notes:
1. Scope 1 and Scope 2 Location-based.
2. 2013 baseline has been calculated using the Scope 2 Location-based methodology.
3. Historical Scope 1 direct emissions have been restated to include emmissions from leased vehicle mileage previously excluded.
4. Historical Scope 2 indirect emissions differ from previously reported figures as Scope 2 results have been recalculated to reflect the Group's purchase of low carbon electricity. The Group procures its energy under Green Tariff or Renewable Energy Guarantees or Origin scheme. The Renewable Energy Guarantees of Origin purchased are 100% renewable and therefore electricity consumption is calculated as zero carbon.
5. Scope 2 Location-based methodology is used for year-on-year comparisons.
6. We disclose emissions associated with electricity consumption using both Scope 2 Location-based and Scope 2 Market-based methodologies. All total calculations follow GHG protocol.
7. Intensity metric is calculated using tonnes CO_2e divided by £m net earned premium.
8. Scope 3 total has been expanded for 2018 and 2019 to include a small amount of emissions associated with plug-in hybrid vehicles. Scope 3 total for 2019 also includes waste emissions.

Long-term success

The Board believes that a business model that is sustainable in the long term is key for discharging the responsibility to promote the success of the Group. We pride ourselves on a proactive sustainability strategy and the table below shows where information can be found in this Annual Report & Accounts containing our ESG disclosures, our external ratings, as well as information on how we govern and how we think about the future.

Our ESG disclosures

Our external ratings

External ratings

Our performance is assessed externally by Environmental, Social, Governance (ESG) rating agencies where we score highly.

SUSTAINALYTICS

In September 2019 the Group was rated as an ESG leader within property and casualty insurance ranking first out of 81 companies.

MSCI ESG RATINGS

CCC | B | BB | BBB | A | AA | AAA

In October 2019, the Group received an A rating highlighting our Corporate Governance as a strength in the Company's performance.

CDP DISCLOSURE INSIGHT ACTION

The Carbon Disclosure Project is a globally recognised platform measuring reporting performance and in 2019 the Group received a CDP rating of B.

Non-financial information statement

The cross references below set out where stakeholders can find information in our Strategic report that relates to non-financial matters, as required under the new regulations[1] on reporting non-financial information.

Note:
1. The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016, SI 2016 No 1245.

How we govern

ESG Oversight

Board

The Board oversees all of the Group's ESG activity. It has delegated particular aspects of this supervision to its Committees.

The **Remuneration Committee** determines remuneration for senior management and reviews workforce remuneration.

The **Corporate Responsibility Committee** focuses on the Group's responsibility for the environment, the community and the wellbeing and engagement of its people.

The **Investment Committee** considers the strategy for incorporating ESG factors into the Group's investment management.

The **Board Risk Committee** oversees all aspects of financial, regulatory and operational risk, including the long-term risk to the Group of climate change.

The **Audit Committee** focuses on sustainability in the Group's financial disclosures.

The **Nomination and Governance Committee** monitors developments in governance and investor ESG expectations, as well as being responsible for Board succession planning.

More information about the activities of each of the Committees can be found in the Committees' reports on pages 93 to 109

How we think about the future

Thinking ahead for the long term

We are always looking for new commercial opportunities where changing consumer trends and expectations are altering the way markets work.

Car sharing is an emerging trend that could have wide-ranging implications for insurers. In the future people may want to use products and services periodically, rather than making a big outlay in spending. It is part of a broader desire for products that are easy to use, easy to access and ultimately personal to individual needs. That's why this year we signed up to two new partnerships because we recognise that subscription-based services could alter the way insurance models work:

- Drover has created a new way to "own" a car by providing individuals and private hire drivers with flexible vehicle subscriptions where users pay a recurring fee for the right to use a car with insurance, maintenance, tax, MOT and breakdown cover.
- YouMe.Car has launched a Car Share scheme where a customer accesses a brand new car at minimal cost and then shares the vehicle between a self-selected community of friends and neighbours who can hire the car via an app and pay for the number of hours hired.

Providing the insurance for these two exciting partnerships enables us to learn more about car ownership models and what consumers want and need.

Statement of the Directors in respect of the Strategic report

The Board reviewed and approved the Strategic report on pages 1 to 73 on 2 March 2020.

By order of the Board

PENNY JAMES
CHIEF EXECUTIVE OFFICER

2 March 2020

TIM HARRIS
CHIEF FINANCIAL OFFICER

2 March 2020

Our Governance

Direct Line's purpose-based culture is the foundation for delivering long-term sustainability.

MIKE BIGGS
CHAIRMAN

Dear shareholders and other stakeholders,

On behalf of the Board, I am pleased to present the Corporate Governance report for the year ended 31 December 2019.

Your Board is committed to underpinning all of the Group's activities with the highest standards of corporate governance. This section of our Annual Report explains how your Board seeks to ensure that we have effective corporate governance in place to help support the creation of long-term sustainable value for our shareholders and other stakeholders.

The Board endorses the UK Corporate Governance Code 2018 (the "**Code**"), which applied to our 2019 financial year, and the related Guidance on Board Effectiveness. We seek to ensure that our governance framework remains aligned with best practice, consistent with the Code. During the year, the Nomination Committee changed its name to the Nomination and Governance Committee and is now responsible for monitoring governance matters throughout the Group. You can find information on the work of the Nomination and Governance Committee on pages 100 and 101.

Sustainability is at the heart of how we think about our business. We have always been conscious of our broader role in society, including improving road safety, creating an inclusive environment that encourages diversity of experience and background, and giving something back to our local communities. Further information on our sustainable business model can be found in the Strategic report.

There is a duty, enshrined in the Companies Act 2006, for your Directors to act in the way each of us considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to various matters identified in the legislation. In this Annual Report we have detailed the stakeholder and other issues which the Directors considered when discharging this duty throughout the year. Our formal statement in relation to section 172 of the Companies Act 2006 appears on page 60.

I would like to thank you for your support and look forward to discussing the Group's progress with you at our forthcoming AGM on 14 May 2020.

Purpose, culture and values

The Board believes that the Group's purpose-based culture is the foundation for delivering long-term sustainability.

The Board recognises the importance of its role in setting the tone of the Group's culture and embedding it throughout the Group. The Board aims to foster an open and collaborative culture based on the vision and purpose adopted during the year, supporting decisions that are best for our shareholders, whilst having regard to the interests of our other stakeholders. Our vision, purpose, values and Code of Business Conduct are central to the Group's culture. We encourage our people to be curious, to be aligned on outcomes, to build trust, encourage simplicity, empower their teams and continually test, learn and adapt.

Communication with our shareholders and other stakeholders is extremely important to us. By maintaining dialogue with you we aim to ensure that your views are considered and our objectives are understood.

Board changes

Penny James, who was serving as our CFO, replaced Paul Geddes as CEO at the conclusion of the 2019 AGM, at which point Paul stepped down from the Board. Clare Thompson, who served as a NED for more than six years, also stepped down from the Board at the conclusion of

OUR VALUES

Do the right thing	Build sustainable outcomes not processes. Think commercially and choose the right path for our customers, our people and wider stakeholders.
Aim higher	Be ambitious to achieve even better results. Have confidence, innovate and try new things. Embrace change to deliver for each other, our customers and our shareholders.
Take ownership	Own our success by getting things done. Take the initiative and be accountable. Be curious and own your development and performance.
Say it like it is	Challenge drives progress. Your input matters so have the courage to say what you think and the patience to listen to others. Keep it simple and customer focused.
Work together	Nobody has all the answers. Collaborate and draw upon the diverse skills across our business. Trust each other and focus on customer outcomes to beat our competitors.
Bring all of yourself to work	Diversity delivers better outcomes. Be the real you and celebrate difference. Respect others, have fun and make this a great place to be.

the 2019 AGM and Mike Holliday-Williams, who served as Managing Director, Personal Lines, stepped down as a Director on 30 June 2019.

On 16 September 2019, we announced the appointment of Tim Harris, who joined the Board as CFO on 1 October 2019. Further information on the process culminating in Tim's appointment can be found in the Nomination and Governance Committee report on page 100.

The Board recognises the benefit of recruiting leaders who live the Group's culture and values and represent a diversity of gender, ethnicity, cognitive strengths and socio-economic, educational and professional backgrounds.

The Nomination and Governance Committee continues to review succession plans both for the Board and at executive level each year. Further information on our diversity policy, our approach to succession planning and Board appointments can be found in its report.

Effectiveness and evaluation

As Chairman, one of my principal objectives is to guide and develop an effective Board which is able to support our executives in executing an ambitious strategy for the benefit of our shareholders and other stakeholders. In accordance with the Code, we conduct external evaluations of the effectiveness of the Board and its Committees at least every three years. In 2019, Robert Goffee, Professor of Organisational Behaviour at the London Business School, facilitated the Board and its Committees' effectiveness review. The review focused on the Board's role and composition; the relevance, flow and quality of information, and the NEDs' balance of knowledge, skills and expertise.

As part of the annual evaluation process, all NEDs were assessed as being independent and able to provide a valuable and effective contribution to the Board. Suggestions for further improving effectiveness that were raised during the review process have been taken into consideration by the Board. Further details can be found on page 86.

Remuneration

The Board has delegated to the Remuneration Committee responsibility for the remuneration arrangements for the Chairman, Executive Directors and senior management. The Remuneration Committee also reviews workforce remuneration and related policies and the alignment of incentives and rewards with the Group's culture.

The Group's remuneration policy was last approved at the 2017 AGM and the current policy has remained in place for three years. In accordance with legislation, we will submit a new policy for shareholder approval at the upcoming AGM on 14 May 2020. The Chair of the Remuneration Committee has consulted our major shareholders on our proposed Directors' Remuneration Policy on which shareholders will be given the opportunity to vote at the 2020 AGM.

Further details on the proposed changes to the Directors' Remuneration Policy and the work of the Remuneration Committee can be found in the Directors' remuneration report which begins on page 106.

Annual General Meeting

Direct Line Insurance Group plc's 2020 AGM will be held on Thursday 14 May 2020 at 11am. Full details of the venue and the resolutions to be proposed to our shareholders can be found in the Notice of AGM which will be made available on our corporate website.

The outcome of the resolutions put to the AGM, including poll results detailing votes for, against and withheld, will be published on the London Stock Exchange's and the Company's websites once the AGM has concluded.

Yours sincerely,

MN Biggs

MIKE BIGGS
CHAIRMAN

Our Code of Business Conduct

Your Board maintains strong relationships and regular interaction with our shareholders and other stakeholders. Their continued support for our strategic aims is important. Visit www.directlinegroup.co.uk for more information.

N R

MIKE BIGGS
CHAIRMAN OF THE BOARD

Appointed: April 2012

Biography

Mike is Chairman of the Nomination and Governance Committee. The Board benefits from his extensive experience as a Director and Chairman in the insurance industry, which makes him well suited to the role of Chairman, enabling him to lead the Board and ensure its effectiveness.

Mike's previous positions include Chairman of Resolution Limited, then a FTSE 100 UK life assurance business, Group Finance Director and then CEO of Resolution plc. He was also previously Group Finance Director of Aviva plc. Mike is an Associate of the Institute of Chartered Accountants in England and Wales and has a Masters degree in History from the University of Oxford.

Current external appointments

Mike also serves as Chairman of Close Brothers Group plc and its regulated bank, Close Brothers Limited.

C

PENNY JAMES
CHIEF EXECUTIVE OFFICER

Appointed: November 2017

Biography

Penny was CFO of Direct Line Group until her appointment as CEO in May 2019. The Board benefits from Penny's deep understanding of our sector as well as her leadership skills, financial and risk expertise, strategic thinking and cultural alignment. As CEO, Penny is leading both the delivery of the Group's short-term strategic imperatives, including technological and business transformation, and the development of the next stage of our strategy of targeting long-term sustainability.

Penny was previously Group Chief Risk Officer and Executive Director at Prudential plc, where she was responsible for leading risk oversight globally. Before this, she was Director of Group Finance at Prudential. Penny was previously Group CFO at Omega Insurance Holdings Limited and CFO, UK General Insurance, at Zurich Financial Services. She was a NED of Admiral Group plc from 2015 to 2017. She is an Associate of the Institute of Chartered Accountants in England and Wales.

Current external appointments

Penny is a member of the Association of British Insurers Board.

N R

DANUTA GRAY
INDEPENDENT NED

Appointed: February 2017

Biography

Danuta is Chair of the Remuneration Committee. The Board benefits from her previous experience as a Chief Executive and NED (including two positions as Chairs of Remuneration Committees), significant experience in sales, marketing, customer services and technology and in leading and changing large businesses.

Danuta was Chairman of Telefónica in Ireland until 2012, having previously been its Chief Executive from 2001 to 2010. During her nine-year tenure as Chief Executive, she increased the customer base from just under 1 million to over 1.7 million. Before working at Telefónica, Danuta held various senior positions within BT Group from 1984 to 2001. Until 2018, Danuta was a NED and Chairman of the Remuneration Committee at both PageGroup plc and Old Mutual plc.

Current external appointments

Danuta is Non-Executive Chair of St. Modwen Properties plc. She is also SID of Aldermore Group plc and a Non-Executive Member of the Defence Board of the UK Ministry of Defence.

A R I

MARK GREGORY
INDEPENDENT NED

Appointed: March 2018

Biography

Mark is Chair of the Investment Committee. The Board benefits from his previous extensive experience and knowledge of the financial services sector, particularly in life and general insurance, gained through his roles at Legal & General. Additionally, he has a detailed understanding of the retail sector and customer service.

Mark previously held the role of Group CFO and Executive Director at Legal & General Group plc ("Legal & General") until 2017. During his 19-year career at Legal & General, he held a variety of senior roles including CEO of the Savings business, Managing Director of the With-Profits business, and Resources and International Director. Before joining Legal & General, Mark held senior financial and business development roles at ASDA and Kingfisher. Mark is an Associate of the Institute of Chartered Accountants in England and Wales.

Current external appointments

Mark is CEO of Merian Global Investors (UK) Limited.

JANE HANSON
INDEPENDENT NED

Appointed: December 2011

Biography

Jane is Chair of the Board Risk Committee. The Board benefits from Jane's significant experience of risk management, corporate governance, internal control and developing and monitoring customer and conduct risk frameworks. This experience, as well as extensive experience in overseeing IT and transformation programmes, makes her well suited to the role of Independent NED and Chair of the Board Risk Committee.

Jane spent her early career with KPMG, latterly becoming responsible for delivery of corporate governance, internal audit and risk management consulting services in the north of England. Jane has also held many executive roles, including Director of Audit and Risk and Governance Director at Aviva plc. She has a degree in Music from the University of York and is a Fellow of the Institute of Chartered Accountants in England and Wales. Jane is also a Magistrate.

Current external appointments

Jane is a NED of William Hill plc and Chair of Reclaim Fund Ltd. She is an Independent Member of the Fairness Committee at ReAssure Ltd. Jane is the Honorary Treasurer and a Trustee of the Disasters Emergency Committee and has her own financial sector consulting business.

TIM HARRIS
CHIEF FINANCIAL OFFICER

Appointed: October 2019

Biography

Tim joined Direct Line Group as CFO on 1 October 2019. The Board benefits from Tim's many years of experience as a finance director in the insurance industry, his detailed knowledge of capital markets and his track record of successfully leading finance transformation programmes.

Tim was Deputy Chief Executive and Group Finance Director of the Royal London Group until July 2019. He joined Royal London as Group Finance Director in 2014 and was additionally appointed as Deputy Chief Executive in 2018. Before joining Royal London, Tim had been Group CFO of Torus Insurance, Deputy Group CFO and Chief Capital Officer of Aviva plc and a Partner in the Global Capital Markets practice of PricewaterhouseCoopers. Tim is also a Fellow of the Institute of Chartered Accountants in England and Wales and a Chartered Insurance Practitioner.

Current external appointments

Tim is a member of the Association of British Insurers Board and is Chair of their Prudential Financial and Taxation Committee. He is also a member of the PRA's Practitioner Panel.

SEBASTIAN JAMES
INDEPENDENT NED

Appointed: August 2014

Biography

Sebastian is Chair of the Corporate Responsibility Committee. The Board benefits from Sebastian's extensive experience in retail and consumer practice at large groups, his detailed understanding of the UK consumer markets, products and brands as well has his strategic and operational experience running Dixons Carphone plc and Boots.

Until 2018, Sebastian was Group Chief Executive of Dixons Carphone plc, having previously held the role of Group Chief Executive of Dixons Retail plc from 2012. Before this, he was CEO of Synergy Insurance Services Limited, a private equity backed insurance company, and was previously Strategy Director at Mothercare plc. Sebastian has a degree in law from the University of Oxford and an MBA from INSEAD. He began his career at The Boston Consulting Group.

Current external appointments

Sebastian is President and Managing Director of Boots, and Senior Vice President of Walgreen Boots Alliance, Inc. He is also a Trustee of the Museum of Modern Art Limited.

FIONA MCBAIN
INDEPENDENT NED

Appointed: September 2018

Biography

The Board benefits from Fiona's profound knowledge of the financial services industry and her previous extensive experience as both a business leader and an auditor makes her well suited to her role as a member of the Audit and Board Risk Committees.

Fiona has over 30 years' experience in retail financial services, in the industry and as an auditor, in the UK and the USA. She is an Associate Member of the Institute of Chartered Accountants in England and Wales, qualifying as an accountant early on in her career at Arthur Young (now EY). Until January 2019 she was Vice-Chairman of Save the Children UK and a Trustee Director of the Humanitarian Leadership Academy. Previously, Fiona served as CEO of Scottish Friendly Group for 11 years, before which she was Scottish Friendly Group's Finance Director.

Current external appointments

Fiona is Chair of Scottish Mortgage Investment Trust plc and a NED of Dixons Carphone plc. She is also a NED of Monzo Bank Limited.

Key for Committee membership

A Audit Committee
R Board Risk Committee
C Corporate Responsibility Committee
I Investment Committee
N Nomination and Governance Committee
R Remuneration Committee

GREGOR STEWART
INDEPENDENT NED

Appointed: March 2018

Biography

Gregor is Chair of the Audit Committee. The Board benefits from his wide-ranging experience of the financial services sector, and in particular, significant experience gained in the insurance and investment management sectors. His career and experiences at Ernst & Young and Lloyds, in particular, make him suitable to chair the Audit Committee.

Gregor worked at Ernst & Young for 23 years, including 10 years as a partner in the financial services practice. Following his career at Ernst & Young, he was Finance Director for the Insurance division at Lloyds Banking Group plc, which included Scottish Widows, from 2009 to 2012. Gregor is a member of the Institute of Chartered Accountants of Scotland.

Current external appointments

Gregor is Chairman of Alliance Trust plc and Chairman of Quilter Financial Planning Limited. He is a NED of FNZ Group and Chairman of FNZ UK Limited. Gregor is also Honorary Treasurer of the charity International Alert.

DR RICHARD WARD
INDEPENDENT NED AND SID

Appointed: January 2016

Biography

Richard is the SID. Richard's previous experience as a Chief Executive, a NED and a Chairman makes him well suited to the role of SID of the Company. The Board benefits from his experience in the insurance industry and his insight into prudential regulation.

Richard was Chief Executive of Lloyd's of London from 2006 to 2013. He was Non-Executive Chairman of Brit Syndicates Limited and Executive Chairman of Cunningham Lindsey from 2014 to 2018. He was a NED of Partnership Assurance Group plc, now part of Just Group plc, between 2013 and 2016. Before being Chief Executive of Lloyd's of London he was previously Chief Executive, later Vice Chairman, of the International Petroleum Exchange, rebranded ICE Futures. Before this, he held a range of senior positions at British Petroleum and was a research scientist for the Science and Engineering Council. Richard was also a NED of London Clearing House, a member of the PwC Advisory Board and a Board member of the Geneva Association.

Current external appointments

Richard is Executive Chairman of Specialty at the Ardonagh Group.

EXECUTIVE COMMITTEE

Penny James chairs the Executive Committee. In addition to Penny James and Tim Harris, the Committee comprises the following:

MARK EVANS
MANAGING DIRECTOR, MARKETING AND DIGITAL

Joined: 2012

Experience and qualifications

Mark is responsible for leading the Group's Marketing and Digital functions. Before joining the Group, Mark held roles at HSBC, 118 118 (now 118 118 Money) and Mars Inc. He is Chair of the Advertising Association's Front Foot and a NED of LearnEtAl, an EdTech digital learning company. Mark is also co-founder of the School of Marketing which encourages more school children to consider a career in Marketing.

Mark is a member of Save the Children's Digital Advisory Board and also a Fellow of the Marketing Society.

JONATHAN GREENWOOD
MANAGING DIRECTOR, COMMERCIAL

Joined: 2000

Experience and qualifications

Jonathan has over 30 years' experience of the insurance industry. He is responsible for delivering the Commercial strategy, developing customer propositions, enhancing the Commercial brands and delivering efficiencies within the Commercial businesses.

Jonathan was previously Managing Director of the Group's household and life businesses. He joined the Group as Product and Pricing Director for UK Partnerships. Before joining the Group, Jonathan held roles at HBOS, MBNA and Pinnacle.

SIMON LINARES
GROUP HUMAN RESOURCES DIRECTOR

Joined: 2014

Experience and qualifications

Simon is responsible for leading the Group's HR function, Internal and External Communications and Public Affairs. He is also responsible for delivering the Group's People and Corporate Responsibility strategies. Simon is a Fellow of the Chartered Institute of Personnel and Development. Simon is retiring from the Group in March 2020.

Simon has spent the majority of his career as a leader in customer-centric businesses. Before moving into HR, Simon held several commercial business roles in the fast-moving consumer goods and financial services sectors.

Simon is a NED of Nottingham Building Society and is also a trustee of the KidsOut UK charity.

STEVE MADDOCK
CHIEF OPERATING OFFICER

Joined: 2010

Experience and qualifications

Steve has nearly 30 years' experience of the insurance industry. He is responsible for leading the Group's Claims, Information Technology, Information Security, Procurement and Business Services functions.

Steve's previous roles include Director of Strategic and Technical Claims at RSA, Director of Claims and Customer Service at Capita, and Director of Operations at AMP. Steve is also Chairman of the Motor Insurers' Bureau.

NEIL MANSER
CHIEF STRATEGY OFFICER

Joined: 2011

Experience and qualifications

Neil has worked in a number of roles within the Group, including Deputy CFO, Managing Director of NIG and Director of Investor Relations. He is now responsible for leading the Group's corporate strategy.

Neil has extensive industry and capital markets experience prior to joining the Group having worked in roles at Brit Insurance, Merrill Lynch and Fox-Pitt, Kelton. He qualified as a Chartered Accountant with Ernst & Young (now EY) and is an Associate of the Institute of Chartered Accountants in England and Wales.

GUS PARK
MANAGING DIRECTOR OF MOTOR, PRICING AND UNDERWRITING

Joined: 2011

Experience and qualifications

Gus is responsible for leading the Group's personal motor business across all brands, as well as the Pricing and Underwriting function across all consumer products.

Gus joined Direct Line Group as Strategy Director before becoming Commercial Director for the Group's motor insurance business. Following this he was Managing Director of Motor Insurance and Business Development.

Gus has over 25 years' experience in a wide range of sectors and roles, having started his career as a civil servant for the Home Office. After this he moved into strategy consulting for the Boston Consulting Group and then into retail banking for Bradford & Bingley.

KATE SYRED
MANAGING DIRECTOR OF HOUSEHOLD, PARTNERSHIPS AND DATA

Joined: 2000

Experience and qualifications

Kate is responsible for delivering the strategy and developing products for the Group's Home, Pet, Travel, Life and Private Businesses as well as leading the Partnerships and Data divisions. Kate has 20 years' experience of the insurance industry and is Chair of the Group's Diversity Network Alliance.

Previously, Kate was Commercial and Marketing Director for Privilege and launched Direct Line for Business in 2007. Before joining the Group, Kate held roles in Calvin Klein Cosmetics, Moore Stephens and qualified as a Chartered Accountant with the National Audit Office. She is also an Associate of the Royal College of Science.

HUMPHREY TOMLINSON
GENERAL COUNSEL

Joined: 2011

Experience and qualifications

Humphrey has over 30 years' experience as a solicitor. He is responsible for the Group Legal function and oversees a range of areas of legal advice and services.

Humphrey's experience includes advising on corporate and commercial matters, steering corporate transactions in the UK and internationally, managing legal risk and dealing with corporate governance issues. Before joining the Group, Humphrey was Group Legal Director at RSA and prior to that he was a corporate lawyer with the City law firm Ashurst Morris Crisp.

JOSÉ VAZQUEZ
CHIEF RISK OFFICER

Joined: 2012

Experience and qualifications

José has over 25 years' experience of the insurance industry. He is responsible for the Group's Risk Management and Compliance function and is a Fellow of the Institute of Actuaries.

José was previously Global Chief Risk Officer and Group Chief Actuary at HSBC Insurance. Before joining HSBC, José worked for Zurich Insurance, first in its London Market Operations, then as Chief Actuary International Business Division (Asia, Latin America and Africa) and lastly as Chief Actuary in the UK.

Corporate governance report

This report explains the Board's role and activities, and how corporate governance operates throughout the Group.

The UK Corporate Governance Code

The Code set by the Financial Reporting Council ("**FRC**") applied to the financial year ended 31 December 2019. Direct Line Insurance Group plc (the "**Company**") complied with all of the provisions of the Code throughout the financial year and up to the date of this report.

Further details of how the Company applied the Code's principles and complied with its provisions are set out in the Strategic report on pages 10 to 13 and 20 to 21, in the Corporate Governance report on pages 74 to 92 and in the Directors' remuneration report on pages 106 to 138. For more information about the Code, visit the FRC's website at www.frc.org.uk.

The Board

The Board receives regular updates on the views of the Company's shareholders from the Group's brokers and directly from institutional shareholder meetings with senior executives and the Chairman. The Board has regard to the interests of a range of stakeholders including customers, employees and suppliers when agreeing the Group's strategic and financial plans and in all other decision-making. Illustrations of the breadth and depth of the Board's regard to stakeholders interests are contained in the Sustainability section of the Annual Report on pages 59 to 71.

There is a Schedule of Matters Reserved for the Board, which contains items reserved to the Board to consider and approve, relating to strategy and management, material contracts, financial reporting and controls, internal controls and risk management, Board membership and succession planning, corporate governance, structure and capital, and delegation of authority.

In addition to the Schedule of Matters Reserved to the Board, each Board Committee has written terms of reference defining its role and responsibilities. The terms of reference of the Board Committees can be found on our corporate website. Further details regarding the role and activities of the Board and its Committees can be found on pages 83 to 105 and the Directors' remuneration report which begins on page 106.

Board composition

As at the date of this report, the Board comprised the Chairman, who was independent when appointed to the Board; two Executive Directors; and seven independent NEDs, including the SID. The current Directors served throughout all of 2019, except for Tim Harris who was appointed to the Board on 1 October 2019. Paul Geddes, our previous CEO and Clare Thompson, NED, stepped down from the Board at the conclusion of the 2019 AGM. Mike Holliday-Williams who also served during the year as Managing Director, Personal Lines stepped down as a Director on 30 June 2019.

Biographical details of the Directors of the Company as at the date of this report are set out on pages 76 to 78.

NED Independence

On behalf of the Board, the Nomination and Governance Committee assesses the NEDs' independence, skills, knowledge and experience annually. The Nomination and Governance Committee concluded that every current NED was independent, continued to contribute effectively, and demonstrated they were committed to the role. Each current Director will submit themselves for election or re-election at the 2020 AGM.

You can find out more about the activities of the Nomination and Governance Committee's work during the year on pages 100 and 101.

Conflicts of interest

The Company's Articles of Association allow the Board to authorise matters where there is, or may be, a conflict between the Group's interests and the direct or indirect interests of a Director, or between a Director's duties to the Group and another person. This is in accordance with the Companies Act 2006.

Each Director has a duty to avoid conflicts of interest. They must declare any conflict of interest that could interfere with their ability to act in the Group's best interests.

The Board has authorised certain potential conflicts of interest in this way including in relation to Directors' external directorships and their interests in securities of other financial service institutions. Accordingly, the Board deals with any actual conflict of interest or duty that might arise. This usually would involve making sure a Director does not participate in a relevant Board or Committee discussion or decision. To do this, the Company Secretary maintains a register of conflicts and any conflicts that the Board has authorised. The Board reviews this register at each scheduled Board meeting to ensure that each Director applies independent judgement.

Meetings

The Board and Board Committees held a number of scheduled meetings in 2019 at which senior executives, external advisers and independent advisers were invited to attend and present on business developments and governance matters. The Company Secretary attended all Board meetings and he, or his nominated deputy, attended all Board Committee meetings. The table below sets out attendance at the scheduled meetings in 2019[1]. Additional Board and Committee meetings were convened during the year to discuss ad hoc business development, governance and regulatory matters.

Meetings attendance

	Board	Audit Committee	Board Risk Committee	Corporate Responsibility Committee	Investment Committee	Nomination and Governance Committee	Remuneration Committee
Chairman							
Mike Biggs	9 of 9	–	–	–	–	5 of 5	4 of 4
Senior Independent Director							
Richard Ward	8 of 9[2]	–	5 of 5	–	–	5 of 5	–
Non-Executive Directors							
Danuta Gray	9 of 9	–	–	–	–	5 of 5	4 of 4
Mark Gregory	9 of 9	5 of 5	–	–	4 of 4	–	2 of 2
Jane Hanson	9 of 9	5 of 5	5 of 5	3 of 3	4 of 4	–	–
Sebastian James	9 of 9	–	–	3 of 3	–	–	4 of 4
Fiona McBain	5 of 5	3 of 3	1 of 1	–	–	–	–
Gregor Stewart	9 of 9	5 of 5	5 of 5	–	–	–	–
Clare Thompson	4 of 4	1 of 2[2]	–	–	–	–	2 of 2
Executive Directors							
Paul Geddes	4 of 4	–	–	0 of 1[2]	–	–	–
Penny James	9 of 9	–	–	2 of 2	4 of 4	–	–
Mike Holliday-Williams	5 of 5	–	–	–	–	–	–
Tim Harris	2 of 2	–	–	–	–	–	–
Executive Committee Member							
Simon Linares	–	–	–	3 of 3	–	–	–

Notes:
1. Attendance is expressed as the number of scheduled meetings attended out of the number of such meetings possible or applicable for the Director to attend.
2. Due to other prior commitments, Paul Geddes was unable to attend the March 2019 Corporate Responsibility Committee meeting and Clare Thompson was unable to attend the April 2019 Audit Committee meeting. Due to illness, Richard Ward was unable to attend the January 2019 Board meeting. Papers were circulated to all Directors before the meetings and those unable to attend could raise issues and give comments to the Chairman in advance of the meetings.

Structure of the Board, Board Committees and executive management

Pages 83 and 84 summarise the role of the Board, its Committees and the responsibilities of the Chairman, the SID, the NEDs, the Executive Directors and the Executive Committee. The Board and Board Committees have unrestricted access to management and external advisers to help discharge their responsibilities. The Board and Board Committees are satisfied that, in 2019, sufficient, reliable and timely information was received to perform their responsibilities effectively. Each Committee plays a vital role in helping the Board to operate efficiently and consider matters appropriately.

Board

Leadership

The Board has clear divisions of responsibility and seeks the long-term sustainable success of the Group. Information on how opportunities and risks to the future success of the business have been considered and addressed, and about the sustainability of the Company's business model, is set out in the Strategic report which begins on page 1.

Shareholder and stakeholder benefit

The Board organises and directs the Group's affairs in a way that it believes will help the Group succeed for the benefit of its members as a whole, whilst having regard to its stakeholders generally.

More information on how the Board has regard for the Group's wider stakeholders and other relevant matters can be found on pages 88 to 89.

Operations

The Board supervises the Group's operations, with a view to ensuring they are effectively managed, that effective controls are in place, and that risks are assessed and managed appropriately.

Financial performance

The Board sets the financial plans, annual budgets and key performance indicators and monitors the Group's results against them.

Strategy

The Board oversees the development of the Group's strategy and monitors management's performance and progress against the strategic aims and objectives.

Culture

The Board develops and promotes the collective vision of the Group's purpose, culture, values and behaviours.

Information and support

The Board accesses assistance and advice from the Company Secretary. The Board may seek external independent professional advice at the Company's expense, if required, to discharge its duties.

Board Committees

The Audit Committee:

- Monitors the integrity of the Group's financial statements
- Oversees and challenges the effectiveness of the Group's systems of financial and other controls
- Monitors the work and effectiveness of the Group's internal and external auditors and actuaries
- Oversees the Group's financial and non-financial disclosures, including any climate-related financial disclosures

The Board Risk Committee:

- Provides oversight and advice to the Board in relation to current and emerging risk exposures of the Group and the future risk strategy, including determination of risk appetite and tolerance
- Reviews and approves various formal reporting requirements and promotes a risk aware culture within the Group
- Oversees all aspects of financial, regulatory and operational risk, including the long-term risk to the Group of climate change

The Remuneration Committee:

- Sets and oversees how the Group implements its remuneration policy
- Oversees the level and structure of remuneration arrangements for senior executives, approves share incentive plans, and recommends them to the Board and shareholders
- Reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture

The Nomination and Governance Committee:

- Reviews the Board's structure, size, composition, and balance of skills, experience, independence, and knowledge of the Group
- Leads the process for Board appointments and makes recommendations to the Board
- Ensures plans are in place for orderly succession to both the Board and, oversees executive succession planning at a high level to ensure the development of a diverse senior management talent pipeline
- Oversees and monitors the corporate governance framework of the Group
- Monitors developments in governance and investor ESG expectations

The Corporate Responsibility Committee:

- Provides oversight and advice on how the Group conducts its business responsibly, including matters relating to the environment, employee engagement and wellbeing, community involvement, ethics and diversity
- Monitors the progress of the Group's environmental initiatives and agrees the targets for reducing energy consumption and greenhouse gas emissions

The Investment Committee:

- Provides oversight of the Group's investment strategy
- Oversees the management and performance of the Group's investment portfolio

Board and executive management roles

Each Director brings different skills, experience and knowledge to the Company, with the NEDs contributing additional independent thought and judgement. Depending on business needs, the NEDs and the Chairman commit at least three days a month and three days a week respectively to discharging their duties effectively in accordance with their letters of appointment.

The Chairman

- Guides, develops and leads the Board
- Plans and manages the Board's business
- Ensures the Directors receive accurate, timely and clear information
- Has an individual role profile agreed by the Board, as does the CEO. These profiles clearly define their respective roles and responsibilities and ensure that no one person has unlimited powers of decision-making

The SID

- Acts as a sounding board for the Chairman and an intermediary for the other Directors when necessary
- Is available to shareholders if they have any concerns they cannot resolve through normal channels
- Leads the Chairman's performance evaluation annually

The NEDs

- Challenge management in an objective and constructive manner
- Use their wider business experience to help develop the Group's strategy

Executive Directors

The CEO and CFO are the members of the Board with delegated responsibility for the day-to-day operation of the Group and delivering its strategy. The CEO delegates certain elements of her authority to Executive Committee members to help ensure that senior executives are accountable and responsible for managing their business and functions.

The Executive Committee

The Executive Committee is the principal management committee that helps the CEO manage the Group's operations. It helps the CEO:

- Set performance targets
- Implement Group strategy
- Monitor key objectives and commercial plans to help achieve the Group's targets
- Evaluate new business initiatives and opportunities

Chief Financial Officer	Chief Strategy Officer	Managing Director of Marketing and Digital	Managing Director, Commercial	Human Resources Director
Chief Operating Officer	Managing Director of Motor, Pricing and Underwriting	Managing Director of Household, Partnerships and Data	General Counsel	Chief Risk Officer

Biographical details of the Directors and Executive Committee members are shown on pages 76 to 80

Board meetings and activity in 2019

The activities undertaken by the Board in 2019 were intended to help promote the long-term success of the Company. Scheduled Board meetings (set out on the timeline on pages 86 and 87) focused on four main themes:

Strategy and execution, including: approving and overseeing the Group's key strategic targets and monitoring the Group's performance against those targets; reviewing customer experience and trends and monitoring the Group's performance against external brand metrics; reviewing and approving key projects aimed at developing the business or rationalising costs; considering growth opportunities; and reviewing the individual strategy of key business lines.

Financial performance and investor relations, including: setting financial plans, annual budgets and key performance indicators, and monitoring the Group's results against them; considering the Group's reserving position; approving the Solvency II narrative reports; approving financial results for publication; approving main reinsurance arrangements and motor reinsurance renewals; considering the Group's share buyback programme announced on 3 March 2020; and reviewing broker reports on the Group, alongside feedback from investor meetings.

Risk management, regulatory and other related governance, including: reviewing and agreeing the Group's Policies; setting risk appetites; approving the ORSA; reviewing the Group's Solvency II partial internal model; seeking to ensure that the Group complies with its regulatory requirements; reviewing the Group's solvency position and forecast; and reviewing the Group's ESG initiatives.

Board and Board Committee governance, including: receiving reports from the Board's Committees; updating the Schedule of Matters Reserved for the Board; updating terms of reference for the Board Committees; receiving corporate governance updates; succession planning; implementing an annual review of the Board's and Board Committees' effectiveness; approving the Company's Code of Business Conduct and conducting an annual review of the Group's governance framework.

The co-ordination of the Board meeting content is managed by the Chairman and supported by the CEO and Company Secretary.

In addition to routine business, the Board sets aside time each year outside the annual Board calendar to hold a strategy day giving the Directors the opportunity to focus solely on strategic matters. In June 2019, the Board held a session offsite to set and monitor progress against the Group's strategy and to discuss the Group's long-term sustainability and its future opportunities as well as the evolution of the insurance industry.

In 2019, NED visits to operational business units in London, Glasgow, Bromley and Doncaster were arranged to meet a number of functions to better understand how the business operates. Members of the Board also visited operational teams in Hyderabad, New Delhi and Mumbai in India.

The CEO and CFO spend a considerable amount of time with the different business areas ensuring that the Board's aims are being correctly disseminated throughout the Group. The NEDs meet with key management outside the Board and Committee meetings to obtain a wider view of the Group's activities. On a rotational basis, the NEDs attend meetings of the Group's Employee Representative Body ("**ERB**") to engage with staff and report views of our people back to the Board. Further information on the Board's interaction with the ERB can be found on page 89.

Board induction and training

All new Directors appointed to the Board undertake an induction programme aimed at ensuring they develop an understanding and awareness of our businesses, people and processes, and of their roles and responsibilities as Directors of the Company. The programmes are tailored to suit each Director and include provision of relevant current and historical information about the Company and the Group; visits to operations around the Group; induction briefings from Group functions; and one-to-one meetings with Board members, senior management and the Company's advisers. Tim Harris, who joined the Board as CFO in October 2019, completed his induction programme following his appointment. Tim's induction included meetings with Board members and members of senior management and visits to the Group's operations to gain a more detailed understanding of our businesses.

The Board is committed to the training and development of Directors to improve their knowledge about the business and the regulatory environment in which it operates. The Company Secretary is responsible for helping the Chairman identify and organise training for the Directors which is tailored to individual needs.

The Company Secretary maintained the training agenda for the Board and its Committees during the year. Training topics during the year included competition law, the senior managers and certification regime, the IT transformation programme, data privacy, cyber and operational resilience and the Internal Economic Capital Model.

In addition, a series of deep dives into the Group's business areas took place during the year to deepen each Director's knowledge of the business and provide oversight at Board and Committee level.

Board meetings and activity in 2019

Board and Committee effectiveness review

In accordance with the Code, the Board conducts a thorough annual review of the effectiveness of the performance of the Board, its committees, the Chairman and individual Directors, with the input of an external facilitator at least once every three years. In 2019, the Nomination and Governance Committee recommended that an independent Board effectiveness review be facilitated by Robert Goffee, Professor of Organisational Behaviour at the London Business School, who has no other connection with the Company or any Director. Professor Goffee, who also conducted the Board and committee effectiveness review in 2016, agreed the process with the Chairman and the Company Secretary.

The effectiveness review was based on the completion of a questionnaire which covered a range of topics including: the composition and diversity of the Board, leadership and culture and how effectively the Board works together to achieve objectives of the Group. In addition to the members of the Board, regular attendees of the Board and/or committee meetings were invited to complete the questionnaire.

Professor Goffee conducted one-to-one interviews with Board members and regular attendees to discuss their views on the effectiveness of the Board and its six committees, and the contributions to proceedings made by Directors and others, to provide wider context for, and clarification of the results of, the questionnaire.

The final report was presented to the Board and its committees in January 2020. Observations about individual Directors' contributions assisted the Chairman in his reviews of Directors' performance and the SID in the review of the Chairman's performance, on which he consulted in advance with other Board members.

Based on the responses to the questionnaire and resulting reports, the Directors are satisfied that the Board and its committees operated effectively in 2019 and there has been progress in areas for potential improvement identified in 2018.

The Board and its committees were regarded by participants in the review to benefit from effective leadership and to have clear remits and access to appropriate resources. Opportunities were identified, as a result of the review, for fine-tuning the information provided to the Board, refining the NED induction programme, refocusing the Corporate Responsibility Committee's supervision of the increasingly important sustainability agenda and drawing on individual NEDs' experience to support management in its substantial transformational execution agenda. It was proposed to renew a programme of visits by the Board as a whole, and by smaller groups of NEDs, to the Group's various operational sites to foster interaction between the Board and employees; and to create further opportunities for NEDs to engage with the newer members of the Executive Committee and the wider management team.

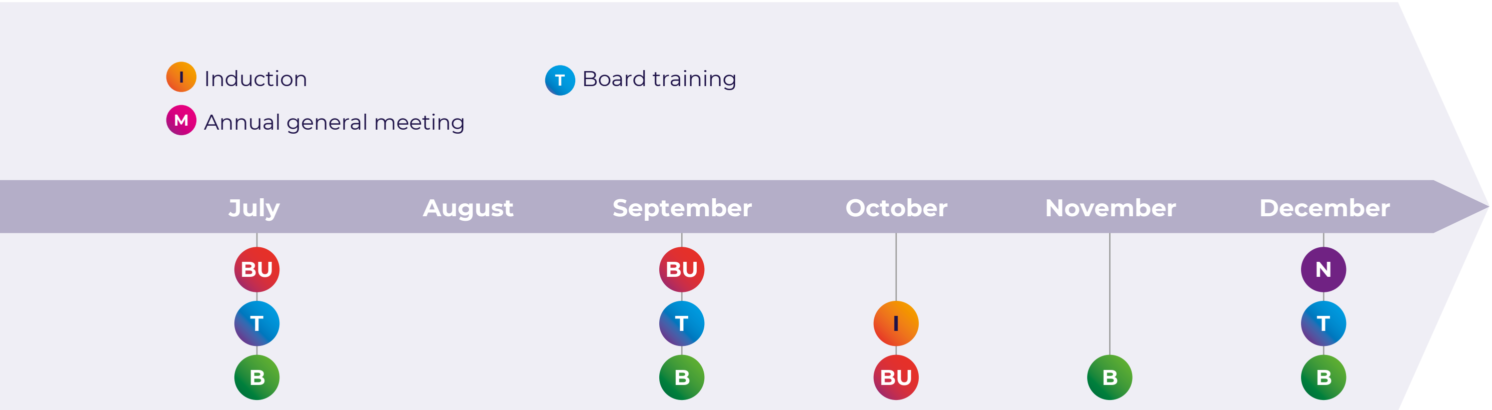
The Nomination and Governance Committee regularly considers the Group's short- and medium-term strategic challenges to assess the collective skills and experience needed by the Board to support and challenge management. Some suggestions for further strengthening the membership of some of the Board's committees were made in the course of the 2019 effectiveness review and these will be taken into account as the Board's composition is refreshed in 2020 and 2021.

Culture

The Board recognises that culture and capability are key enablers for achieving the Group's strategic objectives and encourages an open and inclusive culture and an environment in which people can be themselves.

During the year the Board championed the Group's culture through:

- Assessing and monitoring culture and satisfying itself that the Group's purpose, values and strategy are aligned with its culture.
- Reviewing and updating the Code of Business Conduct to ensure that it reflects the Group's purpose and sustainability strategy.
- Reviewing means for the workforce to raise concerns in confidence and, if they wish, anonymously ("**whistleblowing**"). Further details on the Group's whistleblowing arrangements can be found on page 99.
- Seeking feedback from our people through the annual 'DiaLoGue Survey', a tool to measure engagement, which this year included questions on inclusivity and culture. We believe that promoting an open and collaborative culture helped result in Direct Line Group being named as the 3rd Best Big Company to work for by The Sunday Times in February 2019.
- NEDs' attendance at ERB meetings to encourage effective engagement between employees and the Board. Further information on the Board's interaction with the ERB is disclosed later in this report.
- Investing in and rewarding our workforce. During the year, we continued to review our pay budget focusing specifically on those in lower paid roles. We increased



minimum salaries across the Group from £18,000 to £19,000, dependent on contracted hours. These colleagues received a pay increase of approximately 5.6%.

- Supporting the Strategic Leadership Development Programme, the aim of which is to create a pipeline of diverse talent for development into future senior leaders.
- Enabling our employees to benefit from the Group's success. All eligible employees can participate in the Group's Buy As You Earn ("**BAYE**") Plan which provides a cost-effective way for all employees to acquire shares in the Company.
- Supporting management's emphasis on employee wellbeing, including mental health awareness and financial wellbeing.

Approach to diversity and inclusion

The Board and executive management are committed to ensuring that diversity is promoted across all areas of the Group and that everyone is treated fairly, irrespective of their racial or ethnic origin, gender, age, disability, belief or sexual orientation, religion, or educational or professional background. There is a Board-approved diversity policy and progress has been made in embedding principles and practices to promote diversity across the Group and to champion the benefits of a diverse and inclusive workforce.

The principles and practices set by the Board and the progress made with the diversity of the Board include:

1. Maintaining at least 30% female representation on the Board

The Board aims to maintain female representation of at least 30% and remains committed to seeking to improve further its position on gender diversity when appropriate opportunities arise. The Board will continue to appoint the most appropriate candidates based on knowledge, skills, experience and, where necessary, independence. As at the date of this report, female representation on the Board was 40% which exceeds the target set in Lord Davies' Women on Boards Review Five Year Summary to be achieved by 2020 and achieves the Hampton-Alexander Review's recommendation for a minimum of 33% of women's representation on boards by 2020.

2. Engaging executive search firms who have signed up to the Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice

In its search for candidates, the Board aims to only engage with executive search firms who are signatories to the Voluntary Code of Conduct for Executive Search Firms as recommended by Lord Davies.

During the year, the Nomination and Governance Committee worked closely with Egon Zehnder which culminated in the appointment of Tim Harris as CFO with effect from 1 October 2019. Egon Zehnder is a signatory to the Voluntary Code of Conduct for Executive Search Firms and has no other connection to the Company or any Director.

Senior management gender diversity

The Board remains committed to ensuring that high-performing women from within the business and from a variety of backgrounds, who have the requisite skills, are given the opportunity to progress their career internally.

The Group is a signatory to the Women in Finance Charter which aspires to see gender balance at all levels across financial services firms. The Group aimed to increase female representation at senior management level to 30% by the end of the year and as at 31 December 2019, 31% of the Group's senior leadership positions were held by women.

The Board continues to support Group-wide diversity initiatives, including succession planning programmes, to broaden and strengthen female talent at middle management level. Other key 2019 gender diversity initiatives included: the promotion of flexible working; a partnership with the EveryWoman network which helps organisations enhance the potential of female talent; and mentoring schemes and associated development programmes for high-potential female candidates.

Additional 2019 diversity initiatives

The Board acknowledges that diversity includes but is not limited to gender and aims to increase demographic and philosophical differences at Board level and throughout the Group.

The Board advocates the importance of cultural and ethnic diversity and aims to increase the ethnic diversity across the Group including at Board and senior management level. The Board and senior management continue to support the DNA network which champions diversity and inclusion within our organisation through strands relating to generational divide, unconscious bias, belief, Black, Asian and minority ethnics, gender, sexual orientation, disability, working families and neuro-diversity.

The Board has oversight of diversity initiatives carried out through the remit of the Corporate Responsibility Committee. Further details on diversity initiatives can be found in the Strategic report and in the Corporate Responsibility Committee report.

Further information regarding the Group's approach to diversity including the process for Board appointments and reappointments can be found in the Nomination and Governance Committee report.

Shareholder and Stakeholder relations

The Group's five-pillar sustainability strategy, endorsed by the Board, aims to foster the highest standards of ESG practice and to deliver long-term sustainability for all of our stakeholders. In taking decisions, the Directors carefully consider the balance of interests of the stakeholders who might be affected and any impact on the environment and the Group's reputation.

Examples of stakeholder matters to which the directors have had regard and, where relevant, the effect of their considerations on principal decisions taken by the Board and the Company during 2019 are set out in the table below.

Our Shareholders	
The Board believes that engagement with the Company's shareholders is vital to the Group's success. The Board engages with investors to communicate its strategy, provide updates on performance and receive regular feedback.	– The Board continues to engage with our investors and private shareholders through reports, announcements and presentations available on our corporate website. The AGM provides the Board with the opportunity to receive valuable feedback and understand the views of all shareholders. – In November 2019, the Group held its first Capital Markets Day at our contact centre in Doncaster. The Executive Directors and members of the Executive Committee communicated the Group's purpose, strategy and medium-term targets to our shareholders and stakeholders. More information about our 2019 Capital Markets Day can be found on the Group's corporate website. – Our Executive Directors host conference calls for analysts following announcements of the Company's results. In 2019, the Chairman met some of the Company's major shareholders to discuss their views on the Group's governance arrangements and performance against the Company's strategy. The Chair of the Remuneration Committee consulted with our major shareholders and governance analysts on our proposed Directors' remuneration policy, further details of which are on pages 107, 128-133 and 137. – As announced on 3 March 2020 and, in line with our capital management approach of growing the regular dividend in line with business growth and distributing surplus capital, we will be returning up to £150 million of surplus capital through a share buyback programme. Further details on the buyback programme, which aims to improve shareholder value, can be found on page 36.

Our Customers	
We put our customers at the heart of everything we do. The Board believes that the Company's long-term sustainability is driven by understanding customers' needs and acting in their best interests.	– The Board monitors customer engagement by receiving a customer and conduct report at each of its scheduled meetings and focused, during 2019, on improvements in pricing transparency and customer purchasing and claims experiences. – Metrics relating to customer experience remain an important element of the targets for the Annual Incentive Plan for Executive Directors and other senior managers. – The Capital Markets Day in November 2019 championed our customer centricity and enabled investors and analysts to see how investments in technology and staff training are supporting our customer experience.

Our People	
The Board encourages a culture that celebrates difference and seeks to empower people so that they can thrive.	– The Group relies on the engagement and enthusiasm of its talented people. The Board and senior management focus regularly on diversity and inclusion and the wellbeing, including mental health and financial wellbeing, of employees. The Group encourages employees to become shareholders by participating in the BAYE Plan and has launched a new employee benefit to assist staff with managing their finances effectively.

Our People (continued)	
	– We welcome the 2018 Code which places a greater emphasis on areas such as the Board's engagement with the workforce. During the year, the Board continued to engage with our formal workforce advisory panel, the ERB, with NEDs attending sessions on a rotational basis. Throughout 2019, topics discussed at ERB meetings included the possible effects of Brexit, customer experience, the regulatory landscape and updates on the CEO and CFO selection processes. In April 2019, members of the Board, the strategic leadership team and approximately 180 ERB representatives from across the business attended the ERB's annual conference. At the conference, ERB representatives were given business updates by members of the Executive Committee and had the opportunity to voice their opinions. NEDs attending the conference engaged with employees and shared output from the event with the Board. – NEDs also visited the Group's operations in Doncaster, India, Glasgow and other sites, meeting colleagues in a number of functions including IT transformation, security operations, sales and claims. – Each year, the Board reviews and approves the Group's Code of Business Conduct, which provides guidance to our people on the high standards of professional and ethical conduct expected of them.

Our Society	
The Board is conscious of the Group's wider role in society and of the importance of supporting the local communities on which our business depends.	– The Board, through the Corporate Responsibility Committee, receives regular updates on the Group's support for the charity, Mind, and the activities of the Group's Community and Social Committees, which enable our people to contribute to, and engage with, the communities in which we operate by organising independent events. The Corporate Responsibility Committee supports the Board in these areas by helping the Group to conduct its business in a responsible manner which includes environmental, social and ethical manners. – The Group continues to engage with important road safety partners including, road safety charity Brake and the Parliamentary Advisory Council for Transport Safety. Further information on how we improve outcomes for society and the communities we serve can be found on pages 66 and 67.

Our Planet	
We are aware that vital action is needed to address climate change. Our 'Reduce, Reuse, Recycle' strategy guides the Group in meeting our objectives to reduce the Group's environmental impact.	– The Group is conscious of the risks and opportunities of climate change, including the impact of the business on the environment and potential risks to the business from climate change. This Annual Report contains disclosures which aim to comply with the recommendations of the TCFD by the end of 2020. During the year, the CRO was appointed as the Senior Management Function-holder with responsibility for the Our Planet pillar of the Group's sustainability strategy. – The Group publishes its energy and carbon emissions reduction targets and encourages employees to participate in initiatives aimed at reducing the impact of the business on the environment, including travel-free weeks and recycling programmes.

Our Suppliers	
We aim to maintain the highest possible standards of integrity in business relationships with suppliers and partners.	– The Group relies on certain key strategic suppliers and a large number of other suppliers to conduct its business. During the year, the Board carried out a deep dive into the management of the Group's supply chain, focusing on issues including modern slavery, sustainability and prompt payment. The Board received in-depth updates on the relationship with strategic suppliers in the context of reports on the Group's technology transformation programmes. – The Group is committed to the highest standards of integrity in its relationships with suppliers and partners and is a long-standing signatory of the Prompt Payment Code. During the financial year, the Group remained committed to prompt payment terms to ensure fair payment practices.

Governance framework and structure

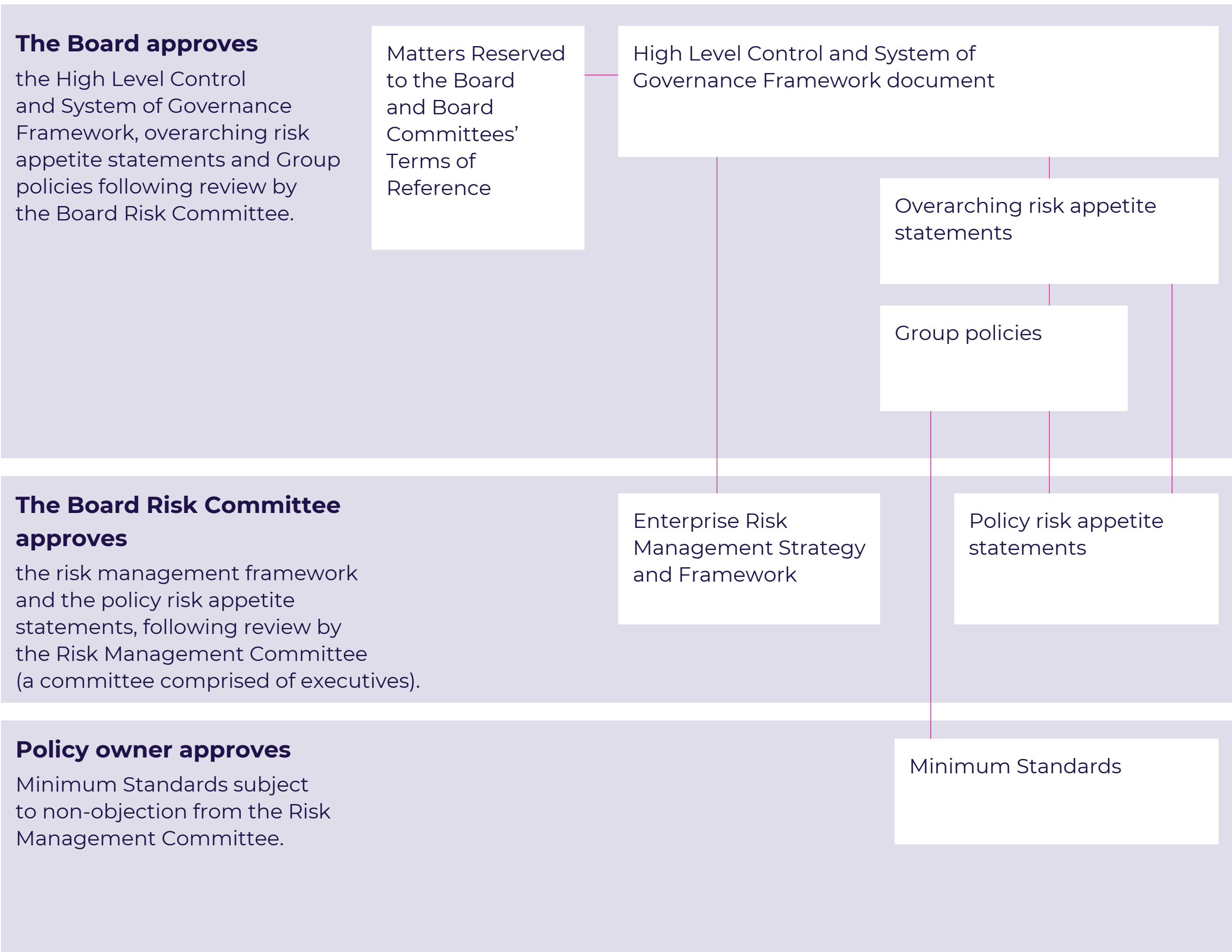
The Board oversees the system of governance in operation throughout the Group. This includes a robust system of internal controls and a sound risk management framework. The Board has established a risk management model that separates the Group's risk management responsibilities into three lines of defence. An explanation of these responsibilities can be found on page 52.

The Group's governance framework is detailed in the Group's High Level Control and System of Governance Framework document. This document details how the Group meets Solvency II and the Prudential Regulation Authority ("**PRA**") requirements to identify Key Functions and to have and maintain a Responsibilities Map in respect of the PRA and Financial Conduct Authority's ("**FCA**") Senior Managers and Certification Regime requirements. The Board reviews this document annually.

The core elements of the governance framework are the:

- Matters Reserved to the Board and the Board Committees' Terms of Reference;
- High Level Control and System of Governance Framework document;
- Risk appetite statements, which are described on page 52;
- Enterprise Risk Management Strategy and Framework, which is described on page 53;
- Group policies, which address specific risk areas, are aligned to the Group's risk appetite, and inform the business how it needs to conduct its activities to remain within risk appetite; and
- Minimum Standards, which interpret the Group policies into a set of requirements that can be implemented throughout the Group.

The diagram below summarises the split of responsibilities for the different parts of the Group's governance framework.



Audit, Risk and Internal Control

An explanation of how the Board complies with the Code in relation to audit, risk and internal control is set out below, except for the following matter, which is covered elsewhere in the Annual Report & Accounts:

- how the Board has assessed the Group's longer-term viability and the adoption of the going concern basis in the financial statements is on pages 58 and 145.

The Board has delegated responsibility to the Audit Committee to oversee the management of the relationship with the Company's External Auditor. You can find details of the Audit Committee's role, activities and relationship with the External Auditor in the Committee report which starts on page 93.

Responsibility for preparing the Annual Report & Accounts

The Board's objective is to give shareholders a fair, balanced and understandable assessment of the Group's position and prospects and business model and strategy. The Board is also responsible for maintaining adequate accounting records and seeks to ensure compliance with statutory and regulatory obligations.

You can find an explanation from the Directors about their responsibility for preparing the financial statements in the Statement of Directors' responsibilities on pages 141 and 142. The Group's External Auditor explains its responsibilities on page 150.

The Directors confirm that they consider that the Annual Report & Accounts, taken as a whole, are fair, balanced and understandable and provide the information that shareholders need to assess the Group's position and performance, business model and strategy. In arriving at this conclusion, the Board was supported by a number of processes, including the following:

- management drafted the Annual Report & Accounts to ensure consistency across sections, and a steering group comprising a team of cross-functional senior management provided overall governance and co-ordination;
- a verification process, to ensure the content was factually accurate;
- members of the Executive Committee reviewed drafts of the Annual Report & Accounts;
- the Company's Disclosure Committee reviewed an advanced draft of the Annual Report & Accounts; and
- the Audit Committee reviewed the substantially final draft of the Annual Report & Accounts, before consideration by the Board.

Assessing emerging and principal risks

The Board determines the nature and extent of the risks that it is willing to take to achieve its strategic objectives. The Directors robustly assessed the emerging and principal risks facing the Company, including risks that would threaten its business model, future performance, solvency or liquidity. You can find a description of these risks, and their management or mitigation, on pages 54 to 55 and 57 to 58.

This confirmation is based on the Board Risk Committee's review and challenge of the Group's Material Risk Assessment and the Board's review and approval of the Group's risk appetite statements. The Risk Assessment identifies risks quantified as having a residual risk impact of £40 million or more based on a 1-in-200 years likelihood. The quantifications are produced through stress and scenario analysis, and the capital model. Each directorate's bottom-up risk identification and assessment supplements the Material Risk Assessment. The Material Risk Assessment also plays a key role in developing the ORSA and assessing the Group's strategic plan.

Risk management and internal control systems

The Board oversees the Group's risk management and internal control systems. It has complied with the Code by establishing a continuous process for identifying, evaluating and managing emerging and principal risks the Group faces.

The Board has established a management structure with defined lines of responsibility and clear delegation of authority. This control framework cascades through the divisions and central functions, detailing clear responsibilities to ensure the Group's operations have appropriate controls. This includes controls relating to the financial reporting process.

The frameworks for risk management and internal control were in place for the financial year under review and up to the date of this report. They are regularly reviewed by the Board and comply with the FCA's updated guidance on Risk Management, Internal Controls and Related Financial and Business Reporting.

The Group operates a Three Lines of Defence model. You can find out more about this in the Risk management section on page 52.

The Board, with the assistance of the Board Risk Committee and the Audit Committee as appropriate, monitored the Company's risk management and internal control systems that have been in place throughout the year under review, and reviewed their effectiveness. The monitoring and review covered all material controls, including financial, operational and compliance controls. The Board and its Committees are overseeing the programme of activity to upgrade and better integrate the major IT systems within the Group's technology infrastructure, including focusing on developing future capability for both customers and our people and monitoring risks relating to IT systems' stability, cyber security and the internal control environment.

The Board was also supported in its review of the annual Internal Risk and Control Assessment. This process involved each function completing a self-assessment of its risks and key controls and an Executive Sponsor, responsible for the function, attesting to the status of the effectiveness of the risk management and internal control systems. The Risk function reviewed and challenged these findings and the Audit function provided an independent assessment of the overall effectiveness of the governance and risk and control framework of the Group. The Group then combined the overall findings into a Group-level assessment, which the CEO approved. The process included reporting on the nature and effectiveness of the controls, and other management processes that manage these risks.

The Board Risk Committee regularly reviews significant risks and how they might affect the Group's financial position; comparisons to agreed risk appetites; and what the Group does to manage risks outside its appetite.

The Group Audit function supports the Board by providing an independent and objective assurance of the adequacy and effectiveness of the Group's controls. It brings a systematic and disciplined approach to evaluating and improving the effectiveness of the Group's risk management, control and governance frameworks, and processes.

The Directors acknowledge that any internal control system can manage, but not eliminate, the risk of not achieving business objectives. It can only provide reasonable, not absolute, assurance against material misstatement or financial loss.

On behalf of the Board, the Audit Committee regularly reviews the effectiveness of the Group's internal control systems. Its monitoring covers all material controls. Principally, it reviews and challenges reports from management, the Group Audit function and the External Auditor. This enables it to consider how to manage or mitigate risk in line with the Group's risk strategy.

Audit Committee report

GREGOR STEWART
CHAIR OF THE AUDIT COMMITTEE

Membership, attendance and responsibilities of the Committee, including the outcome of the annual effectiveness review can be found on pages 76 to 79, 82, 83 and 86

Areas of focus in the reporting period

During the year, the Committee oversaw the change programme initiated for the transition to International Financial Reporting Standard ("**IFRS**") 17 'Insurance Contracts'. As part of the programme, the Group's ledger system is being upgraded. The Committee received updates on the implementation of, and benefits expected from this programme and reviewed the conclusions of the assurance reviews conducted by EY.

The Committee reviewed the adoption of IFRS 16 'Leases', scrutinising the approach to the recognition and valuation of right-of-use assets and lease liabilities to satisfy itself that the accounting standard had been properly adopted and its effect disclosed in accordance with International Accounting Standards ("**IAS**") 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

The Committee reviewed the Group's insurance reserves to obtain assurance that they remained appropriate for discharging expected liabilities. In doing so, the Committee challenged the actuarial best estimate of technical provisions and the prudential margin for IFRS 4, 'Insurance Contracts'.

Committee skills and experience

In line with the Code, all members of the Audit Committee are independent and the Committee as a whole is deemed to have competence relevant to the insurance and financial services sectors in which the Group operates.

All Committee members are members of the Institute of Chartered Accountants in England and Wales, with the exception of the Chair, Gregor Stewart, who is a member of the Institute of Chartered Accountants of Scotland. Each member has recent and relevant financial experience gained in a number of different financial services businesses including insurance, enabling them to contribute diverse expertise to the Committee's proceedings. To keep their skills current and relevant, members of the Committee received training during the period on matters including IFRS 17, the Internal Economic Capital Model and Solvency II technical provisions.

Main activities during the year

At each scheduled Committee meeting, the Committee received reports on financial and non-financial reporting, reserves, internal controls and Group Audit, except at the December 2019 meeting, the focus of which was primarily on pre-year-end financial matters.

Financial reporting

The Committee considered the integrity of the Group financial statements and all external announcements relating to its financial performance. In 2019, this included the Group's 2018 Annual Report & Accounts and Solvency and Financial Condition Report and its 2019 Half Year Report.

The Committee reviewed the adoption of IFRS 16 'Leases' in the Group's Half Year Report and the Annual Report & Accounts. IFRS 16 has been adopted on a fully retrospective basis. The Committee reviewed and challenged the methodology adopted to recognise and value right-of-use assets and lease liabilities and the disclosure in the Group's financial statements. The Committee was satisfied that the new accounting standard had been properly adopted and the effect of the transition on the Group's financial statements had been disclosed in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', where a new accounting policy has been applied retrospectively. The Committee also considered the impact of IFRS 16 on the Group's Solvency II balance sheet.

The Committee followed a review process before recommending the reports to the Board which focused on the choice and application of significant accounting policies, emphasising those requiring a major element of estimation or judgement. The Committee also considered the Financial Reporting Council's guidance on the Strategic Report and the Companies (Miscellaneous Reporting) Regulations 2018 and discussed the Group's approach to reporting on matters such as the non-financial information statement, section 172 of the Companies Act 2006, the Government's Green Finance Strategy and the TCFD and the year-end reporting environment.

Additional information on pages 60 and 68 to 73

The Committee also considered the going concern assumptions and viability statement in the Annual Report & Accounts, valuation of assets and impairment reviews, reserving provisions, non-recurring period-specific transactions and clarity of disclosures. The Committee reviewed and concluded that the Annual Report & Accounts taken as a whole were fair, balanced and understandable and provided sufficient information to enable the reader to assess the Group's position and performance, business model and strategy.

When considering the 2019 Annual Report & Accounts, the Committee focused on the significant judgements and issues which could be material to the financial statements. These included the matters set out in the table on page 94.

The Committee challenged the estimates and judgements being made and also discussed these matters with the External Auditor.

Significant issues

Matter considered	Description	Action
Insurance reserves valuation	The Committee reviewed the level of insurance reserves of the Group. Insurance reserves relate to outstanding claims at the balance sheet date, including claims incurred but not reported at that date. By their nature, insurance reserves require analysis of trends and risks and the application of management judgement, knowledge and experience. Further information on reserves is provided on page 94.	In 2019, the Committee reviewed and challenged the level of insurance reserves and monitored developing trends that could materially impact them. On an ongoing basis it received updates from the Actuarial Director on how estimates of reserves matched the claims paid. The Committee also obtained insight from an independent actuarial review of the reserves.
Valuation of goodwill and intangible assets	The Committee considered the valuation of goodwill and intangible assets. A report was presented to the Committee which set out the basis for undertaking an impairment test on goodwill and the result of that test. Reports were also presented to the Committee covering the assumptions and judgements made in arriving at a valuation of intangible assets. These assets mainly related to investment in the Group's IT systems and capabilities in respect of projects which are aimed at improving the digital offering, customer experience and operational efficiency.	In 2019, the Committee considered major accounting estimates and judgements in respect of the valuation of goodwill and intangible assets and was satisfied that the assets did not warrant any impairment with the exception of £1.3 million of capitalised software costs.
Valuation of investments not held at fair value	The Committee considered reports on the estimates and judgements applied to the carrying value of the Group's investments that are not held at fair value and the basis for the valuation. These assets are principally comprised of infrastructure loans, commercial real estate loans and private placement bonds held within the investment portfolio. Information was provided to the Committee on a regular basis to support the value recognised in the accounts.	In 2019, the Committee considered major accounting estimates and judgements in respect of assets not held at fair value and was satisfied with the carrying value of investments and the basis for their valuation.

Reserves

The Committee reviewed and challenged the key assumptions and judgements, emerging trends, movements and analysis of uncertainties underlying the estimate of reserves. These assumptions and judgements are informed by actuarial analysis, wider commercial and risk management insights, and principles of consistency from period to period. After reviewing the reserves, the Committee recommended them to the Board.

The Committee also considered an appropriate balance between internal and external actuarial review. An external actuarial review of the material risk areas of the insurance reserves was carried out for the Directors of the Company by PricewaterhouseCoopers LLP ("**PwC**"). The appointment of consultants to provide actuarial reviews of reserves is subject to approval by the Committee.

Internal control and Group Audit

During the year, the Committee reviewed the adequacy and effectiveness of the Group's internal control systems. The Group's financial reporting control framework is part of the wider internal controls system and addresses financial reporting risks. The Board delegates supervision of the framework to the Committee while the CFO is responsible for the framework's operation on a day-to-day basis. During 2019, the Committee received regular reports on any control deficiencies, compensating controls and the mitigating actions taken by management.

The Committee oversees Group Audit's work and seeks to ensure industry best practice is adopted appropriately. The Group Head of Audit's primary reporting line is to the Chair of the Committee. The secondary reporting line, for day-to-day administration, was to the CFO until 2019 and will be to the CEO from 2020. Group Audit provides the Committee with independent and objective reports on the adequacy and effectiveness of the Group's governance, risk management and internal controls. The Committee approves Group Audit's annual plan and receives quarterly reports detailing internal audit activity, key findings, management responses, and proposed action plans. Group Audit also monitors that the most significant actions are completed. There were no significant failings or weaknesses reported to the Committee in the year.

Following assessment by the Committee during the year, it concluded that the Group Audit function was effective. The Committee assessed the resources available and those required to complete the Group Audit Plan. In addition, the Committee continued to monitor the completion of actions from the External Quality Assessment undertaken in 2018 by PwC. In line with the recommendations from the Assessment, the Chair of the Committee, along with the Group Head of Audit, promoted the adoption of new tooling and training to enhance the insight delivered by Group Audit function reviews through the greater use of data analytics. The Committee approved the Group Audit Charter, which is reviewed annually.

Kevin Patience, Group Head of Internal Audit, announced during 2019 that he would be retiring at the end of the year, leading to the search for his successor. Executive recruitment specialist Spencer Stuart, which is a signatory to the Voluntary Code of Conduct for Executive Search Firms and which has no other connection to the Company, was asked to lead the search. The Committee and CEO considered a list of replacements prepared by Spencer Stuart and, having agreed a shortlist, interviewed a number of candidates. After careful and detailed consideration, the Committee and CEO identified Mark Stock as the strongest candidate due to his extensive professional services and senior corporate experience, coupled with his broad and relevant understanding of technology and change. Mark was appointed as Group Head of Internal Audit on 10 February 2020.

Additional information

The Committee has unrestricted access to management and external advisers to help discharge its duties. It is satisfied that in 2019 it received sufficient, reliable and timely information to perform its responsibilities effectively.

During the reporting period, the Actuarial Director, external actuarial advisers, External Auditor and Group Head of Audit met privately with the Audit Committee, in the absence of management.

The Chair of the Committee also reported on matters dealt with at each Committee meeting to the subsequent Board meeting.

External audit

Deloitte LLP ("**Deloitte**") has served as the Company's Auditor since 2000. Before listing in 2012, the Group was audited by Deloitte as a division of RBS Group. The Committee is responsible for overseeing the External Auditor and agreeing the audit fee, as well as approving the scope of the External Auditor's annual plan.

The current audit partner is Mr Colin Rawlings, FCA, who was first appointed for the 2016 audit.

External Auditor tenure

During the year, the Committee discussed the position on its external audit services contract and examined a number of options regarding the timing of tendering for the external audit, including the mandatory rotation of the Group's audit firm. This took into account the reforms of the audit market by the Competition and Markets Authority and the EU, under which Deloitte can continue as the Company's External Auditor until 31 December 2023. As Deloitte was appointed as Auditor to the Group in 2000 (when it was a subsidiary of The Royal Bank of Scotland Group plc), under the transitional provisions of the legislation the firm may not re-engage for the audit after 17 June 2023. The Committee considered whether it was appropriate to tender the external audit contract for the year ending 31 December 2020 and concluded it was not appropriate. The Committee also confirmed that it will continue to comply with the regulations governing auditor rotation.

When considering the timing of the external audit tender, the Committee took into account the Group's ongoing change programmes including the implementation of a new general ledger, the use of consultants employed by auditing firms in connection with those programmes, audit partner rotation, the impact of IFRS 17 and the best interests of all stakeholders including potential investors and shareholders. Following an assessment of all the factors, the Committee decided that it was not appropriate to tender the external audit contract at this time. The Committee will review the position on an annual basis, but currently anticipates tendering the audit contract after the implementation of IFRS 17 for the 2023 year-end to ensure the broadest choice of firms.

There are no contractual obligations restricting the Group's choice of External Auditor.

The Company has complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Auditor independence and non-audit services

The Group has a Minimum Standard in relation to the independence of the External Auditor. This establishes parameters for preventing or mitigating anything that compromises the External Auditor's independence or objectivity. The Minimum Standard includes a formal process for the approval of certain non-audit-related services by the External Auditor. The Minimum Standard has been revised and updated in light of the Financial Reporting Council's review of its Ethical Standard for Auditors in December 2019.

During the year, the Committee reviewed the audit-related services that could be provided by the External Auditor. It was agreed that, in order to protect the independence of the External Auditor, generally on an ongoing basis, services should not be provided unless there is a strong, clear and understandable business reason. The Committee is satisfied that the Group has adequate procedures to ensure that the External Auditor is independent and objective.

During the year, the Committee approved fees of £0.2 million to Deloitte for services unrelated to audit work. The following is a breakdown of fees paid to Deloitte for the year ended 31 December 2019.

	Fees £m	Proportion
Audit fees	2.0	88%
Audit-related assurance services	0.1	4%
Other assurance services	0.1	4%
Non-audit services	0.1	4%
Total fees for audit and other services	2.3	100%

Audit-related assurance services were in respect of the Group's Solvency II reporting; other assurance services were for the review of the Half Year Report 2019; and non-audit services related to assurance activities on IT projects in relation to the development of new systems where Deloitte were chosen to provide the non-audit services because of their expertise and insight in this area. The Committee determined that the services provided would not impact the independence of the external auditor. Further information in respect of audit fees paid to Deloitte is disclosed in note 10 to the consolidated financial statements.

Effectiveness of the external audit process and re-appointing Deloitte as External Auditor

In 2019, the Committee assessed the External Auditor's effectiveness. This was in addition to regularly questioning the External Auditor during its meetings. The Committee assessed the External Auditor through:

i. a detailed questionnaire completed by key stakeholders;
ii. discussing matters with the CFO;
iii. formally reviewing the External Auditor's independence;
iv. assessing the key risks identified by the External Auditor, the quality controls put in place to deliver the audit and whether the agreed audit plan was fulfilled; and
v. private meetings with the External Auditor in the absence of management.

In addition, through regular interaction with the External Auditor, the Committee was satisfied that the External Auditor continued to demonstrate professional scepticism and challenged management's assumptions. The quality of the audit was assessed through review and discussion of the External Auditor's report to the Committee at each meeting and from the challenges and insights brought to significant areas of judgement in the Group's financial statements.

After taking into account all of the information available, the Committee concluded that Deloitte had performed its obligations effectively and appropriately as External Auditor to the Group.

The Committee recommended to the Board that the Group re-appoint Deloitte as External Auditor, to which the Board agreed. A resolution regarding the reappointment of Deloitte as auditor of the Group will be put to shareholders at the 2020 AGM.

The Board reviewed and approved this report on 2 March 2020.

GREGOR STEWART
CHAIR OF THE AUDIT COMMITTEE

Board Risk Committee report

JANE HANSON
CHAIR OF THE BOARD RISK COMMITTEE

Membership, attendance and responsibilities of the Committee, including the outcome of the annual effectiveness review can be found on pages 76 to 79, 82, 83 and 86

Areas of focus in the reporting period

During the period, the oversight of change risk was a central focus for the Committee as the Group continued on its transformation journey to deliver technology and organisational change. The Committee received reports on the progress of the Group's multi-year transformation programmes, considering the relevant risks and interdependencies in detail, and commissioning assurance reports from external specialists, as well as from the Group's Risk and Audit functions. The Committee received regular updates from the Group's Enterprise Change team which provides a framework for managing change risk, facilitates the prioritisation of strategic investment and monitors the interdependencies of change programmes.

Driving fair outcomes for customers is a principal focus of the Committee. During the period, it received updates on the FCA's pricing practices market study and the related discussions with the regulator and considered the potential impact on the Group of certain possible outcomes of the study. The Committee challenged management's proposals to improve the Group's arrangements for seeking to ensure fairness in pricing and monitored the progress of the Group's implementation of the Insurance Distribution Directive, including arrangements required to improve transparency and communication in customers' best interests.

The Group has developed a proactive operational resilience programme, aligned to the expectations set out in the discussion paper: Building the UK Financial Sector's Operational Resilience published jointly by the Bank of England, PRA and FCA. The Committee challenged and supported the development of the programme, which aggregates business process, organisational, third-party and technological resilience, taking a proactive approach with the aim of prioritising the prevention of, and recovery from, financial and other shocks to the business.
The Committee received reports on the programme's development, implementation timelines and the key indicators which would be used for monitoring the Group's operational resilience. The Committee challenged arrangements for ensuring that the risk of dependency on third-party suppliers was mitigated by planned assurance programmes, including by way of contractual rights of audit.

The Committee reviewed and monitored climate-related risk. The Committee examined management's plan to address the PRA's expectations in relation to climate change, including: the outputs of the stress testing of potential climate change scenarios to assess the impact on the Group's risk appetite, liabilities, investments and longer-term strategy; and the implementation of the recommendations made by the TCFD. The Committee identified the CRO as the most appropriate Senior Management Function holder to be allocated responsibility for identifying and managing the financial risks from climate change. Further details on the risks due to climate change faced by the Group can be found on pages 57, 70 and 71.

Main activities during the year

Risk monitoring and oversight

At each scheduled meeting, the Committee received a report from the CRO which provided an overview and assessment of the Group's risk profile. It detailed the key activities undertaken by the Risk function to further embed risk management across the Group, provided outputs of regular risk monitoring and details of specific risk issues. The Committee also received and discussed details of the Group's current and forward-looking solvency position.

The Committee received regular reports regarding the three strategic risk appetite statements: maintain capital adequacy; stable and efficient access to funding and liquidity; and maintain stakeholder confidence. The Committee monitored the Group's exposure against these risk appetite statements and the lower level risk appetite statements, considered key risk indicators and assessed the key drivers that affected status against risk appetite. The Committee reviewed and questioned the justification of the assessment of certain risks and the robustness of management action plans to address areas close to or outside tolerance.

Additionally, the Committee considered other subjects in more detail at each scheduled meeting. These included: compliance and regulatory risk including oversight of the Group's regulatory relationships; operational risk; financial risk, Solvency II and capital model; and risk governance.

Risk management and controls

The Committee monitored the Group's risk management and internal control systems, and reviewed their effectiveness. This covered all material risks, including financial, operational and compliance. The Committee reviewed the residual risk position and considered the effectiveness of any associated mitigating actions and compensating controls. The monitoring and review by the Committee involved examining an assessment of the control environment and material controls at Group level, based on divisional risk and control self-assessments. These assessments had been subject to challenge by the Risk and Group Audit functions.

Customer and conduct

The Group's purpose is to help people carry on with their lives, giving them peace of mind now and in the future. The Group has a management-level Customer Conduct Committee, which reviews, challenges and oversees customer and conduct matters for all of the Group's brands and channels with the aim of promoting customers' best interests and ensuring that the Group's business activities are consistent with the best interests of its customers. The Customer Conduct Committee's findings and any recommendations for improvement are regularly reported both to the Board and the Committee.

The Committee reviewed and challenged reports, with the objective of ensuring that the Group was operating within its defined conduct risk appetite and to obtain assurance that customer outcomes remained fair and appropriate. The Committee focused, in particular, on Home insurance pricing practices, considered arrangements being made by the Group to improve transparency in pricing and to ensure that increases in renewal prices were not unreasonable over time. The Committee received reports on management's interaction with the FCA in the context of the regulator's pricing practices market study and considered the potential impact on the Group of a range of possible outcomes of the study.

The Committee monitored the progress of the Group's implementation of the Insurance Distribution Directive, which regulates the way in which insurance products are designed and the information that must be provided to customers to assist them in buying cover appropriate to their needs. The Committee received updates from senior managers on the FCA's expectations with regard to Insurance Distribution Directive implementation and scrutinised the changes to the Group's quote and buy arrangements required to improve transparency and communication in customers' best interests.

Compliance and regulatory risk

During the year, the Committee considered the Group's compliance with regulatory requirements including conduct and financial crime. The Committee approved the annual Compliance Plan which sets out the compliance activities which will be undertaken in the coming year with the objectives of: (i) ensuring compliance; (ii) maintaining an open and co-operative relationship with regulators; and (iii) ensuring the Board and colleagues understand their regulatory responsibilities. The Committee also reviewed and challenged the outputs from conduct and compliance assurance reviews, including in relation to Solvency II compliance.

The Committee received data privacy updates and reports on the progress of the EU General Data Protection Regulation programme, including arrangements to respond to data information requests and to comply with the Regulation and with the Information Commissioner's Office guidelines. The Committee received assurance that the programme had transitioned to 'business as usual' following completion of a Group Audit review.

The Committee reviewed regular updates on regulatory developments and interactions, particularly in relation to the FCA and PRA. The Committee also reviewed the actions being undertaken to ensure compliance with the regulators' Senior Managers and Certification Regime, which included a comprehensive review of the Group's High Level Control and System of Governance Framework document and updating the detailed management responsibilities map. The Committee considered regular reports on the Group's actions to prevent financial crime, including reviewing the annual Financial Crime Report.

The Committee has closely monitored developments from the FCA and the Competition and Markets Authority's work on pricing practices and will remain apprised of the review throughout 2020 as well as of the actions which are being undertaken with the aim of ensuring that the Group continues to maintain fair pricing principles. These actions broadly fall into three categories: governance and accountability; oversight (including data and management information); and vulnerable customers.

Operational risk

Significant progress was made during the period with the delivery of new platforms in the Group's substantial portfolio of technological transformation programmes. The Committee received updates at each of its meetings on the building, testing and implementation of releases under the programmes, on interdependencies between programmes and on the overall management of the Group's change portfolio, reviewing and challenging the operational and financial risks and controls and the potential impact on customers, people and the Group's strategic and financial plan. Each report was accompanied by an update from the Risk function on its assurance activity, which included reviewing and challenging programme plans, testing methodology and performance, and reviewing preparations for implementation. Additional assurance was provided to the Committee by Deloitte, which had been engaged to conduct a number of deep dive reviews over the lifetime of the programme covering a range of programme stages and risks.

The Committee received a report on the risks associated with cloud computing, including operational, technological risk, information security and cyber risk. Having regard to the market for cloud services, the Committee probed concentration risk and considered the Group's diversification strategy. The Committee obtained assurance from the Group's Risk function that the risks were being managed within risk appetite. The Committee received updates on the management of information security risk and the close monitoring of the continuously evolving cyber-attack landscape, and noted that all of the Group's colleagues received cyber security awareness training.

Financial risk

At each meeting, the Committee monitored the Group's performance against its capital risk appetite through the CRO's report. Committee members considered financial risks in the strategic plan against risk appetite. Committee members also reviewed and challenged the ORSA process and key content before the report was submitted for approval to the Board. Committee challenges on elements of the ORSA during the year included those in relation to stress testing of the strategic plan, pricing and underwriting risk, internal model validation activity and the appropriateness of contingent management actions.

The Committee reviewed and challenged the stress and scenario testing plan prioritising the importance of certain potential scenarios including in relation to the potential impacts of a hard Brexit and a change in government following a general election. The Committee also examined the outputs of the budget stress tests and the associated management actions, which where necessary, would be required to keep the Group within capital risk appetite.

Throughout the year the Committee received reports on the internal model, including independent validation results and the internal model owners' report. This outlined the scope of the capital model, key outputs, risk drivers, significant parameters, expert judgements and key assumptions. The Committee challenged management on the assumptions in relation to the process for quantifying the risks associated with settling bodily injury claims reserves as a result of reviewing the internal model owners' report.

The Committee also scrutinised the Group's cyber underwriting risk strategy before recommending it to the Board for approval and the action taken to mitigate both affirmative and non-affirmative cyber underwriting risk.

Material Risk Register

The Committee assessed the principal risks facing the Group, which are listed on pages 54 and 55. The Committee undertook this by reviewing and challenging the matters listed in the Group's Material Risk Register in the context of the Group's risk appetite and through consideration of the risk assessment contained in the CRO's report that was discussed at each scheduled meeting.

Assessment of risk behaviours and attitudes

The Committee reviewed the annual Assessment of Risk Behaviours and Attitudes undertaken jointly by the Risk and Group Audit functions, which covered areas including: tone from the top; decision-making; and risk management framework. The Committee discussed the outputs of the assessment, as well as areas for further improvement, seeking to ensure the appropriateness of the actions identified. The Committee also considered the activities of the Risk function in driving a good risk culture across the Group through mechanisms such as training and its internal communications strategy.

Risk strategy

During the year, the Committee held a Risk strategy day focusing on three main areas: management's considerations in respect of fairness in the pricing of the Group's products and in its engagement with customers; the potential impacts and risks relating to Brexit; and the role and the operation of the Committee in the future. The Committee discussed its role in the oversight of change and the interdependencies between different change programmes and the dependencies and risks involved in the delivery of the Strategic Plan.

Risk governance

During the reporting period, with the aim of balancing efficiency and appropriate ownership and oversight, the Committee reviewed the Group's most significant policies. The Committee reviewed and challenged each of these policies as part of the Group's Solvency II requirements and recommended them for approval by the Board.

The Committee also considered the results of the annual Group assessment of the effectiveness of the internal controls environment undertaken by each business division, as well as monitoring controls on an ongoing basis. The Committee considered, challenged and approved the Annual Risk operational plan and the adequacy and objectivity of the Risk function's resources.

Whistleblowing

As delegated by the Board, the Committee routinely reviewed the arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters ("**whistleblowing**") during the year. The Committee also reviewed reports relating to whistleblowing including individual cases, anonymised to ensure arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

The Committee probed management and was satisfied that the whistleblowing process met the necessary standards and that it was adequately designed, operated effectively and adhered to regulatory requirements. This was supported by Group Audit's review of the Group's whistleblowing arrangements during the year which concluded that whistleblowing procedures and controls were fit for purpose and operating effectively.

Anti-bribery and corruption

The Group has a fraud and financial crime policy, which includes the requirement that all employees of the Group comply with an anti-bribery and corruption minimum standard. The aim of the standard is to ensure compliance with applicable anti-bribery and corruption legislation and regulation and that employees act responsibly and ethically at all times when conducting and awarding business.

Annually, the Committee considers an anti-bribery and corruption report, which includes an annual risk assessment of the level of anti-bribery and corruption risk to the Group. The Group's annual anti-bribery and corruption risk assessment was completed, noting that no allegations or suspicions of bribery or corruption were identified or reported in 2019. Following review and challenge, the Committee was satisfied that the Group's policies and procedures on anti-bribery and corruption were fit for purpose and that anti-bribery and corruption risks were managed appropriately.

Additional information

The Committee has unrestricted access to management and external advisers to help discharge its duties. It is satisfied that in 2019 it received sufficient, reliable and timely information to perform its responsibilities effectively.

In addition to monthly one-to-one meetings with the Chair, the Chief Risk Officer also met privately with the Committee without management being present.

The Chair reports on matters dealt with at each Committee meeting to the subsequent Board meeting.

The Board reviewed and approved this report on 2 March 2020.

Jane C Hanson.

JANE HANSON
CHAIR OF THE BOARD RISK COMMITTEE

Nomination and Governance Committee report

MIKE BIGGS
CHAIR OF THE NOMINATION AND GOVERNANCE COMMITTEE

Membership, attendance and responsibilities of the Committee, including the outcome of the annual effectiveness review can be found on pages 76 to 79, 82, 83 and 86

Areas of focus in the reporting period

During the year the Committee, which led the process of selecting a new CEO, recommended the appointment of Penny James, who took over as CEO on 9 May 2019.

The Committee continued to focus on Board and executive succession planning with the objective of refreshing the diversity and experience of the Board and developing a diverse senior management talent pipeline.

An internal and external search for a new CFO was launched following the selection of Penny James as CEO and resulted in the appointment of Tim Harris with effect from 1 October 2019.

The remit of the Committee was extended during the year to include overseeing and monitoring the Group's corporate governance arrangements.

Main activities during the year

Board and senior management succession planning

Following the conclusion of the AGM in May 2019, Penny James, who had been serving as the Group's CFO, was appointed as CEO and Paul Geddes and Clare Thompson stepped down from the Board. Later in the year, Mike Holliday-Williams stepped down as a Director of the Company and Tim Harris joined the Board as CFO. The Board currently comprises two Executive Directors and eight NEDs, including the Chairman.

The Committee regularly monitors the NEDs' length of service and the composition of the Board and its Committees to ensure that there remains a suitable balance of skills and experience.

During the year, it was recommended that Fiona McBain be appointed as a member of the Audit Committee, Mark Gregory be appointed as a member of the Remuneration Committee and Penny James be appointed as a member of the Corporate Responsibility Committee. These changes took effect following the conclusion of the 2019 AGM.

In November 2019, the Company announced Fiona McBain's appointment as a member of the Risk Committee and Tim Harris' appointment as a member of the Investment Committee in place of Penny James, who stepped down as a member of the Committee.

As I have said in my Chairman's Statement, I am approaching the ninth anniversary of my appointment to the Board and I believe that the time is right for the Company to be searching for my successor. Richard Ward, our SID, is leading the process of considering internal and external candidates. The selection of a new Chairman is a matter which will be decided by all your Directors other than myself and any fellow NED(s) who may ask to be considered as a candidate. Jane Hanson will have served nine years as a NED in December 2020. The Committee has launched a search for one or more new NEDs and will make a recommendation to the Board about Jane's tenure later in 2020.

Succession planning below Board level continues to be a priority of the Committee. During the search for a new CFO, Neil Manser, now the Group's Chief Strategy Officer, carried out the CFO role on an interim basis and was appointed to the Group's Executive Committee. Kate Syred, Managing Director of Household, Partnerships and Data; Gus Park, Managing Director of Motor, Pricing and Underwriting; and Mark Evans, Managing Director of Marketing and Digital also joined the Group's Executive Committee on 1 July 2019.

The Committee will continue to oversee the Group's executive succession planning with the objective of building a diverse and inclusive talent pipeline and identifying potential in the senior leadership population.

CFO appointment

Following the announcement that the Group's previous CFO, Penny James, would be appointed as CEO of the Group, the Committee launched the process of identifying her successor. This included reviewing the role profile for the CFO, taking into account the Group's medium and long-term strategic and cultural leadership requirements and the selection and appointment of external executive search specialists.

The Committee appointed Egon Zehnder, which is a signatory to the Voluntary Code of Conduct for Executive Search Firms and has no other connection to the Company or any director, to lead the search.

The Committee considered a broad list of diverse candidates prepared by Egon Zehnder and, having agreed a shortlist, interviewed internal and external candidates. Following a thorough interview and assessment programme and having obtained regulatory approval, the Committee recommended Tim Harris as its preferred candidate. The Board accepted the Committee's recommendation and agreed to appoint Tim as CFO with effect from 1 October 2019. The decision was announced on 16 September 2019.

Board effectiveness review

In 2019, the Board and its Committees chose to have their annual effectiveness review facilitated by Professor Robert Goffee, who has no other connection to the Company or any Director. Professor Goffee, Professor of Organisational Behaviour at the London Business School, also conducted the Board effectiveness review in 2016.

Further information on the evaluation process, including the outcomes and actions proposed, can be found in the Corporate Governance report on page 86.

Electing and re-electing Directors

Before recommending the proposed election or re-election of Directors at the 2019 AGM, the Committee reviewed the independence of NEDs and concluded that all NEDs remained independent in judgement and character and met the criteria for independence set out in the Code. Mike Biggs was independent when he was appointed as Chairman and was not involved in his own review.

Special attention was paid to the NEDs' external responsibilities and it was concluded that all Directors had sufficient time to dedicate to their respective roles. The Committee recommended to the Board and shareholders that all serving Directors be submitted for election or re-election at the Company's 2019 AGM, with the exception of Paul Geddes and Clare Thompson, who had decided to step down at the conclusion of the AGM.

Mark Gregory, NED, joined the Board of Merian Global Investors (UK) Limited as CEO in March 2019. Jane Hanson, NED, joined the Board of William Hill plc in July 2019 and Fiona McBain, NED, joined the Board of Monzo Bank Limited in January 2020 . Following a review of their time commitments, the Board was satisfied that Mark's CEO role and Jane and Fiona's NED roles do not restrict them from carrying out their duties to the Group effectively and agreed to the appointments.

All current Directors will submit themselves for election or re-election at the Company's 2020 AGM.

Diversity

The Board believes that an effective board with a broad strategic perspective embraces a diversity of gender, race, skills and experience, as well as of regional, socio-economic, educational and professional backgrounds, among other differences. In its search for candidates, the Board aims only to engage with executive search firms which are signatories to the Voluntary Code of Conduct for Executive Search Firms.

In March 2018, the Board adopted a diversity policy which sets out the Board's approach to diversity and is available on the Company's website. This policy, which is annually reviewed and monitored by the Committee, is presented to any executive search firm engaged to assist with the selection and appointment process for Board positions.

The objective of the diversity policy is to seek to ensure that individual differences, which contribute to the success of the Company and represent the diversity of our customers and the UK, are reflected at Board level.

Further information on the Board diversity policy and the Group's diversity initiatives can be found in the Corporate Governance report on page 87.

The Board supports the targets set in the Hampton-Alexander Review. As at 31 December 2019, female representation on the Board was 40% (2018: 42%). The Board remains committed to progressing women into senior roles and aims to increase female representation at executive level through associated development programmes for high-potential females. As at 31 December 2019, female representation at Executive Committee level and their direct reports was 18% and 43% respectively.

The Board also supports the recommendations set out in the Parker Review. It continues to be the Board's ambition to increase cultural and ethnic diversity on the Board by 2021.

Corporate governance

In January 2019, the Committee changed its name and agreed to expand its remit to include responsibility for monitoring emerging governance matters, compliance with the Code and the Group's approach to subsidiary governance. During the year, special attention was paid to the new Code, corporate governance reforms and to the new corporate governance disclosure requirements for large private companies, which apply to certain entities in the Group. The Committee monitors developments in governance and ESG standards and will continue to monitor consultations, developments and reforms which affect the Group's corporate governance obligations.

The Board reviewed and approved this report on 2 March 2020.

MICHAEL N BIGGS
CHAIR OF THE NOMINATION AND GOVERNANCE COMMITTEE

Corporate Responsibility Committee report

SEBASTIAN JAMES
CHAIR OF THE CORPORATE RESPONSIBILITY COMMITTEE

Membership, attendance and responsibilities of the Committee including the outcome of the annual effectiveness review can be found on pages 76 to 79, 82, 83 and 86

Areas of focus in the reporting period

During the period, the Committee focused on the Group's corporate responsibility strategy to ensure that it was both authentic and impactful, and that management continued to focus on initiatives with real potential to improve lives. It monitored the progress of the Group's corporate responsibility strategy through regular updates on the different focus areas and challenged the robustness of, and progress against, targets relating to the strategy. It also reviewed ethical matters including the Group's Code of Business Conduct for employees and the Group's modern slavery statement.

The Committee monitored management's evaluation of corporate responsibility matters in the context of ESG reporting to ensure that the Group's external corporate responsibility position was consistent and appropriate. Throughout 2019, it reviewed key areas including the development of the Group's sustainability strategy and the results of a benchmarking analysis on external reporting of responsible business activity. The Committee was supportive of the work that had been carried out to address the gaps identified. This included the production of a business impact assessment developed by obtaining the views and expectations of our business and external stakeholders on how they prioritise environmental, social and governance factors. The results of this assessment are illustrated on page 60.

In addition, the Committee reviewed its responsibilities to ensure alignment with the Group's sustainability strategy, its response to climate change and to market practice. It also monitored and scrutinised the extent and effectiveness of the Group's external reporting of corporate responsibility performance, including through preparation for corporate responsibility-related questions at the 2019 AGM and engagement with proxy voting advisers regarding corporate responsibility-related feedback.

Main activities during the year

Our Planet

As part of the Group's 'Reduce, Reuse, Recycle' strategy, the Committee, together with the Board, oversees how the Group protects the business from the impact of climate change and how it fares in its aim of giving back more to the planet than it takes out. During the year, the Committee monitored the progress of the Group's environmental initiatives and endorsed the targets for reducing energy consumption and greenhouse gas emissions. It also monitored the Group's recycling, waste management and other environmental initiatives. The Committee challenged and monitored management in meeting its Planet-related targets and received the following results:

- Management targeted a 30% like-for-like reduction in the Group's energy use by 2020 against a 2013 baseline, and at the end of 2019 our overall reduction had reached 29% (2018: 20%).Three key areas which helped to contribute to this result included: (i) the improvement of the Group's building energy management system; (ii) the optimisation of floor occupancy and energy used across the Group's office locations; and (iii) the investment in energy efficient equipment.
- Management targeted a 57% reduction in Group-wide emissions on a like-for-like basis by 2020 against a 2013 baseline, and at the end of 2019 our overall reduction had reached 53% (2018 restated[1]: 44%).
- The Group maintained its "B" rating in the Carbon Disclosure Project. 100% of office waste has been diverted from landfill and all electricity has been procured under the Green tariff or Renewable Energy Guarantees of Origin Scheme, which is 100% renewable.

Our People

Throughout 2019, the Committee reviewed management's initiative to build an inclusive culture through diversity and inclusion and received updates on key diversity and inclusion activities including a recruitment strategy review, further unconscious bias and inclusive leadership training and diversity and inclusion data collection. The Committee was supportive of the collection of personal diversity-related data from colleagues to help management identify and address the Group's diversity-related challenges and opportunities. The Committee noted that data collection had improved throughout the year due to ongoing dialogue with colleagues and the incorporation of surveys in to starters' induction plans.

The Committee received updates on the Group's overall diversity and inclusion commitments and reviewed and challenged the diversity and inclusion priorities and targets for 2020 in respect of each function in the organisation. The Committee was delighted to see that the Group had achieved its target to increase female senior management to 30% by the end of 2019.

Note:
1. Historical Scope 1 direct emissions have been restated to include emissions from leased vehicle mileage previously excluded.

The Committee regards the mental health and wellbeing of the Group's colleagues as an integral part of its diversity and inclusion strategy. During the year, the Committee received updates on a range of mental health and wellbeing initiatives including the introduction of mental health first aiders across the business and mental health resilience training for people managers, as well as the implementation of a number of financial wellbeing initiatives such as salary-linked loans, advances and savings products.

The Committee reviewed the moving #ThisIsMe video launched in March 2019 which showcased the essence of the Group's value 'Bring All of Yourself to Work' through stories of insight from colleagues across the Group. These stories are published regularly on the Group's website at www.directlinegroup.co.uk/en/insights/people.

Our Society

During 2019, the Committee monitored how the Group used its expertise to improve outcomes for our society and communities and enabled its people to give something back.

The Committee received updates on the Group's partnership with the corporate charity, Mind. It was satisfied that the collaboration had been firmly embedded across the organisation, as was evident through colleagues' fundraising of £170,000 for Mind since the launch of the partnership in July 2018. The funds had enabled Mind to extend its community reach and its helpline to answer a further 33,000 calls during the year. The Committee was supportive of management's endeavours to continue to drive engagement and motivate colleagues through the Group's Community and Social Committees, responsible for organising independent volunteering and fundraising events for Mind and other significant causes such as the charity, Stand Up To Cancer.

The Committee received an update on the collaboration of the External Affairs and Brand teams with the Parliamentary Advisory Council on Transport Safety who produced a comprehensive report on seat belt-wearing rates in the UK. The Committee was delighted to hear that the Department for Transport had been considering taking forward recommendations from the report including the introduction of three penalty points for not wearing a seat belt, heightened police activity, education campaigns and improved technical solutions (e.g. camera technology) and data collection surveys.

Shotgun, the Group's corporate responsibility initiative aimed at reducing young driver accidents, has been under redevelopment throughout 2019. The Committee reviewed and challenged progress updates to ensure that the new version of the mobile phone application continues with its aims to reduce young driver accidents and has a measurably positive influence on young drivers' behaviours on our roads.

The Committee reviewed the results of the employee engagement surveys conducted during the year and was pleased to see that, in October 2019, 86% of colleagues agreed that the Group takes its responsibilities towards the environment and society seriously. However, the Committee is mindful that, as the Group's sustainability strategy evolves, it is important that management continues to maintain this trend and identifies and focuses on activities that impact positively on society and the environment.

Additional ethical matters

The Committee recognises that respecting human rights is self-evidently the right thing to do and is committed to ensuring that the Group conducts its business in a manner which is ethical and responsible.

In December 2019, the Committee reviewed the Group's policy on compliance with the Modern Slavery Act 2015 and how third-party suppliers complied with the Act's requirements.

The Committee challenged the Procurement function and concluded that modern slavery processes and policies were robust and sufficient and that the Group's modern slavery statement reflected best practice and was effective in embedding supply chain processes.

The Committee acknowledges the importance of maintaining the highest standards of ethical conduct and behaviour in our business practice and in the workplace. In December 2019, the Committee examined the content and effectiveness of the Group's Code of Business Conduct and concluded that it was effective and reflected the Group's purpose and sustainability strategy and its corporate responsibility position.

The Board reviewed and approved this report on 2 March 2020.

SEBASTIAN JAMES
CHAIR OF THE CORPORATE
RESPONSIBILITY COMMITTEE

Investment Committee report

MARK GREGORY
CHAIR OF THE INVESTMENT COMMITTEE

Membership, attendance and responsibilities of the Committee, including the outcome of the annual effectiveness review can be found on pages 76 to 79, 82, 83 and 86

Areas of focus in the reporting period

Throughout the year the Committee continued to keep under review the economic and financial implications of the UK leaving the EU and the consequent positioning of liquid asset classes within the investment portfolio in anticipation of a Brexit "deal" being or not being agreed and ratified.

An investment framework including an ESG lens for the Group's investment grade credit portfolios was implemented.

A review of retail exposure within the Group's investment property portfolio was undertaken with agreement reached on selling certain properties to reduce overall exposure to the sector.

The Committee monitored the delivery of actions and key milestones, forming part of management's initiative to reduce costs by transitioning and consolidating certain portfolios with one "core" external manager.

The Committee reviewed the Group's exposure and plans to mitigate any risks associated with the planned discontinuation of the London Inter-Bank Offered Rate ("**LIBOR**") after 2021.

The Committee requested and examined a gap analysis determining how the Group met the PRA's expectations under the Prudent Person Principle in response to a draft supervisory statement issued in September 2019.

Main activities during the year

Brexit

During 2019 the Committee continued to keep under review the economic and financial market implications of the UK leaving the EU and examined how management was positioning investments within the portfolio in the run-up to each of the Brexit deadlines. The Committee's view was that the positioning and asset holdings within the investment portfolio were proportionate to the need to balance risk and reward across the year. The Committee noted also the likelihood of higher cash balances at the end of 2019 and certain sterling fixed income portfolios having a shorter duration than benchmark reflecting a continuing defensive position within the portfolio prior to the UK General Election in December and the Brexit extension until the end of January 2020. The Committee's conclusions were reported to the Board during its discussions on the wider implications of Brexit on business operations and the capital position of the Group.

Sustainable investing

At the end of 2019 the Group's investing framework for investment grade corporate bonds reflected the ESG framework approved by the Committee. Under the framework:

- negative screening has been applied to selected issuers;
- the guidelines for all investment managers in scope have been amended to encourage managers to invest into suitable "green" bonds where available; and
- all portfolios in scope are now required to achieve an average MSCI ESG rating of at least 'A'. Under the benchmarks employed, managers are typically able to allocate more investment towards issuers with a strong ESG rating compared to those with poor ratings.

The Committee will now monitor the results from the framework adopted, continue to examine developments and trends within ESG investing and expects to make further adjustments to the framework in the next 1-3 years.

The Committee recognised that it was important to comply with the recommendations made by the TCFD and carry out climate change scenario stress testing. Further information about the Group's approach to the TCFD can be found on pages 68 to 70.

Market developments

At each scheduled meeting, the Committee received a market update from the Director of Investment Management and Treasury. The updates covered: economic conditions in the UK, the US and the Eurozone; market levels for key asset classes (notably credit); the outlook for interest rates and inflation; and developing issues viewed as appropriate to be brought to the attention of the Committee. The impact on assets from the continuing tensions surrounding international trading relations and the weakness of the retail sector were of particular note during 2019. The Committee also monitored the development of interest rate policies set by the Bank of England, the US Federal Reserve and the European Bank and the impact on hedged yields from non-sterling assets held.

Suitability of investment strategy

The annual studies examining stressed liquidity requirements and asset and liability matching were presented to the Committee during the year. Such work informs strategic benchmark allocations and provides part of the context for the addition of new asset classes or exiting a holding. In 2019, estimated aggregate liquidity requirements across a three month period remained unchanged. No asset classes were introduced or exited (albeit the benchmark allocations for certain portfolios were changed to reflect better small changes in liability durations) and the first investments were made into the Euro credit portfolio (which had been approved by the Committee in H2 2018 with investment held over until the "core" manager initiative had been implemented).

Monitoring investment activity and performance

The Committee received a comprehensive report at each scheduled meeting covering: the financial results from investment activity; aggregate portfolio positioning against strategic benchmarks; performance of each individual portfolio against benchmark; adherence to operational controls; performance of suppliers; and compliance with an agreed framework of risk limits. During the year the Committee invited the internal investment team and the managers responsible for the investment property portfolio, global credit portfolio and the high yield portfolio to present updates on their respective portfolios.

The Board reviewed and approved this report on 2 March 2020.

MARK GREGORY
CHAIR OF THE
INVESTMENT COMMITTEE

Our Governance

DANUTA GRAY
CHAIR OF THE REMUNERATION COMMITTEE

Dear Shareholders,

On behalf of the Remuneration Committee (**"The Committee"**), I am pleased to introduce this year's report, including our updated Directors' Remuneration Policy.

The Group has had a good year and achieved significant progress against our key strategic aims despite the challenges we have faced in the broader external market. Our strategic objective is to turn the Group's potential into growth through combining our customer-focused philosophy, strong brands and technology transformation and by becoming a simpler, leaner and more agile organisation, all with the aim of establishing the Group as the most successful business in our chosen markets. Therefore, we are committed to being a home for capable people who celebrate difference and challenge the status quo to deliver for our customers. We can only do this by empowering and developing the best people.

This has been a busy year for the Group with the progression of our change agenda. In the context of remuneration, the Committee considered the following items:

- In line with the changes to the UK Corporate Governance Code 2018 (the **"Code"**), the Committee received more information and regular updates on all-employee reward and engaged directly with the wider employee population. This put the Committee in a good position to take all-employee reward into account when considering the Directors' Remuneration Policy (the **"Policy"**).
- This year we are proposing a new Remuneration Policy. Following a review which included considering all-employee remuneration and other stakeholder interests, the Committee was satisfied that the Policy remains 'fit for purpose', therefore only relatively small changes are proposed to refine the Policy. We have also refreshed the incentive scheme rules.
- Penny James was appointed CEO on 9 May 2019 and the process for the recruitment of a new CFO was completed with Tim Harris taking up the position on 1 October 2019. For both appointments the Committee considered the appropriate remuneration that would motivate and retain the candidates. In addition, the Committee considered their remuneration in the context of wider workforce remuneration and I am pleased to report that their pension contribution level is in line with the workforce. This means that we are fully compliant with the new Code in this regard.
- The Committee also considered arrangements for departing Directors and the mitigation of the costs of their departures. More information on the departing Directors appears in the Annual Report on Remuneration.
- The Committee considered the Annual Incentive Plan (**"AIP"**) outturn noting the change agenda and the establishment of Penny's leadership team and was satisfied that good progress has been made. The Committee considered the overall outcomes of both the AIP and the Long-Term Incentive Plan (**"LTIP"**) schemes and was satisfied that those outturns were appropriate and so did not apply discretion to adjust the outturns.

I hope that, once you have read the documents, you will vote in favour of the resolutions at the forthcoming AGM.

I see the Committee's objectives as:

- Rewarding Directors for results that are generated within the risk appetite set by the Board.
- Setting an appropriate framework for remuneration for the Executive Directors, Executive Committee and other senior management with enough flexibility so that the Group can attract and retain the best people for the organisation.
- Having oversight of remuneration policies throughout the Group and ensuring all our employees are paid fairly.

The report is set out in the following sections:

The Remuneration Committee is committed to aligning Executive Directors' pay to the Group's business strategy and demonstrable success and the interests of our shareholders.

Remuneration Policy

We will be proposing a new Policy to shareholders for approval at the AGM in May 2020. The Policy covers how decisions on Directors' remuneration will be made, and the remuneration philosophy and strategy which underpin these decisions.

The requirements of the revised Code have provided the Committee with an opportunity to consider whether our existing Policy on executive pay remains appropriate for our business and in line with regulatory requirements and key stakeholder expectations. The current policy was well supported by shareholders on adoption (receiving over 98% of votes in favour when it was approved at the AGM in May 2017) and, we believe, continues to support the delivery of our long-term strategy.

As part of the comprehensive policy review process, a range of remuneration structures were explored fully. The Committee decided to retain the key features of the current policy, enhance some components to achieve further simplicity and increase shareholder alignment whilst reinforcing our strategic priorities. The revised Policy ensures continued regulatory compliance relating to remuneration and reflects evolving good governance practice in many areas. The Committee considers it essential that the policy for Executive Director remuneration reflects the interests of the wider workforce.

The key features of the new policy are:

- For all current and future Executive Directors, the pension contribution will be set in line with the pension contribution rate for all Group employees in the UK (currently 9% of salary). Any new Executive Committee members will also have their pension contributions aligned with the Executive Directors and the wider workforce.
- Simplification of the non-financial AIP performance measures to emphasise our short-term strategic areas of focus and the use of a straight-line vesting between AIP threshold and maximum performance.
- Significantly increased shareholding requirements to 250% of salary for the CEO.
- A new post-employment shareholding requirement equal to the shareholding requirement in office (or actual shareholding on departure, if lower) for a period of two years following cessation of employment.
- Consistent malus and clawback trigger events to reflect the guidance set out by the FRC.
- To enable the Committee (in line with the new Code requirements) to apply discretion and override formulaic outcomes where those outcomes do not reflect overall Group performance.

Details on how the Policy will be implemented for 2020 are set out on page 111

To coincide with the review of the Policy we have also carried out a timely review of the executive share incentive scheme rules. There are two schemes which shareholders have been asked to vote on: The LTIP and the Deferred Annual Incentive Plan (**"DAIP"**). The main changes being proposed to the plans are to update legislative references and simplify leaver provision wording, (although no substantial changes are proposed).

We have consulted with our largest shareholders, Institutional Shareholder Services, the Investment Association and Glass Lewis as part of reviewing our Policy and its implementation for 2020. In light of the positive feedback received, we did not make any changes to our initial proposals. I would like to take this opportunity to thank them for their time and valuable input.

Performance and incentive outcomes for the year

During 2019, I believe our management team has worked extremely hard to deliver and be prepared to launch a new strategy and can take pride in the growth the Group has experienced in the past year.

The Group delivered good results in a challenging market, growing our capital return and we consider our successful customer-focused strategy and our investment in future capabilities to have helped sustain this robust performance. The results are reflected in the incentive outcomes for our Executive Directors.

For the 2019 AIP, the Group's diversified product and channel portfolio, disciplined underwriting and our engaged employees have helped us to achieve a commendable profit before tax result of £509.7 million. The outturn was ahead of the target leading to a pay-out of 69% of maximum for this element. Performance across the Customer measures was particularly strong for the year and the Committee awarded a maximum outturn for this element. The People measures were assessed as being around maximum. The Committee is pleased to report this year that management have made significant progress on the technology transformation and cost reduction agenda on which the Shared objective was measured and awarded an outturn of 70% for this element. Full details on the outcomes for the year are included on pages 114-117. We therefore awarded bonuses of 76% of the maximum to the Executive Directors. In line with the Remuneration Policy, 40% of any AIP award will be deferred for three years under the DAIP.

The 2016 LTIP (awards granted in March and August 2016) vested during 2019 and merited a pay out at 100% of maximum based on strong performance against our RoTE targets over the three-year performance period (2016, 2017 & 2018). In calculating the RoTE achievement, the reported RoTE for 2018 was adjusted downwards to exclude the favourable impact of the capital management exercises executed in the 2017 financial year on the outcome for these awards.

The TSR performance for the 2016 LTIP awards run from the date of award to the third anniversary of award (as opposed to across the three financial years commencing with the year in which the award was granted as for the RoTE measure). TSR performance for both the March and August awards did not achieve threshold performance reflecting the challenging external environment, therefore no shares vested under this measure. Subsequently the overall vesting outcome for the 2016 LTIP awards was 60%.

The 2017 LTIP (awards granted in March and August 2017) are due to vest during 2020, subject to the Committee's satisfaction that the financial and risk underpins have been met at the end of the vesting period.

The RoTE performance period for these awards ended on 31 December 2019. The three-year average RoTE performance for 2017, 2018 and 2019 was 20.4% against a maximum target of 18.0%. Awards under the RoTE element are therefore due to vest at 100% of the maximum potential.

In calculating this outcome the same downward adjustments have been made to the reported RoTE for 2018 per the 2016 RoTE achievement.

Consistent with the regulations, as the performance period of the TSR elements run for three years from grant (whereas the RoTE performance period is aligned with the financial year-end), the TSR element of the 2017 awards, due to vest during 2020, will be reported separately next year. Accordingly, we have included an estimated value of the RoTE vesting outcomes for the 2017's awards plus the TSR vestings from the 2016 awards in the single figure remuneration table for 2019 for the Executive Directors.

> The Committee believes that the 2019 remuneration outcomes appropriately reflect the Group's good performance.

Committee decisions on outcomes

As mentioned, this year has been a good one and the overall outcomes for the annual bonus resulted in a payout of £1,004,747 for the CEO and £177,888 for the CFO which the Committee believes is appropriate in the context of the Group's performance in 2019.

The level of vesting of the LTIP was considered appropriate in the light of the Group's performance over the three-year performance period. The Committee believes the Policy has delivered an appropriate quantum of reward for the corporate performance achieved. The Committee were therefore satisfied that the Group's Remuneration Policy had operated as intended.

Wider workforce engagement and pay considerations for 2019

The Committee has consistently considered wider employee pay as context for the decisions it makes. Every year, we review and act upon the outcome of our DiaLoGue People Survey. As Chair of the Committee, I have attended meetings of the Group's Employee Representative Body (**"ERB"**) since 2018 at appropriate times during the year. These meetings are an opportunity to discuss any concerns raised in relation to employee pay and that of our Executive Directors and senior leadership. Our existing workforce engagement is strengthened through internal social networking, "town halls" and other forums. To supplement this, the Committee receives papers setting out details of all-employee pay and workforce policies across the Group at each meeting. We found that this standing agenda item gave us further valuable insight for framing executive pay and policies.

The Committee considers it important to monitor and assess internal pay relativities and takes these into account when determining Executive Director remuneration.

Early adoption of the CEO pay ratio disclosure in 2018 emphasised the Committee's intention to do so. The employee pay ratio has been refined further for 2019 by adopting Option A to better reflect the diverse range of job roles across the business see page 120.

During 2019, the Group further built on its commitment to ensure that all of our people are rewarded fairly and have an interest in the success of the Group, with a minimum increase of £650 in 2019, bringing the minimum salary across the Group to £19,000 (depending on contractual hours).

We are also delighted that, through our continued focus on building an inclusive organisation, we have improved our female representation in senior jobs to exceed the Women in Finance Charter target of 30% during 2019, and we will continue with the programmes underway to further reduce our gender pay gap. See our 2019 Gender Pay Gap Report for more details at www.directlinegroup.co.uk/2019GenderPayGapReport.

Executive Director changes

During the year the Group completed the appointment of Penny James as CEO and the search was completed for a new CFO culminating in Tim Harris's appointment on 1 October 2019. Details of the remuneration arrangements for Penny on appointment to CEO were disclosed in last year's report. Full details of Tim's remuneration can be found on page 124. When assessing the appropriate remuneration for both Penny and Tim, the positions were benchmarked externally as well as with consideration to the remuneration arrangements of the whole workforce. Broadly speaking the elements of the all-employee reward and Director reward are similar and in particular, both Directors' pension contributions are in line with the wider workforce. The Committee determined that it was appropriate to grant awards to Tim Harris as compensation for awards forfeited from his previous employer. Further details are set out on page 127.

Paul Geddes stood down as CEO and a member of the Board on 9 May 2019 and left the Group at the end of July 2019. Paul worked through his notice and was paid a pro-rated AIP bonus for the period to 31 July 2019. Following a review of Paul's contribution and performance through his notice period, the Committee exercised its discretion and decided that Paul was a 'good' leaver for the purposes of the incentive schemes. Accordingly, his LTIP awards will be pro-rated until 31 July 2019. The continuing LTIP and DAIP awards will vest on their usual vesting dates. For LTIP awards issued after the AGM in 2017 any shares that vest will be subject to a further post vesting holding period of two years.

Following a reassessment of the Executive Committee and Board it was agreed the position of Managing Director Personal lines was no longer required and consequently this role was made redundant on 30 June 2019. Mike Holliday-Williams served his notice commencing on 1 July 2019, and found a new external role, which the Committee considered not to be in competition with the Group. Consequently, a redundancy date was agreed and he was by definition a 'good' leaver as of 30 September 2019. The Committee did not exercise any discretion with regard to Mike's share incentive scheme awards.

His LTIP awards will be pro-rated to this date and for any awards granted after the AGM in 2017 will be subject to a two-year post-vesting holding period. In addition, in anticipation of the new Policy, as part of Mike's redundancy arrangements it was agreed that he will maintain his shareholding requirement for a period of two years from 30 September 2019.

Approach to pay in 2020

No change to the overall approach to pay is anticipated for 2020. The CEO will be awarded a salary increase of 2.13%. This is in line with the average increase for the wider workforce (2.25%) but calculated based on the weighted average salary before and after her promotion to CEO. The CFO's salary remains appropriate given his joining date in the latter quarter of the year.

No change will be made to the weightings of the metrics under the AIP. The approach to assessment will focus on performance measures agreed at the start of the year.

We are not proposing any changes to the performance conditions for the 2020 awards under the LTIP. Likewise, the target RoTE scale of 17.5% to 20.5% will remain at the same level as in 2019 and reflects an appropriate performance range in the context of the Group's planned underlying RoTE performance.

As part of the wider Committee oversight on all-employee pay matters, the Committee (following a detailed review) is delighted to confirm that the Group will apply an increase to the minimum salary level that is above the living wage foundation rate and a minimum salary increase of £500 to around 5,200 colleagues from April 2020 bringing the Group's company-wide minimum salary to £19,500 for full-time colleagues on 37.5 hours. This is 8% above the Living Wage Foundation rate outside London, and 15% higher than the Government's national minimum wage. We continue to want our employees to have ownership of the Group, as such, the Committee approved a grant of Free Shares to all employees in 2020 to recognise their invaluable contribution to the business and the desire to strengthen shareholder alignment across the Group.

Your AGM vote

The Committee welcomes investor feedback on an ongoing basis and this report seeks to describe and explain our remuneration decisions clearly, and I hope to receive your support for it at the AGM. At this years' AGM you are being asked to vote on four remuneration-related resolutions: the Directors' Remuneration Policy, updates to the share incentive schemes (LTIP and DAIP) and the Directors' Remuneration Report.

Should you have any questions about my Committees' report or our Remuneration Policy proposals please email our AGM email address shareholderenquiries@directlinegroup.co.uk and I or my team will respond to you.

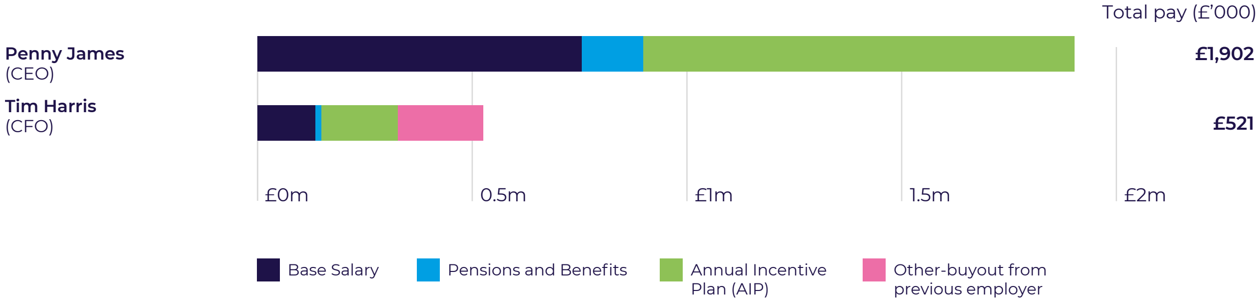
Yours sincerely,

DANUTA GRAY
CHAIR OF THE
REMUNERATION
COMMITTEE

Remuneration at a glance

Remuneration outcomes for 2019

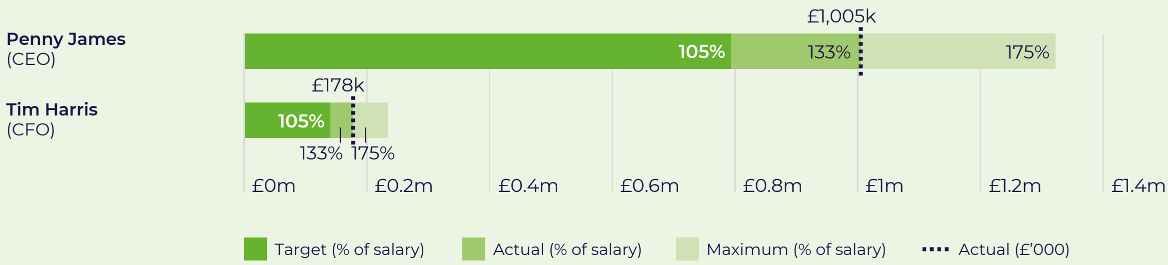
Executive Director's total pay



Find out more on page 113

AIP achievement

This chart illustrates the actual amounts earned from the AIP and reflecting performance in 2019. 60% of the amount is payable in March 2020 and 40% will be deferred into shares for three years.

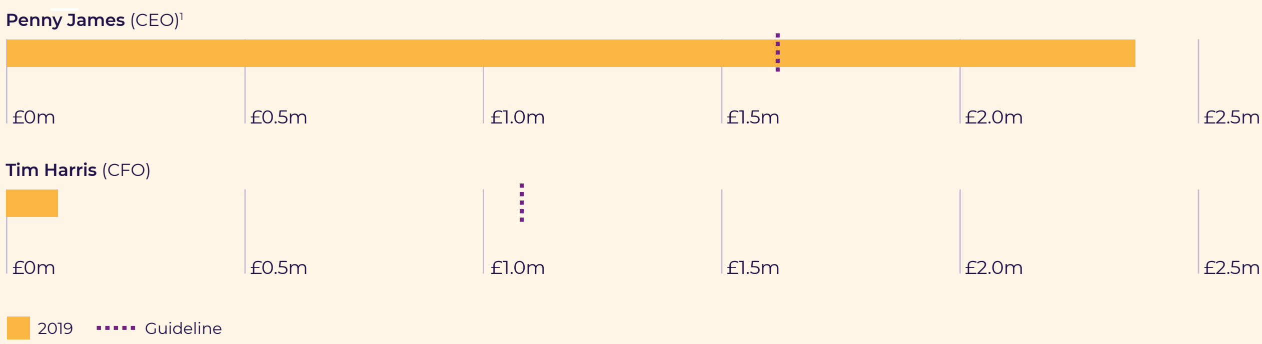


Find out more on pages 114-117

LTIP

Shareholding at year-end

This chart illustrates the number of shares held at the end of 2019 by the Executive Directors against the share ownership guidelines of 200% of salary.



Note:
1. From 2020 AGM this will increase to 250% for the CEO, she currently exceeds the increased level.

Find out more on pages 119 and 125

Implementing the policy in 2020

Key feature	Implementation in 2020
Base salary	
– Reviewed annually with any increases taking effect on 1 April – The Committee considers a range of factors when determining salaries, including pay increases throughout the Group, individual performance and market data	– 2.13% increase for the CEO to £817,000 – The CFO's salary remains appropriate (at £535,000) given his joining date in the latter quarter of the year
Pensions	
– Pension contributions are paid only in respect of base salary – The Executive Directors' pension is set in line with the pension level received by the majority of the employee population	– CEO and CFO pension contribution is 9%
Annual Incentive Plan	
– Maximum opportunity of 175% of salary for the CEO and the CFO – At least 50% of the AIP is based on financial measures. The Committee considers various non-financial performance measures such as strategic measures – It bases its judgement for the payment outcome at the end of the performance period on its assessment of the level of performance achieved with reference to performance targets agreed at the start of the year – Any payment is subject to an additional gateway assessment, including assessing risk factors – Clawback provisions apply	– No change to the maximum opportunity – No change from the weightings or measures used for 2019 – There will be a straight-line vesting between AIP threshold and maximum performance – Financial measures (55%): Profit before tax – Non-financial measures (45%): People, Customer & Shared – The performance targets are commercially sensitive and will be disclosed in next year's report
Deferred Annual Incentive Plan	
– 40% of the AIP is deferred into shares – Typically vesting after three years subject to continued employment – Malus and clawback provisions apply	– No further performance conditions apply
Long Term Incentive Plan	
– Awards typically granted as nil-cost options – Awards typically granted twice a year – The Plan allows for awards with a maximum value of 200% of base salary per financial year – Performance is measured over three years – Awards vest subject to financial underpin and payment gateway – Malus and clawback provisions apply – Awards are subject to an additional two-year holding period following the end of the three-year performance period	– No change to the maximum annual award levels – Nil-cost options will continue to be used for the grants – The current 60% RoTE and 40% TSR mix will continue to apply for 2020 – A RoTE target range of 17.5% (threshold) to 20.5% (maximum) is required for the 2020 awards to vest – Vesting at threshold is 20% and maximum is 100% with straight-line vesting in between – Relative TSR will be measured against the FTSE 350 (excluding investment trusts) peer group. Vesting for median TSR performance (threshold) is 20% and for upper quintile TSR performance (maximum) is 100% with straight-line vesting in between these points

Annual Report on Remuneration

Introduction

We have prepared this report in accordance with the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the "**Regulations**"). The report also meets the relevant requirements of the Listing Rules of the FCA and describes how the Board has complied with the principles and provisions of the Code relating to remuneration matters. Remuneration tables subject to audit in accordance with the relevant statutory requirements are contained in this report and stated to be audited. Unless otherwise stated, the information within the Directors' Remuneration Report is unaudited.

Remuneration Committee members and governance

The following list details members of the Committee during 2019. You can find information about each member's attendance at meetings on page 82. You can find their biographies on pages 76 to 78.

Committee Chair
Danuta Gray
Non-Executive Directors
Mike Biggs
Mark Gregory[1]
Sebastian James
Clare Thompson[2]

Notes:
1. Mark Gregory was appointed to the Remuneration Committee with effect from 9 May 2019.
2. Clare Thompson stepped down from the Board with effect from 9 May 2019.

Advisers to the Committee

The Committee consults with the Chief Executive Officer, the Group Human Resources Director, and senior representatives of the HR, Risk and Finance functions on matters relating to the appropriateness of all remuneration elements for Executive Directors and Executive Committee members. The Chairman, Chief Executive Officer and the Group Human Resources Director are not present when their remuneration is discussed. The Committee works closely with the Chairs of the Board Risk Committee and the Audit Committee, including receiving input from those Chairs regarding target-setting and payouts under incentive plans, and whether it is appropriate to operate malus and clawback. The Chair of the Board Risk Committee attended Committee meetings on two occasions. The Remuneration and Board Risk Committees can also hold joint meetings to consider matters of common interest.

The Committee appointed PricewaterhouseCoopers LLP(**"PwC"**) as its independent adviser from 1 January 2019 following a competitive tender process. PwC is a signatory to the Remuneration Consultants Group's Code of Conduct.

During the year, PwC advised on market practice, corporate governance and regulations, incentive plan design and target-setting, recruitment, investor engagement and other matters that the Committee was considering. PwC supported the Group in several ways, including the provision of IFRS 17, tax, technology consulting and immigration services during 2019. The Committee is satisfied that the advice PwC provided was objective and independent.

PwC's total fees for remuneration-related advice in 2019 were £151,700 exclusive of VAT. PwC charged its fees based on its standard hourly rates for providing advice.

Allen & Overy LLP, one of the Group's legal advisers, also provided legal advice relating to the Group's executive remuneration arrangements. It also provided the Group with other legal services.

Implementing policy and pay outcomes relating to 2019 performance

Single figure table (Audited)

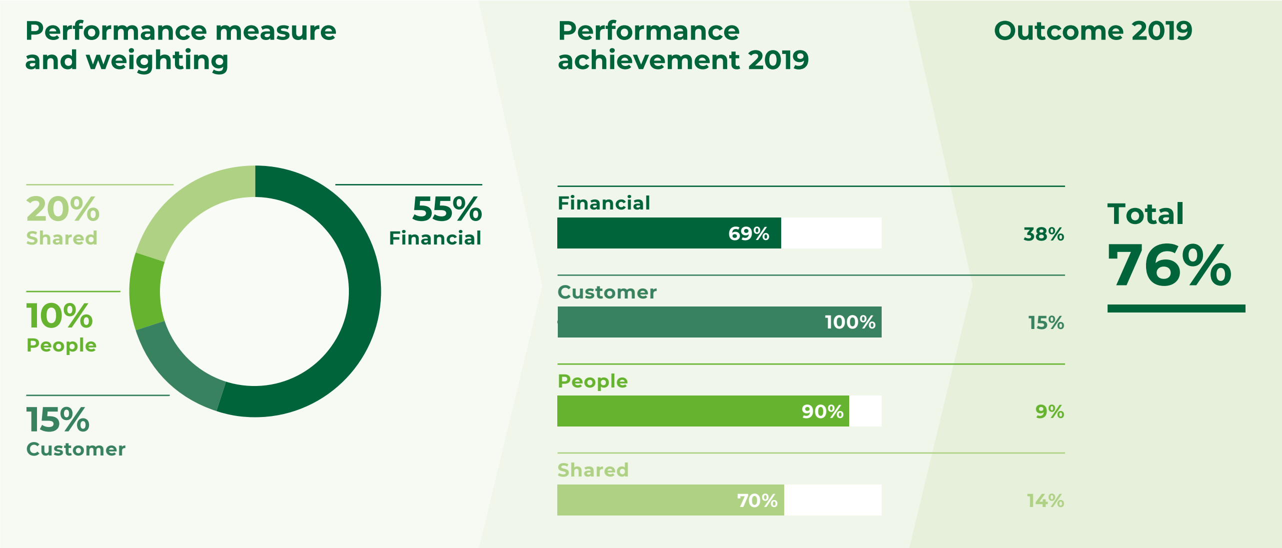
	Salary[1]		Benefits[2]		Annual bonus[3]		Long-term incentives[4,5]		Other[6]		Pension		Total	
£'000	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Penny James[7]	755	675	35	14	1,005	803	–	2,512	–	–	107	169	1,902	4,174
Tim Harris[8]	134	–	3	–	178	–	–	–	198	–	12	–	525	–
Paul Geddes[9]	297	826	8	19	395	983	–	1,216	–	–	74	206	774	3,250
Mike Holliday-Williams[10]	284	559	7	14	324	570	–	626	–	–	43	84	658	1,854

Notes:
1. Salary – the Company operates a flexible benefits policy, and salary is reported before any personal elections are made.
2. Benefits – includes a company car or allowance, private medical insurance, life assurance, income protection, health screening and discounted insurance. The CEO uses a car service for travelling on journeys from home to office, the Group also pays for any associated tax liability that arises on this benefit.
3. Annual bonus – includes amounts earned for performance during the year but deferred for three years under the DAIP. For more information, see page 126.
   These deferred awards are subject to continuous employment only. However, awards remain subject to malus and clawback.
4. 2016 LTIP awards RoTE – the expected vesting outcome figures for the RoTE portion of the awards granted under the LTIP in 2016 and reported in 2018 have been updated. These updates are based on the actual vesting of the RoTE portion of the awards and a share price of £3.53 and £2.831 on 29 March 2019 and 30 August 2019 respectively, compared to the three-month average share price of £3.20042 used in reporting this figure in the 2018 report. The revised figures include the actual number of dividends accrued on this portion of the award at vesting. This results in an adjusted reportable increase of approximately £12,167 for Paul and £12,543 for Mike with a corresponding increase of the single figure for 2018 reflected in the table above. Further information on LTIP awards can be found on pages 118-119.
5. The 2018 long-term incentive buyout for Penny James – the expected vesting outcome figure reported in 2018 has been updated. The figure relates to the amount in respect of the second and final tranche of her buy-out awards, which vested in April 2019. These updates are based on the actual vesting of 97.335% (unchanged) and a share price of £3.559 on 1 April 2019. The award was subject to the achievement of performance targets, ending in the 2018 performance year, that relate partly to the performance of the Company and partly to the performance of her previous employer.
6. The 2019 "Other" figure for Tim Harris relates to the amount in respect of his buyout awards, disclosed on page 127. The award is not subject to any performance conditions, and the value of this award is based on a share price at the date of grant (1 October 2019) of £2.9997.
7. Penny James was appointed to CEO on 1 May 2019. Her remuneration for 2019 covers both her time spent in the role as CFO and as CEO during 2019. As disclosed last year, Penny's pension contribution was reduced from 25% to 9% of salary on her appointment to CEO in May 2019 to align with the wider workforce.
8. Tim Harris was appointed to the Board on 1 October 2019 and also became employed on that date.
9. Paul Geddes stepped down from the Board on 9 May 2019. His remuneration for the purposes of this table has been pro-rated with LTIPs vesting by reference to performance conditions met while he was on the Board in 2019. Details of Paul's salary, pension and benefits paid following his cessation as an Executive Director on 9 May 2019 until the date of his exit on 31 July 2019 can be found on page 122.
10. Mike Holliday-Williams stepped down from the Board on 30 June 2019 when the role of Managing Director, Personal Lines was made redundant. His remuneration for the purposes of this table has been pro-rated with LTIPs vesting by reference to performance conditions met while he was on the Board in 2019. Details of Mike's salary, pension and benefits paid following his cessation as an Executive Director on 30 June 2019 until the date of his exit on 30 September 2019 can be found on pages 123-124.

Each Executive Director has confirmed they have not received any other items in the nature of remuneration, other than those already disclosed in the single figure table.

Annual Incentive Plan outcomes for 2019 (Audited)

The chart illustrates the final assessment of the level of achievement under the AIP and total outcome approved by the Remuneration Committee.



Executive Director	Achievement under the 2019 AIP	2019 AIP payment
Penny James	76% of maximum	£1,004,747
Tim Harris[1]	76% of maximum	£177,888
Paul Geddes[2]	76% of maximum	£395,032
Mike Holliday-Williams[2]	76% of maximum	£323,695

Note:
1. The award made to Tim Harris represents a pro-rated amount for the period since joining the Board.
2. The AIP awards made to Paul and Mike represent pro-rated amounts for the period to their departure from the Board.

40% of any AIP award is deferred into shares under the DAIP, vesting three years after grant.

Financial element (55% weighting)

The financial performance measure is profit before tax. The Committee established a target performance level at the start of the year. In the table below, we have disclosed the target set for profit before tax performance.

The approach taken to assessing financial performance against this measure was based on a straight-line outcome between 10% for threshold performance and 60% for on-target performance, and a straight-line outcome between on target performance and 100% for achievement of maximum performance.

The formulaic outcome from 2019 performance against the financial measure was 69%, giving a total of 38% out of 55% attributable to this element. A summary of the assessment is provided in the following table.

Measure	Threshold 10%	Target 60%	Maximum 100%	2019 Actual	2019 Achievement
Profit before tax	£449.1m	£499.0m	£548.9m	£509.7m	69%

Customer element (15% weighting)

Customer experience is at the heart of the Group's strategy and success. As part of our customer strategy, and to ensure that the business strives to achieve a sustained and competitive level of service, the Board sets challenging customer-centric KPIs. These are intended to ensure that remuneration is aligned with and supports continuous improvement.

We set ourselves the highest standards for customer service and demonstrate this by assessing our progress in customer outcomes from the views of our customers. The Group has continued to improve on an already strong performance against stretching targets. Our brands performed well (mainly top quartile) across the majority of insurance customer experience benchmarking studies.

Having considered performance against targets and an assessment of the quality of performance achieved, the Committee determined that a maximum outturn for the Customer measures was appropriate, giving a total of 15% out of 15% attributable to this element. A detailed assessment of the Customer measures is set out below.

Measure	Assessment
Net promoter score ("NPS") Improvement of customer advocacy across the Group	Overall, we worked hard to offer great customer service, and this is reflected in our top quartile NPS scores measuring the likelihood of our customers to recommend one of our brands. – The Group's NPS showed strong year-on-year performance, exceeding target and achieving top quartile performance in a range of independent benchmarking studies. – Churchill NPS was just ahead of the target set for 2019; and we worked hard to boost customers' loyalty by making dealing with insurance easier; launching a new brand driving the Churchill strap line. – We continued the trend for high renewal NPS, with particularly strong performance in H1 on Motor and Home with favourable market conditions for customers. – Rescue NPS performance ended the year well ahead of target as a new supplier framework was embedded delivering great customer outcomes. – We continued to enhance digital capabilities for customers amending and renewing polices to meet more customer needs.
Complaints Reduction in complaints volume and process improvements	– The volume of claims complaints reduced significantly in 2019, as we focused on constantly working to improve and taking learnings from dissatisfaction in order to help ensure that our customer outcomes continue to be high. – Long-term reducing trends on Household, Motor, Commercial and Rescue continued into 2019, so that stretch targets were exceeded in all lines of business.
Claims NPS Increase ease on claims and strategic improvements	– Claims NPS performance was well ahead of target with various customer focused initiatives making a difference (i.e. speeding up total loss payments significantly). – The Group's work in delivering the highest level of customer service has been recognised at the UK Customer Experience Awards where the Group won Gold or Silver across five different categories.
MyCustomer Transaction customer experience performance measuring our people/calls	– Over 1.5 million responses from customers across the Group have provided feedback on the experience delivered by our people and 85% (claims) and 87% (customer ops) rated our people as 9 or 10 out of 10. – A new platform was launched in Q4 2018 to further improve insight capabilities and this improved capability has been embedded during 2019 to drive even more focused coaching conversations and performance recognition. – In Household, Motor and Claims MyCustomer consultant performance was significantly ahead of target with several best-ever months in both areas.

Measure	2019 Achievement
Customer	100%

People element (10% weighting)

For the People element of the AIP, the Board set a range of people measures specifically around succession strength, diversity and employee engagement, reflecting the importance of this agenda to the success of the Group. The Committee considered that performance across these measures was very strong and had exceeded expectations against a background of high employee engagement alongside significant change and transition this year. The Committee therefore agreed a near maximum outturn for the People measures, giving a total of 9% out of 10% attributable to this element. A detailed assessment of the People measures is set out below.

Measure	Assessment
Succession Ensure a succession plan in place for senior roles, nurturing our people to support progression in accordance with succession plan	– We successfully and smoothly navigated changes to our senior leaders and Executive Committee in 2019, quickly filling roles with either internal or external capable long-term leaders and provided continuity of leadership, mindfully increasing our female representation at this level. – To support the CEO transition and prepare for the next generation of senior leaders, we used our Senior Leadership Development Programme, to build strategic capability throughout 2019. – We continue to retain our high potential people across our Emerging Leaders and Graduate population of 33 individuals with just one voluntary leaver. Two cohorts of our emerging leaders programme have taken place in 2019 (with a 50:50 gender split), with five of this group moving into new roles in 2019, including three promotions. – Our high potential graduates have been provided with opportunities to move in the organisation and develop further, raising their profiles with our senior leaders via networking opportunities and building relationships further across the Group. We successfully recruited a further 28 graduates and 117 apprentices during 2019.
Diversity Ensure the Group is a diverse and inclusive place to work where differences are respected, valued and celebrated	– Since becoming a signatory to the Women in Finance Charter, we have actively recruited and promoted more women into senior roles; women now account for 31% of our senior management (2018: 28%, 2017: 22%) and we are looking forward to working towards our next milestone. – We continued to focus on building an inclusive organisation, valuing diversity and uniqueness. 91% of our people responded positively that they feel they can 'bring all of themselves to work' in our 2019 employee survey. – All senior leaders have Diversity and Inclusion action plans in place. – We launched Thrive – an employee movement aimed at helping them and others to grow and feel empowered to drive their own path and inspire other Direct Line Group women to be the best they can be. – Mental health continued to be a focus in 2019, and we further developed the agenda by hosting a Mental Health First Aiders conference and sponsorship of events to provide awareness and support on this subject, including financial wellbeing and targeted training around suicide awareness training. It is our aspiration to enable mental health conversations and support to be at the same level as they are for physical health.
Engagement Ensure we are fully engaged with our employees via the DiaLoGue programme with leaders setting the tone demonstrating the Group's Values and Behaviours in all aspects of their role	– We continued to achieve high participation levels (88%) in our employee survey, DiaLoGue, and maintained high overall engagement levels at 78% in 2019, which places us in the upper quintile of high performing companies. – In 2019 following our accreditation and 3rd place position in the Sunday Times 'Best Big Companies to Work For' survey, we identified personal growth, people management, and leadership as the key priority areas to concentrate on to improve our ability to attract and retain employees.

Measure	2019 Achievement
People	90%

Shared element (20% weighting)

For the Shared element of the AIP, the Board set a range of strategic measures specifically around technology and business transformation and cost savings, with the aim of ensuring the Group has the capabilities and cost base to ensure its sustained success. The Committee considered the delivery of the major technology transformation programmes, for which specific measures and milestones were set; and for the cost objective the Committee focused on the articulation and commencement of activities required to achieve the 2020 and 2021 cost base. The Committee therefore agreed an outturn of 70% for the Shared measures, giving a total of 14% out of 20% attributable to this element. A detailed assessment of the technology transformation and costs measures is set out below.

Measure	Assessment

Technology transformation
Progress and delivery of several technology investment programmes on time and on budget, to deliver new capability benefits
	– There has been successful delivery in our Motor IT platform which will transform our customers' experience, and early signs of performance are meeting expectations.
	– We launched a number of other customer systems, for example:
	  – Darwin motor; our first new personal lines brand in 25 years. Darwin is focused on the Price Comparison Website (**"PCW"**) market and utilises a new technology platform that combines customer serve functionality with a data-led pricing engine employing machine learning techniques. Darwin was launched on two PCW during the year.
	  – Travel for our partnership with RBS/NatWest; a new Travel platform, initially for our major partnerships, and migrated over 1.6 million policies for RBS and NatWest customers. This new platform includes full medical screening and enables automated processing for low value claims; and
	  – Tradesperson on the Direct Line for Business digital platform.
	– Alongside launching new systems, we have made good progress on setting the foundations for changes to come in 2020, for example:
	  – We have delivered the first release of a major finance transformation which will move core finance systems to the cloud and;
	  – We have also made significant steps in updating our underlying technology platform.
	– We deferred certain elements of programmes, primarily to mitigate potential risks arising from system stability and programme complexity. These actions have been well managed and controlled by the Group.

Costs Development and execution of activities to deliver a sustainably lower cost base to support future quality of earnings	– We delivered on our target to reduce operating expenses to below £700 million in 2019. This was delivered through generally tighter cost control together with specific actions relating to media spend and contact centre efficiency. – We have also launched several programmes to reduce cost across multiple spend lines including senior management, technology infrastructure, print and mail, and travel and entertainment. – Furthermore, we are investing in technology to digitalise processes through either increasing customer self-service and automation including the use of robotic process automation. Over time, the results of these investments will be to reduce the headcount of the group and to reduce our property footprint. – We set additional cost targets for 2021 disclosed as part of Capital Markets Day in November 2019.

Measure	2019 Achievement
Shared	70%

LTIP outcomes for 2019 (Audited)

LTIP awards are granted in March and August of each year. Each grant is subject to the following performance conditions:

- RoTE (60% weighting) – performance is measured over three financial years starting from the 1 January preceding the March grant; and
- Relative TSR (40% weighting) – performance is measured over a three-year period from the date of grant.

2016 LTIP awards (vesting in 2019)

Awards under the LTIP granted in March and August 2016 vested during 2019. They are subject to relative TSR performance over the three-year period from the date of grant, and RoTE performance in 2016, 2017 and 2018.

Consistent with the regulations, the expected RoTE vesting outcomes for the year ended 31 December 2018 (together with the TSR elements from the 2015 awards) were included in the 2018 single remuneration figure in the 2018 report. The 2018 single remuneration figure has been updated in the 2019 report to reflect the known share price at the actual vesting date (and updated for dividends) for the RoTE portion of the awards. You can find details of this on page 113. The performance outcomes of these elements are included in the table below.

The 2019 single remuneration figure includes the value of the 2016 TSR elements (for which the performance period ended in March and August 2019, and the awards vested shortly after). Details of the targets and performance achieved are set out in the table below.

The Committee was satisfied that the financial and risk underpins were met at the end of the vesting period and therefore the performance achieved against the targets and the vesting of the awards is as follows.

Award	Performance measure	Weighting	Threshold (20% of maximum)	Maximum (100% of maximum)	Actual performance	Achievement	Outcome
March 2016	RoTE (2018 single figure)	60%	14.5%	17.5%	18.5%	100%	60%
	Relative TSR (2019 single figure)	40%	Median	Upper quintile	Below Median	–	–
August 2016	RoTE (2018 single figure)	60%	14.5%	17.5%	18.5%	100%	60%
	Relative TSR (2019 single figure)	40%	Median	Upper quintile	Below Median	–	–

2017 LTIP awards (vesting in 2020)

Awards under the LTIP granted in March and August 2017 will vest during 2020. They are subject to relative TSR performance over the three-year vesting period, and RoTE performance in 2017, 2018 and 2019. The RoTE performance period for these awards ended on 31 December 2019 and performance in respect of this element is set out in the table below. Performance under the relative TSR measure will be assessed at the end of the vesting periods in March 2020 and August 2020 respectively and will be disclosed in the 2020 Directors' Remuneration Report. This is subject to the Committee's satisfaction that the financial and risk underpins have been met at the end of the vesting period.

Consistent with the regulations, the expected RoTE vesting outcomes (together with the TSR elements from the 2016 awards) are included in the 2019 single remuneration figures for the Executive Directors based on the three-month average share price to 31 December 2019. You can find details of this on page 113.

Award	Performance measure	Weighting	Threshold (20% of maximum)	Maximum (100% of maximum)	Actual performance	Achievement	Outcome
March 2017	RoTE (2019 single figure)	60%	15.0%	18.0%	20.03%	100%	60%
	Relative TSR (2020 single figure)	40%	Median	Upper quintile	Performance period not yet complete		
August 2017	RoTE (2019 single figure)	60%	15.0%	18.0%	20.03%	100%	60%
	Relative TSR (2020 single figure)	40%	Median	Upper quintile	Performance period not yet complete		

Summary of the 2019 LTIP single remuneration figure outcomes[1]

		Number of shares awarded (inc. dividends) subject to this performance condition	Percentage vested by reference to performance achieved	Number of shares vested	Total value of shares (inc. dividends) vested £'000
March 2017 LTIP – RoTE[2]	Paul Geddes	136,042	100%	136,042	398
	Mike Holliday-Williams	98,692	100%	98,692	289
August 2017 LTIP – RoTE[2]	Paul Geddes	97,464	100%	97,464	285
	Mike Holliday-Williams	71,746	100%	71,746	210
March 2016 LTIP – TSR	Paul Geddes	99,387	0%	–	–
	Mike Holliday-Williams	50,482	0%	–	–
August 2016 LTIP – TSR	Paul Geddes	105,978	0%	–	–
	Mike Holliday-Williams	55,342	0%	–	–
Total single figure LTIP	Paul Geddes				–
	Mike Holliday-Williams				–

Notes:
1. The August 2016 and both the 2017 LTIP awards for Paul and Mike are pro-rated accordingly (to 9 May 2019, and to 30 June 2019 respectively) and will be disclosed as a payment to past directors in the 2020 and 2021 annual report on remuneration. Paul's and Mike's 2019 single figure disclosure only refers to the March 2016 component of their LTIP, which did not vest.
2. 2017 RoTE elements are based on the three-month average share price to 31 December 2019 of £2.92.

Using shares (Audited)

In receiving a share award, Executive Directors commit not to hedge their exposure to outstanding awards under these plans or in respect of shares they are reporting to the Company within their ownership for the purposes of any share ownership guidelines. They also agree not to pledge as collateral their participation under any of the plans or any shares which they are required to hold in the Company for any purposes, including for share ownership guidelines. There have been no changes to the share interests below since 31 December 2019.

	At 31 December 2019				Share plan interests exercised during the year to 31 December 2019	
	Share plan awards subject to performance conditions[1,2,3]	Share plan awards subject to continued service[1]	Share plan interests vested but unexercised[1]	Shares held outright	Number of options exercised[1]	Share price on date of exercise
Penny James	1,227,561	197,450	–	629,114	705,872	3.559
Tim Harris	356,706	66,157	–	–	–	–

	Interests at end of employments				Share plan interests exercised during the year until end of employments	
	Share plan awards subject to performance conditions [1,2,3]	Share plan awards not subject to performance conditions[1]	Share plan interests vested but unexercised[1]	Shares held outright	Number of options exercised[1]	Share price on date of exercise
Paul Geddes[4]	624,801	343,793	1,230	519,961	292,672	3.626
Mike Holliday-Williams[5]	393,998	204,329	–	393,923	245,532	3.626 2.847

Notes:
1. These awards take the form of nil-cost options over the Company's shares. Awards accrue dividend entitlement from the grant date to the date on which an award vests. Dividends added post-vesting are shown to 31 December 2019 (or end of employment if applicable), but are not realised until exercise.
2. LTIP awards made from August 2017 include an additional two-year holding period before awards may be released.
3. Unvested awards subject to performance conditions represents LTIP awards for which 60% is based on RoTE performance and 40% on relative TSR performance. The exact targets for each award were disclosed in the relevant Annual Report on Remuneration.
4. Paul's employment ended on 31 July 2019.
5. Mike's employment ended on 30 September 2019. Mike exercised shares twice during the year, at a share price of £3.626 and £2.847.

The table below shows the Non-Executive Directors' beneficial interests in the Company's shares[1].

Director	Shares held at 31/12/2019	Shares held at 31/12/18
Michael Biggs	–	–
Danuta Gray	10,000	10,000
Mark Gregory	–	–
Jane Hanson	11,083	11,083
Sebastian James	5,000	5,000
Fiona McBain	–	–
Gregor Stewart	2,925	–
Clare Thompson[2]	44,065	44,065
Richard Ward	–	–

Notes:
1. This information includes holdings of any connected persons, as defined in section 253 Companies Act 2006.
2. Clare Thompson stepped down from the Board on 9 May 2019 and this represents her holding at that date.

Non-Executive Directors (Audited)

Fees were the only remuneration paid to Non-Executive Directors in 2018 and 2019. Non-Executive Directors may also claim for reasonable travel and subsistence expenses, in accordance with the Group's travel and expenses policy, and, where these are classified as taxable by HMRC, they are shown under 'Taxable Benefits' below. The Non-Executive Directors receive no other benefits.

	Fees		Taxable Benefits[2]		Total	
Director[1]	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Michael Biggs	400	400	5	6	405	406
Danuta Gray	110	103	7	4	117	107
Mark Gregory	101	75	0.1	–	101	75
Jane Hanson	120	120	11	10	131	130
Sebastian James	95	95	–	–	95	95
Fiona McBain	83	25	16	2	99	27
Gregor Stewart	115	88	19	4	134	92
Clare Thompson	34	102	–	–	34	102
Richard Ward	120	120	0.1	0.4	120	120

Notes:
1. Non-Executive Directors are not eligible to participate in any of the Group's bonus or share incentive schemes or to join any Group pension scheme.
2. The values shown under 'Taxable Benefits' above comprise the value of taxable travel and subsistence expenses reimbursed by the Company (including any gross-up for tax and National Insurance Contributions due).

CEO pay ratio

In 2018, the Committee chose to adopt early the CEO pay ratio disclosure requirements which would otherwise come into effect in this year's Directors' Remuneration Report. Since then, the Committee have determined that the appropriate methodology to be used in future years is Option A, as the Committee believes this is the most robust approach to use going forward.

The table below compares the 2019 single total figure of remuneration for the CEO with that of the Group employees who are paid at the 25th percentile (lower quartile), 50th percentile (median) and 75th percentile (upper quartile) of its employee population.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option A	86:1	71:1	47:1

The UK employees included are those employed on 31 December 2019 and remuneration figures are determined with reference to the financial year ending on 31 December 2019.

Option A, as set out under the reporting regulations, was used to calculate remuneration for 2019 as we believe that it is the most robust methodology for calculating these figures. The value of each employee's total pay and benefits was calculated using the single figure methodology consistent with the CEO. No elements of pay have been omitted. Where required, remuneration was approximately adjusted to be full-time and full-year equivalent basis based on the employee's average full-time equivalent hours for the year and the proportion of the year they were employed.

As required by the regulations, the CEO single figure used to determine the 2019 pay ratios is based on the sum of the total single figures of remuneration for Paul Geddes and Penny James, but with remuneration in respect of Penny's service as CFO excluded. This gives a total of £2,042,000. Each employee's pay and benefits were calculated using each element of the employee remuneration, on a full-time equivalent basis. No adjustments (other than to achieve a full-time equivalent rate) were made and no components of pay have been omitted.

	25th percentile (P25)	Median (P50)	75th percentile (P75)
Salary	£21,577	£24,988	£37,039
Total pay and benefits	£23,665	£28,894	£43,275

Base salaries of all employees, including our Executive Directors, are set with reference to a range of factors including market practice, experience and performance in role. For reference, the CEO base salary median pay ratio is 32:1. In reviewing the ratios the Committee also noted that the CEO's remuneration package is weighted more heavily towards variable pay (including the AIP and LTIP) than the wider workforce due to the nature of the role, and this means the ratio is likely to fluctuate depending on the performance of the business and associated outcomes of incentive plans in each year.

The Group's employees are fundamental to the Group's strategy and to ensuring a high level of service to our customers. We are proud that the high number of consultants in our customer service centres are employed by the Group (rather than being outsourced) and note that the impact of these lower paid roles is reflected in the ratios above. Further details on the differences between remuneration of Executive Directors and the wider workforce are set out on pages 108 and 109. The Committee is satisfied that these policies drive the right behaviours and reinforces the Group's values which in turn drives the correct culture.

Percentage change in Chief Executive Officer's pay for 2018 to 2019

The table below shows Penny James' year-on-year percentage change in salary, taxable benefits and bonus, compared to the average pay for all other employees. This represents the increase in salary received on promotion from CFO to CEO in May 2019.

	Salary[1]	Benefits[2]	Bonus (including deferred amount)[3]
Chief Executive Officer	11.9%	142.3%	25.1%
All employees (average)	3.6%	11.0%	17.4%

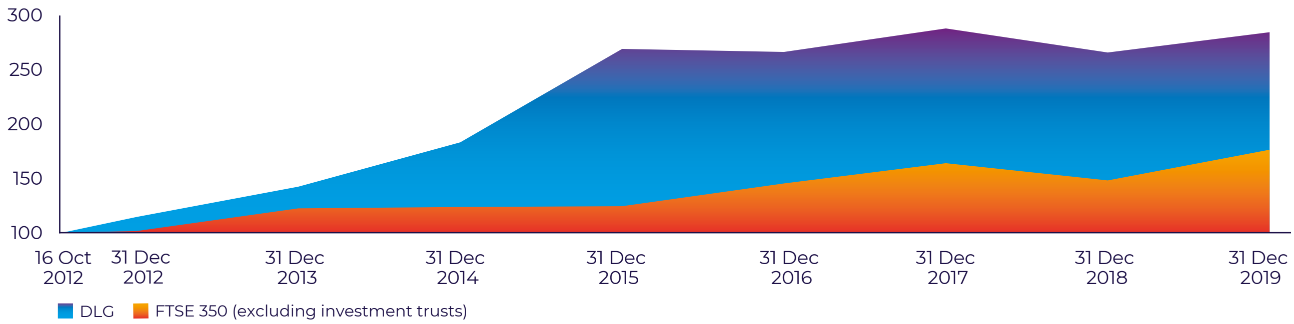
Notes:
1. Based on the change in average pay for employees employed in the year ended 31 December 2019 and the year ended 31 December 2018. The increase for the CEO includes the salary increase received as part of promotion from CFO to CEO.
2. For all employees, there were no changes in benefits provision between 2018 and 2019. For the CEO the increased value of benefits relates to the car service used by the CEO for travelling on journeys from home to office, of which the Group also pays for any associated tax liability that arises on this benefit.
3. For employees other than the CEO, this includes average amounts earned under the AIP, and other variable incentive schemes, including monthly and quarterly incentive schemes operated in certain parts of the Group.

Chief Executive Officer's pay between 2012 and 2019 and historical performance of TSR

The table below shows historical levels of the CEO's pay between 2012 and 2019. It also shows vesting of annual and long-term incentive pay awards as a percentage of the maximum available opportunity. This is presented against the Company's TSR since its shares began trading on the London Stock Exchange in October 2012, against the FTSE 350 Index (excluding investment trusts) over the same period. This peer group is the same used for measuring relative TSR under the LTIP.

Total Shareholder Return

(%)



	2012[1]	2013[1]	2014[1]	2015	2016[2]	2017	2018[3]	2019[4,5]
CEO single figure of remuneration (£'000s)								
Penny James		–	–	–	–	–	–	1902
Paul Geddes	1,908	2,536	5,356	4,795	4,348	4,039	3,250	774
Annual bonus payment (% of maximum)	65%	63%	75%	83%	63%	88%	68%	76%
LTIP vesting (% of maximum)[1]	30%	55%	88%	96%	86%	99%	71%	53%

Notes:
1. Based on actual vesting under the 2010, 2011 and 2012 RBS Group LTIP. The value included in the single figures in respect of these awards is £205,000 in 2012, £728,000 in 2013 and £2,437,428 in 2014.
2. The 2016 single figure and annual bonus payment reflect an adjustment, made in 2019, to the original award of 20% of maximum opportunity related to the Ogden discount rate change.
3. The 2018 single figure has been revised to reflect the actual vesting of the 2016 awards under the LTIP, an increase of £12,167 for Paul.
4. The 2019 single figure reflects the estimated vesting of the RoTE portion of the LTIP granted in March and August 2017. Any shares under the LTIP granted in 2017 will not be delivered until the end of the applicable vesting periods in March and August 2020. However, they have been included in the single figure, as the performance period in respect of the RoTE portion has now been completed. The LTIP vesting figure reflects part of the year for the outgoing CEO, Paul Geddes, only.
5. The 2019 single figure reflects part of the year for the outgoing CEO, Paul Geddes, and the entire year for the newly appointed CEO, Penny James.

Payments for Loss of Office (Audited)

Paul Geddes

As disclosed in last year's report, Paul stepped down from the Board on 9 May 2019 and left the Company on 31 July 2019. Following his cessation as a Director of the Company, Paul's salary, pension and benefits were paid in monthly instalments until the end of his employment as follows:

Salary (£'000)	Benefits (£'000)	Pension (£'000)	Total (£'000)
188	4	47	239

At the time of exit, the Committee exercised its discretion to treat Paul as a 'good' leaver under the Company's incentive schemes. The treatment of his awards was therefore as follows:

AIP

The 2019 AIP was subject to the satisfaction of the gateway criteria and the relevant performance criteria. The award was also pro-rated to reflect the period worked until the end of his employment. 40% of the award will be deferred into shares. Further detail is set out on page 126.

The single figure table on page 113 includes only the value of the AIP based on the period up to 9 May 2019 when Paul stepped down from the Board. As his total 2019 AIP award was pro-rated to the end of his employment (31 July 2019), the additional value of his AIP for 2019 was £249,494 (based on the period from 9 May 2019 to 31 July 2019).

DAIP

The 2017, 2018 and 2019 DAIP awards will continue to vest on their third anniversaries of award and remain subject to all scheme rules, including malus and clawback provisions. Awards will be exercisable for 12 months after they vest.

LTIP

The August 2016, March and August 2017 and March 2018 LTIP awards will be time pro-rated to reflect the period from their date of grant to the end of his employment. The awards will vest on the third anniversary of their grant, subject to their original performance conditions and to all scheme rules, including malus and clawback provisions.

Furthermore, if Paul secures a new role which the Committee consider is comparable with his role with the Group, and which it considers should reasonably compensate him for the loss of any unvested awards, then such unvested awards will be forfeited.

The awards made in August 2017 and March 2018 will be subject to a further two year holding period after vesting.

No LTIP awards have been made to Paul since March 2018.

Paul was granted 215,730 awards under the August 2016 LTIP. As disclosed in last year's report, the RoTE outcome was 100% of maximum. As outlined on page 118, the relative TSR outcome was 0% of maximum. Based on this performance, and pro-rating the original number of shares from the date of grant to the end of employment, a total of 158,967 shares vested on 30 August 2019 with a value of £450,036 based on the share price of £2.831 on that date.

SIP

As the free shares held by Paul under the all-employee Share Incentive Plan ("**SIP**") have been held for more than five years, Paul will be able to withdraw them from the SIP tax-free.

Appointment at QA Limited

On 13 August 2019 Paul's appointment as CEO of QA Limited, a digital education and skills provider was announced. The Committee had been made aware of Paul's new role prior to its formal announcement and considered Paul's leaver status in detail. The Committee determined (in the context of his exit terms) that it was appropriate that Paul remains a good leaver for the following reasons:

- An education provider, QA Limited is not a competitor of the Group; and
- Paul confirmed (via a formal attestation process and statement) that QA Limited does not operate a long-term incentive plan and (as such) will not buyout unvested Direct Line Group awards.

The Committee will continue to monitor his 'good' leaver status and will seek further attestation before the vesting of each future award to ensure this remains appropriate. This is facilitated by the LTIP mitigation clause included in his settlement agreement. All awards will continue to be subject to malus and clawback provisions.

Mike Holliday-Williams

An assessment of senior roles determined that the Managing Director, Personal Lines role was no longer required at the Board level, and that this role would therefore be made redundant. As a result, Mike Holliday-Williams stepped down as an Executive Director on 30 June 2019. He then worked with the Group to ensure a smooth handover until 30 September 2019. It was originally intended that he would then commence a period of garden leave, ending on 30 June 2020, during which time his contractual salary, benefits and pension would be paid. Unvested LTIP awards would continue to accrue during garden leave in line with the Plan rules given his redundancy circumstances. However, the Committee mutually agreed to an earlier employment cessation date of 30 September 2019 following discussions on his potential appointment as CEO of Aegon UK – a Dutch life insurance company that is primarily known as a pensions and life insurance provider. The Committee carefully considered Mike's continued 'good' leaver status in the context of his then anticipated CEO appointment at Aegon and determined that it was appropriate that Mike continues to be treated as a 'good' leaver for the following reasons:

- A life insurance company, Aegon UK is not a competitor of the Group; and
- Mike confirmed that Aegon does not operate a long-term incentive plan and (as such) will not buy out unvested Direct Line Group awards.

Mike's appointment as CEO of Aegon UK was announced on 10 September 2019 and the Committee will continue to monitor his good leaver status and will seek further attestation before the vesting of each future award to ensure this remains appropriate. For example, if the nature of Aegon UK's business operations were to change such that the company would be considered a competitor to the Group, the Committee would again review his leaver status. Like Paul, this is facilitated by the LTIP mitigation clause included in his settlement agreement in line with the ISS guidelines on this. All awards will continue to be subject to malus and clawback provisions.

The Committee had determined its approach to the post-cessation shareholding requirements for the 2020 Policy at the point of Mike's departure. The Committee therefore early adopted post-employment shareholder requirements for Mike ahead of the Policy renewal. Mike is required to maintain his shareholding at exit for a period of two years after he has left the Group.

Given Mike's earlier employment cessation date, Mike's salary, pension and benefits were paid in monthly instalments for a significantly shorter period until the end of his employment on 30 September 2019 as follows:

Salary (£'000)	Benefits (£'000)	Pension (£'000)	Total (£'000)
144	3	22	169

Mike also received a final statutory payment of £4,725 in connection with the cessation of his employment.

Mike was treated as a 'good' leaver under the Company's incentive schemes given his redundancy. The treatment of his awards was therefore as follows:

AIP

The 2019 AIP was subject to the satisfaction of the gateway criteria and the relevant performance criteria. The award was also pro-rated to reflect the period worked until the end of his employment. 40% of the award will be deferred into shares. Further detail is set out on page 126.

The single figure table on page 113 includes only the value of the AIP based on the period up to 30 June 2019 when Mike stepped down from the Board. As his total 2019 AIP award was pro-rated to the end of his employment (30 September 2019) following the handover period, the additional value of his AIP for 2019 was £164,530 (based on the period from 30 June 2019 to 30 September 2019).

DAIP

The 2017, 2018 and 2019 DAIP awards will continue to vest on their third anniversaries of award and remain subject to all scheme rules, including malus and clawback provisions. Awards will be exercisable for 12 months after they vest.

LTIP

The 2017, 2018 and 2019 LTIP awards will be time pro-rated to reflect the period from their date of grant to the end of his employment. The awards will vest on the third anniversary of their grant, remain subject to their original performance conditions and to all scheme rules, including malus and clawback provisions.

Furthermore, if Mike secures a new role which compensates him for the loss of any unvested awards, the Committee has discretion to withhold unvested LTIPs.

The awards made in August 2017, March and August 2018 and March 2019 will be subject to a further two-year holding period after vesting.

No LTIP awards have been made to Mike since March 2019.

Mike was granted 109,568 awards under the August 2016 LTIP. As disclosed in last year's report, the RoTE outcome was 100% of maximum. As outlined on page 118, the relative TSR outcome was 0% of maximum. Based on this performance, a total of 83,013 shares vested on 30 August with a value of £235,010 based on the share price of £2.831 on that date. As the vesting date was before the date his employment ended, no pro-rata reduction was applied to the number of shares.

Payments to Past Directors (Audited)

John Reizenstein (former CFO)

March and August 2016 LTIP

The table below sets out the awards which vested during the year:

Award	Number of share options awarded (inc. dividends)	Vesting proportion (inc. performance and pro-rata)	Number of share options vested	Total value of share options (including dividends) vested (£)
March 2016	150,388	49%	73,504	259,469[1]
August 2016	151,044	44%	66,668	188,737[2]

Notes:
1. Based on closing share price of £3.53 on the vesting date (29 March 2019).
2. Based on closing share price of £2.831 on the vesting date (30 August 2019).

March and August 2017 LTIP

The performance period in respect of the RoTE elements of these awards ended on 31 December 2019 however the performance period in respect of the TSR elements of these awards ends on 26 March 2020 and 28 August 2020. The value of the 2017 LTIP awards vesting for John will therefore be disclosed in the 2020 report.

New Executive Director

On 1 October 2019, Tim Harris joined the Board as an Executive Director and was appointed CFO. Tim's annual salary is £535,000 with a pension allowance of 9% of salary. He also participates in the Group's Annual Incentive Plan up to a maximum of 175% of salary and the Long-Term Incentive Plan up to 200% of salary.

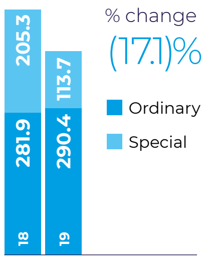
On joining he received an LTIP award over 200% of salary on the same terms as the August 2019 grant (except that the vesting dates will run from the date of grant). This was granted at the annual award level as no separate buyout was made to compensate him for the loss of his 2019 award at his previous employer. Full details of this award is set out on page 126.

In addition, and as disclosed on page 113, he received a one-off award pursuant to listing Rule 9.4.2 to compensate for the loss of LTIP awards made by his former employer. See page 127 for details.

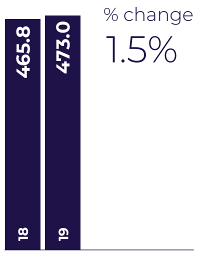
Distribution statement

This chart shows the overall pay expenditure across all Group employees compared with the total dividend value paid to shareholders in 2018 and 2019.

Dividend (£m)



Overall expenditure on pay (£m)



Notes:
1. During 2019 the Company paid special dividends of £113.7million in addition to the regular dividends. Under the dividend policy the Board considers whether to make additional distributions each year alongside the full-year results.
2. There have been no share buybacks since the IPO. The dividends paid information has been taken from note 14 to the consolidated financial statements. The overall expenditure on pay has been taken from note 10 and therefore, consistent with market practice, it has not been calculated in a manner consistent with the single figure in this report.

AGM voting outcomes

The table shows the percentage of shareholders voting for or against, and the percentage of votes withheld, relating to the resolutions to approve the 2018 Directors' Remuneration Report which was put to shareholders at the 2019 AGM on 9 May 2019.

The resolution approving the Directors' Remuneration Report was passed by 93.88% of the votes cast in favour of the resolution.

	For		Against		Number of votes withheld (abstentions)	Percentage of votes withheld (abstentions)
	Number	Percentage	Number	Percentage		
Approval of Directors' Remuneration Report (2019 AGM)	977,430,480	93.88%	63,723,957	6.12%	8,673,354	0.83%
Approval of Directors' Remuneration Policy (2017 AGM)	881,046,703	98.29%	15,349,348	1.71%	32,669,059	3.52%

Shareholdings (Audited)

This table sets out the share ownership guidelines and actual share ownership levels:

Name	Position	Share ownership guideline[1] (% of salary)	Value of shares held at 31 December 2019[2] (% of salary)
Penny James	Chief Executive Officer	200%	293%
Tim Harris	Chief Financial Officer	200%	20%

Notes:
1. Executive Directors are expected to retain all the 'after tax' Ordinary Shares they obtain from any of the Company's share incentive plans until they achieve a shareholding level that is equal to 200% of base salary. From the 2020 AGM, the shareholding level required from the CEO will be equal to 250% of base salary.
2. For these purposes, holdings of Ordinary Shares will be treated as including all vested but unexercised awards, or awards unvested but after the performance period in the holding period, valued on a basis that is net of applicable personal taxes payable on acquiring such Ordinary Shares.

LTIP awards granted during 2019 (Audited)

The table below shows awards granted under the LTIP to Executive Directors in 2019 in the form of nil-cost options.

		Awards granted in 2019 under the LTIP[1]		
Director	Position	Award as % of salary	Number of shares granted	Face value of Awards £
Penny James	Chief Executive Officer	200%	470,097	1,475,000
Tim Harris[2]	Chief Financial Officer	200%	356,706	1,070,000
Mike Holliday-Williams[3]	Former Managing Director, Personal Lines	100%	159,702	562,584

Note:
1. The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £3.5227 in March 2019 and £2.8727 in August 2019.
2. The LTIP awarded to Tim Harris on joining the Group in October 2019 was based on the average share price in the three days prior to grant of £2.9997 in October 2019. The LTIP awarded to Penny James in March 2019 was whilst she was CFO, whereas the August 2019 was awarded to her as CEO.
3. Mike Holliday-Williams was made redundant on 30 June 2019 and therefore did not receive the second LTIP grant in August 2019.

The performance conditions that apply to the LTIP awards granted in 2019 are set out below

	Performance conditions for awards granted in 2019 under the LTIP		
Performance Measure	Proportion of award	Performance for threshold vesting (20%)	Performance for maximum vesting
RoTE	60%	17.5%	20.5%
TSR	40%	Median	Upper quintile

The RoTE targets for awards granted in 2019, applying to 60% of the award, were an average annual RoTE of 17.5% for 20% vesting, 18.5% for 40% vesting and 20.5% for full vesting. A straight-line interpolation occurs from threshold to target, and then from target to maximum performance.

The remaining 40% of each award is based on TSR performance conditions, for which there is a straight-line interpolation between threshold and maximum performance on a ranked basis.

The performance period for the awards granted on 29 March 2019 will end on 31 December 2021 for the RoTE element and 28 March 2022 for the TSR element. The performance period for the awards granted on 30 August 2019 will end on 31 December 2021 for the RoTE element and 29 August 2022 for the TSR element.

The performance period for the LTIP award granted to Tim Harris on 1 October 2019 ends on 31 December 2021 for the RoTE element and 30 September 2022 for the TSR element.

DAIP awards granted during 2019 (Audited)

The table below shows the deferred share awards granted under the DAIP to Executive Directors on 29 March 2019 in respect of the 2018 AIP and the Ogden adjustment in respect of the 2016 AIP (as disclosed in the 2018 Directors' Remuneration Report). Awards will vest after three years subject to continued service and were granted in the form of nil cost options.

		Awards granted in 2019 under the DAIP		Awards granted in 2019 under the DAIP in respect of Ogden adjustment to 2016 AIP	
Director	Position	Value of deferred bonus £	Number of shares granted	Value of deferred bonus £	Number of shares granted
Penny James	Chief Executive Officer	321,300	91,208	–	–
Tim Harris	Chief Financial Officer	–	–	–	–
Paul Geddes	Former Chief Executive Officer	393,028	111,570	110,565	31,386
Mike Holliday-Williams	Former MD, Personal Lines	228,135	64,761	64,179	18,218

Note:
1. The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £3.5227. In accordance with the DAIP rules, dividends in respect of the deferred shares are reinvested in additional shares, which vest when the deferred shares vest.

Buyout awards (Audited)

On joining Tim Harris received an LTIP award over 200% of salary on the same terms as the August 2019 grant (except that the vesting dates will run from the date of grant.) This was granted at the annual award level as no separate buy-out was made to compensate him for the loss of his 2019 award at his previous employer. Full details of this award is set out in the relevant section on the prior page.

The table below details buy-out awards made to Tim in October 2019 pursuant to Listing Rule 9.4.2 . These awards were made to the CFO in October 2019 as compensation for the forfeiture of legacy awards granted by his previous employer, Royal London. The normal vesting dates for the buy-out awards will be the same as for the original awards, but as his previous employer was a non-listed company, the original awards were granted in the form of units rather than shares. Therefore the value of the buy-out awards will be equivalent to 60% of the face value of the original awards. The buy-out awards will be in the form of nil-cost options and subject to normal malus and clawback provisions. The awards will accrue dividend equivalent shares until vesting, as per the terms of the legacy awards.

Grant date	Three-day average share price for grant of awards £	Face value of award £	No. of share options at 1 January 2019	No. of share options granted during the year	No. of share options vested during the year	No. of share options lapsed for performance	No. of dividend shares acquired at vesting	No. of share options exercised	No. of share options held at 31 December 2019	Vesting date
Tim Harris										
01-Oct-19	2.9997	32,325	–	10,776	–	–	–	–	10,776	From 30 June 2020 until 30 June 2022[1]
01-Oct-19	2.9997	166,125	–	55,381	–	–	--	–	55,381	From 30 June 2021 until 30 June 2023[2]
			–	**66,157**	**–**	**–**	**–**	**–**	**66,157**	

Notes:
1. 50% of the award vests on 30 June 2020, 25% of the award vests on 30 June 2021 and the remaining 25% vests on 30 June 2022.
2. 50% of the award vests on 30 June 2021, 25% of the award vests on 30 June 2022 and the remaining 25% vests on 30 June 2023.

Dilution

The Company complies with the dilution levels that the Investment Association guidelines recommend. These levels are 10% in 10 years for all share plans and 5% in 10 years for discretionary plans. This is consistent with the rules of the Company's share plans.

Non-Executive Directors' fees

The current fees for the Chairman and Non-Executive Directors are set out below and were unchanged in 2019.
No changes are anticipated for 2020.

Position	Fees for 2020 £'000
Board Chairman fee	400
Basic Non-Executive Director fee	75
Additional fees	
Senior Independent Director fee	30
Chair of Audit, Board Risk and Remuneration Committees	30
Chair of CSR and Investment Committees	10
Member of Board Committee (Audit, Board Risk or Remuneration)	10
Member of Board Committee (CSR or Nomination)	5

No additional fees are paid for membership of the Investment Committee.

Directors' Remuneration Policy

The following sets out our proposed Directors' policy for the Executive and Non-Executive Directors of the Group. This policy will be put forward for shareholder approval at the 2020 AGM on 14 May 2020 and, if approved, will apply to payments made from that date. Until this time, the policy approved on 11 May 2017 will continue to apply. The main changes in this policy from the 2017 policy have been summarised in the Remuneration Committee Chair's letter above and in the notes to the policy table.

You can find further details regarding the policy's operation for 2020 on page 111.

Policy table

Element and purpose in supporting the Group's strategic objective	Operation

Base salary
– This is the core element of pay that reflects the individual's role and position within the Group
– Staying competitive in the market allows us to attract, retain and motivate high-calibre executives with the skills to achieve our key aims while managing costs
	– Base salaries are typically reviewed annually and set in April of each year, although the Committee may undertake an out-of-cycle review if it determines this to be appropriate
	– When reviewing base salaries, the Committee typically takes the following into account:
	  – level of skill, experience and scope of responsibilities, individual and business performance, economic climate, and market conditions;
	  – the appropriate benchmarking peer group(s) that reflects the Group's size and industry focus, the corresponding market pay range(s) and the relevant positioning within the market pay range(s); and
	  – general base salary movements across the Group
	– The Committee does not follow market data strictly. However, it uses it as a reference point in considering, in its judgement, the appropriate salary level, while regarding other relevant factors, including corporate and individual performance, and any changes in an individual's role and responsibilities
	– The principles for setting base salary are like those applied to other employees in the Group. However, the specific benchmarking groups used to review external market relativities may differ across employee groups
	– Base salary is typically paid monthly

Pension – To remain competitive within the market place – To encourage retirement planning and retain flexibility for individuals	– Pension contributions are paid only in respect of base salary – Executive Directors are eligible to participate in the defined contribution pension arrangement or alternatively they may choose to receive a cash allowance in lieu of pension – The Executive Directors' pension will be set in line with the pension level received by the majority of the employee population
Benefits – A comprehensive and flexible benefits package is offered, emphasising individuals being able to choose the combination of cash and benefits that suits them	– Executive Directors receive a benefits package generally set by reference to market practice in companies of a similar size and complexity. Benefits currently provided include a company car, use of a car or car allowance, private medical insurance, life insurance, health screening, and income protection – The Committee may periodically amend the benefits available to some or all employees. The Executive Directors are eligible to receive such additional benefits as the Committee considers appropriate having regard to market norms – In line with our approach to all employees, certain Group products are offered to Executive Directors at a discount – Executive Directors are eligible to participate in any of the employee share plans operated by the Company, in line with HMRC guidelines (where relevant) and on the same basis as other eligible employees. Currently, this includes HMRC-approved SIP, which has been used to provide an award of free shares to all employees (including Executive Directors) and permits employees to purchase shares with a corresponding matching award – Where an Executive Director is required to relocate to perform their role, they may be offered appropriate relocation benefits. The level of such benefits would be determined based on the circumstances of the individual and typical market practice and be consistent with the relocation arrangements available to the workforce generally. In normal circumstances, relocation benefits will only be paid for a period of 12 months

Maximum opportunity	Performance measures
– When determining salary increases, the Committee will consider the factors outlined in this table under 'Operation'	– Not applicable
– The maximum pension percentage contributions are set at a level that is consistent with that applied to the majority of employees	– Not applicable
– The costs of benefits provided may fluctuate from year to year, even if the level of provision has remained unchanged – The Committee will monitor the costs in practice and ensure the overall costs do not increase by more than the Committee considers to be appropriate in all the circumstances – Additionally, the limit for any employee share plans in which the Executive Directors participate will be in line with the caps permitted by HMRC from time to time – The Executive Directors may be entitled to retain fees received for any directorships held outside the Group – Similarly, while not benefits in the normal usage of that term, certain other items such as hospitality or retirement gifts may also be provided	– Not applicable

Element and purpose in supporting the Group's strategic objective	Operation
AIP – To motivate executives and incentivise delivery of performance over a one-year operating cycle	– The AIP is measured based on performance over the financial year against performance targets which the Committee considers to be appropriate – Clawback provisions apply to the AIP. These are explained in the notes to the policy table
DAIP – To enable a stronger focus and alignment with the short to medium-term elements of our strategic aims	– For Executive Directors, at least 40% of the AIP is deferred into shares under the DAIP – This typically vests three years after grant (with deferred awards also capable of being settled in cash at the discretion of the Committee, for example, when it gives rise to legal difficulties to settle in shares). The remainder of the award is paid in cash following the year-end – The Committee will keep the percentage deferred and terms of deferral under review This will ensure levels are in line with regulatory requirements and best practice and may be changed in future years but will not, in the Committee's view, be changed to be less onerous overall – Dividends will accrue during the deferral period – Malus and clawback provisions apply to the cash and deferred elements. These are explained in the notes to the policy table
LTIP – Aligning executives' interests with those of shareholders to motivate and incentivise delivering sustained business performance over the long term – To aid retaining key executive talent long term	– Awards will typically be made in the form of nil-cost options or conditional share awards, which vest to the extent performance conditions are satisfied over a period of at least three years. Under the Plan rules, awards may also be settled in cash at the discretion of the Committee. This may be appropriate, for example, if legal difficulties arise with settling in shares – Vested options will remain exercisable for up to the tenth anniversary of grant – Malus and clawback provisions apply to the LTIP. These are explained in the notes to the policy table – Awards under the LTIP may be made at various times during the financial year – Executive Directors will be subject to an additional two-year holding period following the three-year vesting period, during which time awards may not normally be exercised or released – During the additional holding period the awards will continue to accrue dividends. Following the holding period awards will cease to accrue dividends if not exercised
Share ownership guidelines – To align the interests of Executive Directors with those of shareholders	– Executive Directors are expected to retain all the ordinary shares vesting under any of the Company's share incentive plans, after any disposals for paying applicable taxes, until they have achieved the required shareholding level; unless such earlier sale, in exceptional circumstances, is permitted by the Chairman – Shares considered will include those held by the director and their connected persons, vested awards subject to holding requirements and unvested awards not subject to performance conditions (on a net of tax basis) – Executive Directors are also expected to retain an equivalent level of shareholding post their employment for a period of two years – In exceptional circumstances, earlier sale is permitted subject to the Chairman's discretion

Maximum opportunity	Performance measures
– Threshold and maximum bonus levels for Executive Directors are set by considering annual bonus practice throughout the organisation and referring to practice at other insurance and general market comparators – Outcomes for performance between threshold and maximum will be determined on a straight-line basis – The maximum bonus opportunity under the AIP is 175% of base salary per year. The current maximum bonus opportunity applying for each individual Executive Director is shown in the statement of implementation of policy – No more than 10% of the bonus is paid for threshold performance – However, the Committee retains flexibility to amend the pay-out level at different levels of performance for future bonus cycles. This is based on its assessment of the level of stretch inherent in the set targets, and the Committee will disclose any such determinations appropriately	– Performance measures may be financial and non-financial (Group, divisional, business line or individual) – Each year, at least 50% of the bonus is based on financial measures. The remainder of the bonus may be based on a combination of, for example, strategic, operational, shared or individual performance measures – The Committee sets targets at the beginning of each financial year – Before any payment can be made, the Committee will perform an additional gateway assessment (including in respect of any risk concerns). This will determine whether the amount of any bonus is appropriate in view of facts or circumstances which the Committee considers relevant. This assessment may result in moderating (positively or negatively) each AIP performance measure, subject to the individual maximum bonus levels – The AIP remains a discretionary arrangement. In line with the Code requirements, the Committee maintains discretion to override formulaic outcomes where those outcomes are not reflective of the overall Group performance
	– Subject to continued employment
– The maximum LTIP award in normal circumstances is 200% of salary – Awards of up to 300% of base salary are permitted in exceptional circumstances, relating to recruiting or retaining an employee, as determined by the Committee	– The Committee will determine the performance conditions for each award made under the LTIP, measuring performance over a period of at least three years with no provision to retest – Performance is measured against targets set at the beginning of the performance period, which may be set by referring to the time of grant or financial year – Awards vest based on performance against financial and/or such other (including share return) measures, as set by the Committee, to be aligned with the Group's long-term strategic objectives. The Committee may alter the precise targets used for future awards – Not less than 50% of the award shall be subject to one or more financial measures, and not less than 25% shall be subject to a relative TSR measure – Awards will be subject to a payment gateway, such that the Committee must be satisfied that there are no material risk failings, reputational concerns or regulatory issues – 20% of the award vests for threshold performance, with 100% vesting for maximum performance. The Committee reserves the right in respect of future awards to lengthen (but not reduce) any performance period and/or amend the terms of any holding period; however, there is no intention to reduce the length of the holding period – In line with the Code requirements, the Committee maintains discretion to override formulaic outcomes where those outcomes are not reflective of the overall Group performance
– 250% of salary for the CEO and 200% for the CFO. – The Committee reserves the discretion to amend these levels in future years	– Not applicable

Notes to the policy table

Changes from 2017 Policy

The main changes from the 2017 Policy are summarised below and are primarily driven by the new Code requirements on remuneration and good governance practice:

- Alignment of all Executive Directors' pension percentage with that of the majority of the employee population, in line with the requirements of the new Code.
- Determination of bonus outcomes on a straight-line basis between threshold and maximum to further simplify the remuneration structure and achieve consistency with the LTIP.
- Increasing the level of share ownership guidelines from 200% to 250% of salary for the CEO to further strengthen the alignment with shareholders.
- Introduction of the post-employment shareholding requirements in line with the requirements of the new Code.
- Reviewed malus and clawback trigger events to ensure they continue to reflect the guidance set out by the FRC and remain consistent with emerging best practice in this area. Enabling the Committee to apply discretion and override formulaic outcomes, in line with the requirements of the new Code.

Malus and clawback

Malus (reducing or forfeiting unvested LTIP awards, DAIP awards or un-exercised options in the holding period) and clawback (the Group's ability to claim repayment of paid amounts) provisions apply to the AIP (cash and deferred element) and LTIP (after options have been exercised) if, in the Committee's opinion, any of the following has occurred:

- There has been a material misstatement of the Group's financial results, which has led to an overpayment
- The assessment of performance targets is based on an error, or inaccurate or misleading information or assumptions
- Circumstances warranting summary dismissal in the relevant period
- A material failure of risk management
- An event during the relevant period which has, in the view of the Committee, sufficiently and adversely affected the Company's reputation so as to justify such action

Amounts in respect of awards under both plans (LTIP and DAIP) may be subject to clawback for up to four years post payment or vesting / exercise of options (with such period lengthened if there is an investigation as to whether relevant circumstances exist) as appropriate. Consistent with developments in the market generally, the provisions clarify that any recoupment is out of the post-tax amount, except to the extent that the participant recovers tax from the relevant tax authority.

Exercise of discretion

In line with market practice, the Committee retains discretion relating to operating and administering the AIP, DAIP and LTIP. This discretion includes, but is not limited to:

- timing of awards and payments;
- size of awards, within the overall limits disclosed in the policy table;
- determination of vesting;
- ability to override formulaic outcomes;
- treatment of awards in the case of change of control or restructuring;
- treatment of leavers within the rules of the plan, and the termination policy shown on page 136; and
- adjustments needed in certain circumstances, for example, a rights issue, corporate restructuring or special interim dividend.

While performance conditions will generally remain unchanged once set, the Committee has the usual discretions to amend the measures, weightings and targets where the original conditions would cease to operate as intended. Any such changes would be explained in the subsequent annual remuneration report and, if appropriate, be the subject of consultation with the Company's major shareholders. Consistent with best practice, the LTIP rules also provide that any such amendment must not make, in the view of the Committee, the amended condition materially less difficult to satisfy than the original condition was intended to be before such event occurred.

Adjusting the number of shares under deferred bonus and LTIP

The number of shares subject to deferred bonus and LTIP awards may be increased to reflect the value of dividends that would have been paid in respect of any dates falling between the grant of awards and the date of vesting (or, if later, the expiry of any holding period) of awards.

The terms of incentive plan awards may be adjusted in the event of a variation of the Company's share capital, demerger or a similar event that materially affects the price of the shares, or otherwise in accordance with the plan rules.

Remuneration payments agreed before appointment to the Board

The Committee reserves the right to make any remuneration payments and payments for loss of office (including, where relevant, exercising any discretions available to it connected with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) provided the terms of the payment were consistent with any shareholder-approved Directors' remuneration policy in force at the time they were agreed; (ii) at a time when the relevant individual was not a Director of the Group and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes, 'payments' include pension arrangements and the Committee satisfying awards of variable remuneration. Relating to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Selecting performance measures and targets

Annual Incentive Plan

The Committee has selected the AIP performance measures to incentivise Executive Directors to achieve financial targets for the year, and specific strategic objectives. These measures are aligned with the key performance indicators we use as a business to monitor performance against our strategic priorities, as shown on pages 26 and 27.

The relevant performance targets are set at or following the start of each year to ensure the Executive Directors focus appropriately on the key objectives for the next 12 months.

Long-Term Incentive Plan

The goal of our strategy is to provide long-term sustainable returns for our shareholders. Therefore, for 2020 (as in prior years), awards under the LTIP will continue to be subject to performance against RoTE (an important KPI to the business) and relative TSR targets. The Committee believes this combination provides a balanced approach to measuring Group performance over the longer term by using a stated financial KPI that incentivises individuals to keep growing the business efficiently, and a measure based on relative shareholder return. This combination of measures appropriately balances absolute and relative returns.

The performance measures are set with reference to internal and external forecasts and the Group's strategic targets.

As set out in the policy implementation table on page 111, different performance measures may apply for awards granted in future years.

Differences in remuneration policy from broader employee population

To ensure that the arrangements in place remain appropriate, when determining Executive Directors' remuneration, the Committee accounts for pay throughout the Group.

The Group has one consistent reward policy for all levels of employees. Therefore, the same reward principles guide reward decisions for all Group employees, including Executive Directors. However, remuneration packages differ to account for appropriate factors in different areas of the business:

- **AIP** – approximately 3,550 employees participate in the AIP. The corporate performance measures for all employees are consistent with those used for Executive Directors, although the weighting. Attributable to those factors may differ. The Group's strategic leaders (approximately 60 employees) also receive part of their bonus in Company shares deferred for three years.
- **Incentive awards** – approximately 3,800 employees, excluding Executive Directors, participate in a function or team specific incentive plan which assesses personal performance over a monthly period. These incentive awards may pay out monthly or quarterly.
- **LTIP** – our strategic leaders participate in the LTIP, currently based on the same performance conditions as those for Executive Directors.
- **Restricted Shares Plan ("RSP")** – RSP awards are used on a limited basis across the Group to help recruit and retain critical staff, and for talent management. Executive Directors do not receive grants under the RSP (with the exception of buyout awards which may be granted under the RSP).
- **All employee share plans** – the Committee considers it important for all employees to have the opportunity to become shareholders in the Group. The HMRC-approved SIP has operated since 2013, and, in addition, the Group has made periodic awards of free shares. These awards have no performance criteria attached and vest on the third anniversary of the award grant date, subject to the completion of three years continuing employment. At year-end, approximately 3,900 employees throughout the Group had signed up to these schemes with 8,400 holding free shares in the Company.
- **Pension and benefits** – the Company contributes on average 9% to the defined contribution pension scheme without any requirement for an employee contribution. Employees may also opt for a proportion or all of this to be paid as cash rather than into the pension scheme.

Remuneration policy for Non-Executive Directors

Element	Purpose and link to strategy	Approach to setting fees and cap	Other items
Chairman and Non-Executive Directors' fees	To enable the Group to recruit and retain Non-Executive Directors of the highest calibre, at an appropriate cost	– Non-Executive Directors are paid a basic annual fee Additional fees may be paid to Non-Executive Directors who chair a Board Committee, sit on a Board Committee, and for the SID to reflect additional responsibilities, as appropriate. The level of fees for 2020 is shown in the Report on Remuneration – The fees paid to the Chairman include all Board and Committee membership fees, and are determined by the Remuneration Committee – Non-Executive Directors may receive certain expenses, including the reimbursement of travel expenses and accommodation or similar which, consistent with general market practice, will be grossed-up for any tax arising on such expenses (where the tax on those expenses is paid by the Company). It is the Committee's view that expenses (which are deemed to be benefits) are covered under the aggregate cap set by the Articles of Association and that this cap is not restricted to fees only – Similarly, while not benefits in the normal usage of that term, certain other items such as hospitality or retirement gifts may also be provided – Fee levels for Non-Executive Directors are reviewed and may be increased at appropriate intervals by the Board, with affected individual Directors absenting themselves from deliberations – In setting the level of fees, the Company accounts for the role's expected time commitment, and fees at other companies of a similar size, sector and/or complexity to the Group – Fees (including expenses which are deemed to be benefits) for Non-Executive Directors are subject to an aggregate cap in the Articles of Association (currently £2,000,000 per annum). The Company reserves the right to change how the elements and weightings within the overall fees are paid, and to pay a proportion of the fees in shares within this limit	– The Non-Executive Directors are not entitled to receive any compensation for loss of office, other than fees for their notice period – They do not participate in the Group's bonus, employee share plans or pension arrangements, and do not receive any employee benefits

Recruitment remuneration policy

To strengthen the management team and secure the skills to deliver the Group's strategic aims, the recruitment remuneration policy aims to give the Committee enough flexibility to secure the appointment and promotion of high-calibre executives.

Principles for recruitment remuneration

1. In terms of the principles for setting a package for a new Executive Director, the starting point for the Committee will be to look to the policy for Executive Directors as set out in the policy table and structure a package in accordance with that policy.
2. The Company would normally disclose clearly the terms of any recruitment package on announcing the appointment of any new Executive Director.
3. For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment, as appropriate.
4. For external and internal appointments (including a major change in role), the Committee may agree that the Company will meet certain relocation expenses, legal and other fees involved in negotiating any recruitment, or pay expatriate benefits in line with the policy table, as appropriate.
5. Where it is necessary to make a recruitment-related pay award to an external candidate, the Company will not pay more than necessary, in the view of the Committee, and will in all cases seek to deliver any such awards under the terms of the existing incentive pay structure.
6. All such awards for external appointments, whether under the AIP, LTIP or otherwise, to compensate for awards forfeited on leaving their previous employer will be determined considering the commercial value of the amount forfeited, and the nature, time horizons and performance requirements of those awards. The Committee's starting point will be to ensure that any awards being forfeited which remain subject to outstanding performance requirements (other than where substantially complete) are bought out with replacement requirements, and any awards with service requirements are bought out with similar terms. However, exceptionally, the Committee may relax those obligations where it considers it to be in the interests of shareholders and those factors are, in the Committee's view, equally reflected in some other way, for example through a significant discount to the face value of the awards forfeited.

The elements of any package for a recruit, including the maximum level of variable pay, but excluding buy-outs, will be consistent with the Executive Directors' remuneration policy described in this report, as modified by the above statement of principles where appropriate. The Committee reserves the right to avail itself of the current Listing Rule 9.4.2 (being the rule which permits exceptional recruitment awards on terms different from any shareholder approved ongoing plans) if needed to facilitate, in exceptional circumstances, recruiting an Executive Director. Awards granted under this provision will only be used for buy-out awards.

Any commitments made before promotion to the Board (except when made in connection with the appointment to the Board) can continue to be honoured under the policy, even if they are not consistent with the policy prevailing when the commitment is fulfilled.

In exceptional circumstances, the initial notice period may be longer than the Group's 12-month policy up to a maximum of 24 months. However, this will reduce by one month for every month served, until it has reduced to 12 months in line with the Group's policy position.

The remuneration policy for the Chairman and Non-Executive Directors as set out earlier in this report will apply relating to any recruitments to those positions.

Service contracts

Subject to the discretion noted above for new recruits, it is the Group's policy to set notice periods for Executive Directors of no more than 12 months (by the Director or by the Company). The Executive Directors' service agreements summary is as follows:

Director	Effective date of contract	Notice period (by Director or Company)	Exit payment policy
Penny James	1 November 2017	12 months	Base salary, benefits & pension only for unexpired portion of notice period to be paid in a lump sum or monthly instalments, in which case, instalments are subject to mitigation if an alternative role is found.
Tim Harris	1 October 2019	12 months	Base salary, benefits & pension only for unexpired portion of notice period to be paid in a lump sum or monthly instalments, in which case, instalments are subject to mitigation if an alternative role is found.

There are no further obligations which could give rise to a remuneration or loss of office payment other than those set out in the remuneration policy table and the termination policy overleaf.

Termination policy

It is appropriate for the Committee to retain discretion to consider the termination terms of any Executive Director, having regard to all the relevant facts and circumstances available to them at the time. A Director is deemed a 'good' leaver if the following circumstances are met:

- **AIP and LTIP** – death, injury, disability, ill-health, redundancy, retirement, the sale of the individual's employing company or business out of the Group, or in such other circumstances as the Committee determines
- **DAIP** – for any reason other than summary dismissal or resignation. However, the Committee may determine that, in the case of resignation only, awards may be retained

The table below sets out the general position. However, it should be noted that the Committee, consistent with most other companies, has reserved a broad discretion to determine whether an Executive Director should be categorised as a 'good' leaver, and that discretion forms part of the approved policy.

Incentives	If a leaver is a 'bad' leaver, for example leaving through resignation or summary dismissal	If a leaver is deemed to be a 'good' leaver	Other events, for example, change in control of Company
Annual Incentive Plan	No awards made	Bonus based on performance, paid at the normal time and on a time pro-rata basis, unless the Committee determines otherwise	Bonus determined on such basis as the Committee considers appropriate and paid on a time pro-rata basis, unless the Committee determines otherwise
Deferred Annual Incentive Plan	All awards will lapse	Deferred shares typically vest on the normal vesting date, although the Committee reserves discretion to accelerate vesting. In the case of the participant's death or other exceptional circumstances, awards may vest immediately	Awards will vest in full. In the event of a demerger or similar event, the Committee may determine that awards vest on the same basis
Long-Term Incentive Plan	All unvested awards will lapse During the holding period, awards cease to be contingent on employment and, therefore, will not lapse (except on dismissal for cause) but may be subject to malus	Awards will vest on the normal vesting date (plus any applicable holding period, unless the Committee determines otherwise) subject to performance and, unless the Committee determines otherwise, time pro-rating. In exceptional circumstances, as determined by the Committee, for example, in the case of the participant's death, awards may vest immediately	Awards will vest subject to applying the performance conditions and, unless the Committee determines otherwise, time pro-rating. The Committee may determine that such awards shall not vest early and, instead, be rolled over into replacement awards (subject to approval for the acquiring company) granted on a similar basis, but over shares in the acquirer or another company or settled in cash or other securities. In the event of a demerger or similar event, the Committee may determine that awards vest on the same basis

Service agreements for all Executive Directors provide that they are not eligible to receive any enhanced redundancy terms which may be offered by the Group from time to time. Their rights to a statutory redundancy payment are not affected.

Depending on the circumstances of departure, an Executive Director may have additional claims under relevant employment protection laws, and the Company may contribute to any legal fees involved in agreeing a termination. It may also agree to incur certain other expenses such as providing outplacement services. Any such fees would be disclosed as part of the detail of any termination arrangements. The Committee reserves the right to make any other payments connected with a Director's cessation of office or employment, where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment.

Non-Executive Director letters of appointment

Non-Executive Directors have letters of appointments (as opposed to service contracts) and are appointed for a three-year term which may be extended by mutual agreement. In common with the Executive Directors, all Non-Executives are subject to annual re-election by shareholders.

The Directors may appoint additional members to join the Board during the year. Directors appointed in this way will be subject to election by shareholders at the first AGM after their appointment. In subsequent years, the Directors who wish to remain on the Board must submit themselves for re-election at each AGM.

Terms and conditions of appointment of all the Directors are available for anyone to inspect at the Company's registered office and AGM.

The Chairman and Non-Executive Directors have notice periods of three months from either party which do not apply in the case of a Director not being re-elected by shareholders or retiring from office under the Articles of Association. Other than fees for this notice period, the Chairman and Non-Executive Directors are not entitled to any compensation on exit.

External directorships

The Company encourages Executive Directors to accept, subject to the Chairman's approval, an invitation to join the board of another company outside the Group in a non-executive capacity, recognising the value of such wider experience. In these circumstances, they are permitted to retain any remuneration from the non-executive appointment. Executive Directors are generally limited to accepting one external directorship but may accept more with the Chairman's prior approval.

Considering employment conditions elsewhere in the Group

As explained elsewhere in this report, the Committee reviews the overall pay and bonus decisions in aggregate for the wider Group, and, therefore, considers pay and conditions in the wider Group in determining the Directors' Remuneration Policy and the remuneration payable to Directors. Through the CEO and other senior management, the Committee may receive input from employee groups in the Group, such as the Employee Representative Body, as required.

In accordance with prevailing commercial practice, the Committee did not consult with employees in preparing the Directors' Remuneration Policy.

Considering shareholders' views

The Committee takes into account the approval levels of remuneration related matters at the AGM in determining whether the current Directors' Remuneration Policy remains appropriate. Furthermore, we consulted with our largest shareholders and proxy voting agencies on the proposed changes to our Directors' Remuneration Policy. In light of the positive feedback received, we did not make any changes to the proposals outlined in our consultation letter. We completed the consultation by providing a summary of the responses to some of the key queries we received.

When setting the remuneration policy, the Committee, consistent with its approach of operating within the highest standards of corporate governance, takes significant account of guidelines issued by the leading shareholder and proxy agencies.

The Committee also seeks to build an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and, particularly, relating to any changes to the Company's executive pay arrangements.

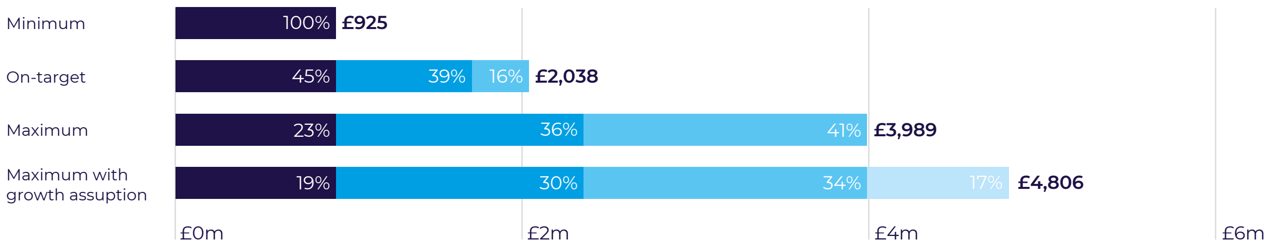
The Committee is satisfied that no element of the Directors' Remuneration Policy conflicts with the Group's approach to environmental, social and governance matters.

Performance scenarios

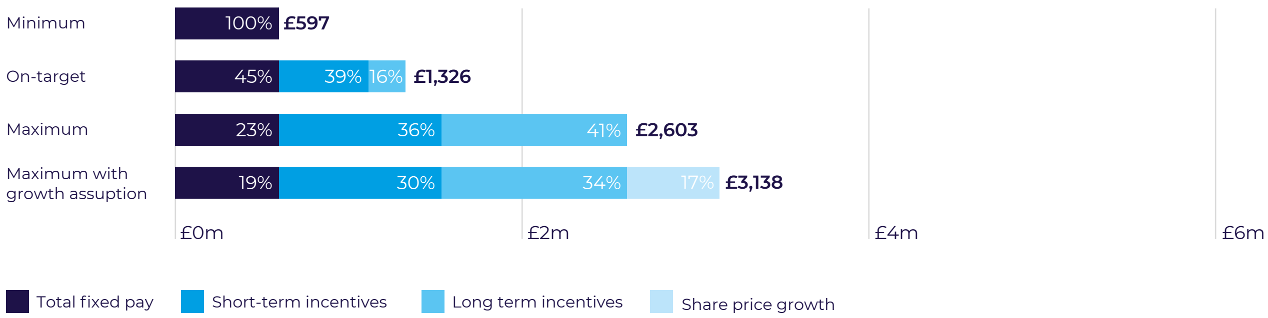
The Directors' remuneration policy has been designed to ensure that a significant proportion of total remuneration is delivered as variable pay and, therefore, depends on performance against our strategic objectives.

The Committee has considered the level of remuneration that may be paid under different performance scenarios to ensure it would be appropriate in each situation, in the context of the performance delivered and the value created for shareholders.

Penny James
(CEO)



Tim Harris
(CFO)



The elements of remuneration included in each scenario are as follows:

Minimum

Consists of fixed remuneration only (that is, base salary, benefits and pension):
- Base salary is the salary to be paid from 1 April 2020
- Benefits measured as benefits paid in 2019 as set out in the single figure table on page 113
- Pension measured as the defined contribution or cash allowance in lieu of Company contributions, as a percentage of salary

On-target

Based on the on-target remuneration receivable (excluding share price appreciation and dividends):
- Fixed remuneration as above
- AIP – as there is no target, for the purposes of this illustration, taken as vesting half-way between threshold and maximum (55% of maximum)
- LTIP – consists of the threshold level of vesting (20% vesting)

Maximum

Based on the maximum remuneration receivable (excluding share price appreciation and dividends):
- Fixed remuneration as above
- AIP – consists of the maximum bonus (175% of base salary)
- LTIP – consists of the face value of awards (200% of base salary)

Maximum with growth assumption

Based on the above plus a 50% share price growth assumption

The Board reviewed and approved this policy on 2 March 2020.

The Directors present their report for the financial year ended 31 December 2019.

You can find the forward-looking statements disclaimer on page 229 and statements regarding stakeholder engagement, including information on engagement with employees and how the Directors foster relationships with suppliers, customers and others on pages 88 and 89.

Strategic report

The Company's Strategic report is on pages 1 to 73. It includes the following information that would otherwise need to be disclosed in this Directors' report:

Subject	Pages
Use of financial instruments	34, 35 and 41
Important events since the financial year-end	10 to 19
Likely future developments in the business	19
Employee involvement	63 to 65
Research and development	22, 23 and 43
Greenhouse gas emissions	71

Corporate governance statement

The FCA's Disclosure Guidance and Transparency Rules require a corporate governance statement in the Directors' report to include certain information. You can find information that fulfils the corporate governance statement's requirements in this Directors' report; the Corporate Governance report; the Committee reports; and the Directors' remuneration report, on pages 74 to 138, all of which is incorporated in the Directors' report by reference.

Disclosure of information under Listing Rule 9.8.4R

In accordance with Listing Rule 9.8.4C, the table below sets out the location of the information required to be disclosed, where applicable.

Subject	Page
Interest capitalised by the Group	None
Unaudited financial information	None
Long-term incentive plan involving one Director only	Not applicable
Directors' waivers of emoluments	Not applicable
Directors' waivers of future emoluments	Not applicable
Non pro-rata allotments for cash (issuer)	Not applicable
Non pro-rata allotments for cash (major subsidiaries)	None
Listed company is a subsidiary of another company	Not applicable
Contracts of significance involving a Director	Not applicable
Contracts of significance involving a controlling shareholder	Not applicable
Details of shareholder dividend waivers	140
Controlling shareholder agreements	Not applicable

Dividends

The Board recommends a final dividend of 14.4 pence per share to shareholders. Subject to shareholder approval at the Company's 2020 AGM, this will become payable on 21 May 2020 to all holders of Ordinary Shares on the Register of members at close of business on 14 April 2020.

The final dividend resolution provides that the Board may cancel the dividend and, therefore, payment of the dividend at any time before payment, if it considers it necessary to do so for regulatory capital purposes. You can find detailed explanations about this, as well as a proposed amendment to the Articles of Association regarding the cancellation of dividends by the Board in the Notice of AGM 2020.

You can find further details regarding dividends paid during 2018 and 2019; in the Finance review on page 29 and in note 14 to the consolidated financial statements on page 188. You can also find information on dividend and capital management, including the share buyback programme in the Finance review on pages 35 to 37.

Directors

You can find the current Directors' biographies on pages 76 to 78. All Directors will retire and be submitted for election or re-election at the 2020 AGM. This is in accordance with the Code and the Articles of Association of the Company, which govern appointing and replacing Directors.

The Directors listed on pages 76 to 78 were the Directors of the Company throughout the year apart from: Tim Harris, who was appointed as a Director on 1 October 2019; Paul Geddes and Clare Thompson who retired from the Board on 9 May 2019 and Mike Holliday-Williams who stepped down from the Board on 30 June 2019.

The Company's Articles of Association set out the Directors' powers. You can view these on the Company's website at www.directlinegroup.co.uk. The Directors' powers are also subject to relevant legislation and, in certain circumstances, authority from the Company's shareholders. You can find details of the Directors' remuneration, service contracts, employment contracts and interests in the shares of the Company in the Directors' remuneration report on pages 106 to 138.

The Articles of Association of the Company permit it to indemnify the Company's officers, and officers of any associated company, against liabilities arising from conducting Company business, to the extent permitted by law. As such, the Company has executed deeds of indemnity for each Director's benefit, regarding liabilities that may attach to them in their capacity as Directors of the Company or associated companies.

These indemnities are qualifying third-party indemnities as defined by section 234 of the Companies Act 2006. No amount was paid under any of these indemnities during the year. The Company maintains directors' and officers' liability insurance. This provides appropriate cover for legal actions brought against its Directors. The Company has also provided the Directors of DLG Pension Trustee Limited with qualifying pension scheme indemnities. This is in accordance with section 235 of the Companies Act 2006. DLG Pension Trustee Limited acts as trustee for two of the Company's occupational pension schemes.

Secretary

Roger Clifton is the Company Secretary of Direct Line Insurance Group plc. He can be contacted at the Company's Registered Office, details of which are on page 230.

Share capital

The Company has a premium listing on the London Stock Exchange. As at 31 December 2019, the Company's share capital comprised 1,375,000,000 fully paid Ordinary Shares of 10 $^{10}/_{11}$ pence each.

At the Company's 2019 AGM, the Directors were authorised to:

- allot shares in the Company or grant rights to subscribe for, or convert any security into shares, up to an aggregate nominal amount of £50,000,000 and to allot further shares up to an aggregate nominal amount of £50,000,000, for the purpose of a rights issue;
- allot shares having a nominal amount not exceeding in aggregate £7,500,000 for cash, without offering the shares first to existing shareholders in proportion to their holdings;
- allot additional shares having a nominal amount not exceeding in aggregate £7,500,000 for the purposes of financing a transaction which the Board of the Company determines to be an acquisition or other capital investment, without offering the shares first to existing shareholders in proportion to their holdings;
- make market purchases of up to 137,500,000 shares in the Company, representing 10% of the Company's issued share capital at the time; and
- allot shares (with the disapplication of pre-emption rights) up to an aggregate nominal amount of £23,250,000 in relation to the issue of Solvency II Restricted Tier Instruments.

To date, the Directors have not used these authorities. At the 2020 AGM, shareholders will be asked to renew these authorities. The Company has not held any shares in treasury during the period under review. You can find out more about the Company's share capital and shares under option as at 31 December 2019 in notes 30 and 36 of the consolidated financial statements.

Under the Company's Share Incentive Plan, Trustees hold shares on behalf of employee participants. The Trustees will only vote on those shares and receive dividends that a participant beneficially owns, in accordance with the participant's wishes. An Employee Benefit Trust also operates. The Trustee of this has discretion to vote on any shares it holds as it sees fit, except any shares participants own beneficially; in which case, the Trustee will only vote on such shares as per a participant's instructions.

The Trustee of the Employee Benefit Trust has waived its right to dividends on all shares within the Trust. You can find out more about the number of shares held by the employee share plan trusts in note 36 on page 204. The Company is only aware of the dividend waivers and voting restrictions mentioned above.

Shareholder voting rights and restrictions on transfer of shares

All the Company's issued Ordinary Shares rank equally in all respects. The Company's Articles of Association set out the rights and obligations attaching to the Company's Ordinary Shares.

Employees of the Company and Directors must conform with the EU Market Abuse Regulation and the Company's share dealing rules. These rules restrict particular employees' and Directors' ability to deal in the Company's shares at certain times, and require the employee or Director to obtain permission to deal before doing so. Some of the Company's employee share plans also include restrictions on transferring shares while the shares are held within the plans.

Each general meeting notice will specify a time, not more than 48 hours before the time fixed for the meeting (which may exclude non-working days), for determining a shareholder's entitlement to attend and vote at the meeting. To be valid, all proxy appointments must be filed at least 48 hours before the time of the general meeting.

Where the Company has issued a notice under section 793 of the Companies Act 2006, which is in default for at least 14 days, the person(s) interested in those shares shall not be entitled to attend or vote at any general meeting until the default has been corrected or the shares sold.

There is no arrangement or understanding with any shareholder, customer or supplier, or any other external party, which provides the right to appoint a Director or a member of the Executive Committee, or any other special rights regarding control of the Company.

Articles of Association

Unless expressly specified to the contrary in the Articles of Association, they may only be amended by a special resolution of the Company's shareholders at a general meeting.

Significant agreements affected by a change of control

A number of agreements may take effect, alter or terminate upon a change of control of the Company. None of these agreements is considered significant in terms of its impact on the Group's business as a whole. All the Company's employee share incentive plans contain provisions relating to a change of control. Outstanding awards would typically vest and become exercisable. This is subject to satisfying any performance conditions, and normally with an additional time-based pro-rata reduction where performance conditions apply, and approval from the Remuneration Committee.

Substantial shareholdings

The table on page 141 shows the direct and indirect holdings of major shareholders in the Company's ordinary issued share capital, as at 31 December 2019, as notified in accordance with the provisions of chapter 5 of the FCA's Disclosure Guidance and Transparency Rules. It should be noted that these holdings may have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed. Information provided by the Company pursuant to the FCA's Disclosure Guidance and Transparency Rules is publicly available via the regulatory information services and on the Company's website.

	31 December 2019	2 March 2020
BlackRock, Inc.	9.97%	9.97%
T.Rowe Price Associates, Inc	4.94%	4.94%
Artemis Investment Management LLP	4.75%	4.75%
Standard Life Aberdeen plc	4.57%	4.57%
APG Asset Management N.V	2.99%	2.99%

Political donations

The Group made no political donations during the year (2018: nil).

Business Relationships

The Group is a leading motor, home and commercial insurer which depends on the trust and confidence of its stakeholders to operate sustainably in the long term. Direct Line seeks to put its customers' best interests first, invests in its employees, supports the communities in which it operates and strives to generate sustainable profits for shareholders. Examples of how the Group has had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year is detailed in the Corporate Governance report on pages 88 and 89.

Employee Engagement

The Group values the involvement and engagement of its employees and continues to listen to employees' views and opinions. Examples of how the Group has engaged with and has had regard to its employees interests and the effect this has had, including on the principal decisions taken by the Company and the Group throughout the financial year can be found in the Corporate Governance report which begins on page 74.

Employees with disabilities

The Group is committed to promoting diversity and inclusion across every area of the business through initiatives such as the Diversity Network Alliance ("DNA"). At recruitment, we adjust and enhance our application and selection process, and guide and provide additional training for interviewers, where necessary.

Our DNA focuses on a number of strands including employees with disabilities. It identifies areas where we can improve and help people to continue working for us. We reasonably adjust employees' working environments and equipment, and roles and role requirements. We also ensure that everyone can access the same opportunities. You can find more information regarding employee involvement in the Strategic report on pages 63 to 65.

Going concern

The Group has sufficient financial resources to meet its financial needs, including managing a mature portfolio of insurance risk. The Directors believe the Group is well positioned to manage its business risks successfully in the current economic environment.

The Finance review on pages 28 to 42 describes the Group's capital management strategy, which covers how it measures its regulatory and economic capital needs and deploys capital.

The Group's financial position is also covered in that section, including a commentary on cash and investment levels, reserves, currency management, insurance liability management, liquidity and borrowings. Additionally, note 3 to the consolidated financial statements describes capital management needs and policies. The note also covers insurance, market, liquidity and credit risks which may affect the Group's financial position.

Having made due enquiries, the Directors reasonably expect that the Company and the Group have adequate resources to continue in operational existence for at least 12 months from 2 March 2020 (the date of approval of the financial statements). Accordingly, the Directors have adopted the going concern basis in preparing the financial statements.

Disclosing information to the Auditor

Each Director at the date of approving these Annual Report & Accounts confirms that: as far as they are aware, there is no relevant audit information of which Deloitte, the Company's External Auditor, is unaware; and they have taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information, and to establish that Deloitte is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

Deloitte has expressed its willingness to continue in office as the External Auditor. A resolution to reappoint Deloitte will be proposed at the forthcoming AGM. You can find an assessment of the effectiveness and recommendation for reappointing Deloitte in the Audit Committee report on page 96.

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year in accordance with IFRS, as adopted by the EU and Article 4 of the International Accounting Standard ("IAS") regulation. The Directors have elected to prepare the Parent Company financial statements in accordance with FRS 101 "Reduced Disclosure Framework". Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the Company's state of affairs and profit or loss for that period.

In preparing these financial statements, IAS 1 requires that Directors: properly select and apply accounting policies; present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and assess the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that: are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy, the Company's financial position at any time; and enable them to ensure the financial statements comply with the Companies Act 2006. Additionally, the Directors are responsible for safeguarding the Company's assets and, hence, taking reasonable steps to prevent and detect fraud and other irregularities. The Directors are responsible for maintaining and ensuring the integrity of the corporate and financial information included on the Company's website at www.directlinegroup.co.uk.

Legislation in the UK governing preparing and disseminating financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on pages 76 to 78, confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report (on pages 1 to 73) and Directors' report (on pages 139 to 142) include a fair review of: (i) the business's development and performance; and (ii) the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- the Annual Report and the financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Board reviewed and approved this report on 2 March 2020.

By order of the Board

ROGER C. CLIFTON
COMPANY SECRETARY

CONTENTS

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Direct Line Insurance Group plc (the "**Parent Company**") and its subsidiaries (together the "**Group**") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("**IFRSs**") as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board ("**IASB**");
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated and Parent Company Statements of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated Cash Flow Statement; and
- the related notes 1 to 44 on the Consolidated financial statements and related notes 1 to 16 on the Parent Company financial statements, excluding the capital adequacy disclosures in note 3 calculated in accordance with the Solvency II regime which are marked as unaudited.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ("**FRC**") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that no non-audit services prohibited by the FRC's Ethical Standard were provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in 2019 were: – valuation of insurance reserves: 1) The frequency and severity of bodily injury claims; and 2) The inflation and discount rate assumptions for valuing periodic payment orders ("**PPOs**"). – valuation of intangible assets; and – valuation of investments not held at fair value.
Materiality	The materiality that we used for the Group financial statements was £28 million which approximates 5.3% of three-year average profit before tax.
Scoping	Our Group audit scoping included two entities being subject to a full scope audit and a further two entities being subject to an audit of specified account balances. These four entities represent the principal business units and account for 99% of the Group's net assets, 100% of the Group's gross earned premium and 98% of the Group's profit before tax.
Significant changes in our approach	There have been no significant changes in our approach.

4. Conclusions relating to going concern, principal risk and viability statements

4.1 Going concern

We have reviewed the Directors' statement on page 141 of the annual report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Parent Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2 Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Parent Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 54 and 55 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 91 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 58 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the Directors which for Direct Line Group is four years.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Valuation of insurance reserves

Refer to page 94 (Audit Committee Report), page 160 (Accounting policies) and page 201 (Financial statements).

The Group's insurance reserves total £3.8 billion (2018: £4.0 billion) and represent the single largest liability on the balance sheet. Valuation of these liabilities requires management to select methods and assumptions that are subject to high levels of estimation uncertainty. Consequently, small changes in these methods or assumptions can materially impact the valuation of these liabilities. We have identified the following two key areas of focus for our audit given their significance to the Group's result and the high level of estimation uncertainty. We have also identified these as potential fraud risk areas.

5.1.1 The frequency and severity of large bodily injury claims

Key audit matter description

The frequency and severity of large bodily injury claims have a significant impact on the valuation of the insurance liabilities and the setting of these assumptions is driven by a variety of factors. These factors include the completeness and accuracy of source data, the transparency of any changes in the reporting of large bodily injury claims, and actuarial assumptions being consistent with emerging data, market factors and the Group's reserving policy. As a result of these factors, there is a significant level of estimation uncertainty in the valuation of these claims, which increases the susceptibility of the balance to material misstatement due to error and fraud.

A key market factor that significantly impacts the valuation of large bodily injury claims is the Ogden discount rate. Following the Civil Liability Act passing Royal Assent in 2018, the Government announced a change in the discount rate from minus 0.75% to minus 0.25% in July 2019 in England and Wales. At 31 December 2018 the Group selected an estimate of 0% for valuing lump sum bodily injury claims, however following the announcement the Group has elected to reserve for these claims using a rate of minus 0.25% in 2019. This change in rate impacted the valuation of the insurance liabilities adversely by £16.9 million.

How the scope of our audit responded to the key audit matter

We have gained a detailed understanding of the end-to-end claims and reserving process and obtained an understanding of relevant controls. Our work included attendance at the year-end reserving committee meeting in order to observe the operation of a key management review control.

In order to gain assurance over the completeness and accuracy of source data used in the Group's actuarial calculations and by our in-house actuarial specialists in performing their work, we have tested the data reconciliation controls and performed reconciliations on the actuarial data back to the financial ledger.

Having done this, we worked with those specialists to:

- challenge the Group's frequency and severity assumptions through market benchmarking, considering the comparison in the context of the Group's portfolio;
- review and challenge the Group's claim development patterns, and identify any emerging trends, by using our in-house reserving software;
- analyse the consistency in reserving strength and reserve releases in comparison with prior years; and
- review and challenging the output of the Group's Ogden sensitivity model and assess the adequacy of the Group's disclosures regarding the rate change.

Key observations

In the prior financial year, we considered the frequency and severity assumptions for large bodily injury claims to be reasonable, albeit slightly prudent. In the current financial year, we have concluded that the assumptions continue to be reasonable and the insurance liabilities are prudent, albeit somewhat less prudent than last year, as the Group's actuaries have given credit for recent favourable experience.

5.1.2 The inflation and discount rate assumptions for valuing PPOs

Key audit matter description

The Group is required to settle a proportion of large bodily injury claims as PPOs rather than lump sum payments. The valuation of PPOs has a material impact on the financial statements, with liabilities totalling £800.1 million (2018: £874.3 million) on a discounted gross basis as detailed in note 34. The PPOs are sensitive to economic assumptions selected and as at 31 December 2019 the Group valued PPOs using an inflation rate of 4% (2018: 4%) and a discount rate of 4% (2018: 4%). These assumptions represent a key source of estimation uncertainty for the Group which increases the susceptibility of the balance to material misstatement due to error and fraud.

How the scope of our audit responded to the key audit matter

We have gained a detailed understanding over management's process for setting these assumptions and obtained an understanding of relevant controls surrounding the setting of the PPO inflation rate and discount rate. In addition, we tested the relevant direct and precise business control, performed weekly, over the completeness of the PPO listing; this is a key data input which has a material impact on the PPO assumptions and hence the valuation.

We have worked with our actuarial specialists to challenge:

- The PPO inflation assumption through inquiries with the Actuarial Director, reviewing relevant supporting documentation and benchmarking against market economic data and peers;
- The Group's sensitivity testing on the PPO inflation assumption;
- The selected discount rate with reference to current and future performance of the assets backing the PPO liabilities; and
- The consistency of the approach with that used in the 2018 year-end valuation and the appropriateness of maintaining that approach in light of the current economic climate and market benchmarking against industry peers.

Key observations

We have determined that the inflation and discount rate assumptions used in the calculation of the PPO claims reserve are in the middle of a reasonable range.

5.2 Valuation of intangible assets

Refer to page 94 (Audit Committee Report), page 161 (Accounting policies) and page 191 (Financial statements).

Key audit matter description

We have identified a key audit matter over the valuation of intangible assets totalling £488.3 million (2018: £354.1 million). Our work has specifically focused on the development of the Group's new trading platform for Motor, Home and Brand Partnership products, which is expected to deliver revenue growth and cost saving benefits. The system capabilities required to realise these benefits are being deployed in a phased roll out which began in 2019. The phased roll out is expected to continue in 2020 with additional capabilities released and more brands and products transitioning to the platform.

Although the first phase of deployment reduces delivery risk, we continue to identify a heightened risk of impairment while the full suite of capabilities is not yet ready for use or utilised across the Group. Given the significant level of judgement required in determining the recognition of such an impairment charge, we continue to identify this area of the key audit matter as a potential fraud risk. Furthermore, in determining the useful economic life of the asset and the point at which various elements of the platform should begin amortisation, management also exercises judgement.

How the scope of our audit responded to the key audit matter

We obtained an understanding and tested the key controls over the impairment of intangible assets. This included senior management review and approval of the impairment review.

We then performed the following audit procedures in order to address the impairment risk over the intangible asset that is not ready for use:

- inquired of system integrators and programme managers, and inspected internal reports, system architecture maps and meeting minutes in order to challenge whether all components will be fully utilised in the end-state platform;
- reviewed the business case for the intangible asset and challenged whether there had been any significant changes made to the platform that could compromise the expected benefits; and
- worked with our in-house IT specialists to challenge the benefits attributed to the platform and evaluate the feasibility of management's plans for future deployment phases in 2020.

In addition to the above, we challenged management's approach to determining when the platform becomes available for use and the useful economic life of the assets through a combination of market benchmarking and sensitivity testing.

Key observations

We concluded that it was reasonable for no impairment charge to be booked for the intangible assets that are not yet ready for use. We also concur with management's view on the useful economic life of the assets and the point in time at which those intangible assets were, or will be, brought into use.

5.3 Valuation of investments not held at fair value

Refer to page 94 (Audit Committee Report), page 162 (Accounting policies) and page 198 (Financial statements).

Key audit matter description

We have identified a key audit matter in relation to investments that are not held at fair value totalling £587.8 million (2018: £592.2 million). Our work primarily focused on the following three portfolios, which are less liquid and represent a higher credit risk relative to the majority of the Group's investment portfolio:

- commercial real estate loans;
- infrastructure debt; and
- private placement bonds

Given the Group continues to recognise and measure financial instruments under IAS 39, these debt instruments are measured at amortised cost and require the recognition of an impairment when an incurred loss event arises. Significant management judgement is required in determining if an incurred loss event has occurred and, in the instance an event has occurred, there is significant estimation uncertainty in determining the impairment charge.

How the scope of our audit responded to the key audit matter

We have obtained an understanding and tested the key controls that mitigate the risk over the valuation of investments not held at fair value. Our work included attendance at the year-end impairment review meeting in order to observe the operation of a key management review control.

5.3 Valuation of investments not held at fair value continued

How the scope of our audit responded to the key audit matter continued

In addition, we performed the following audit procedures:

- traced a sample of interest payments to bank during the year to test for default or delinquency in interest payments;
- engaged our in-house complex pricing team to determine an independent fair value of these assets and identify any significant decreases in fair value below book cost;
- assessed the need for impairment on a collective basis through analysing significant macroeconomic and sector specific developments, such as the ongoing high street decline; and
- challenged management on loans of interest where indicators could point to issuer financial difficulty, obtaining evidence to assess whether the position taking by management is reasonable.

Key observations

We considered the accounting treatment applied to be reasonable. In performing our procedures, we did not note any indicators of material impairment.

6. Our application of materiality

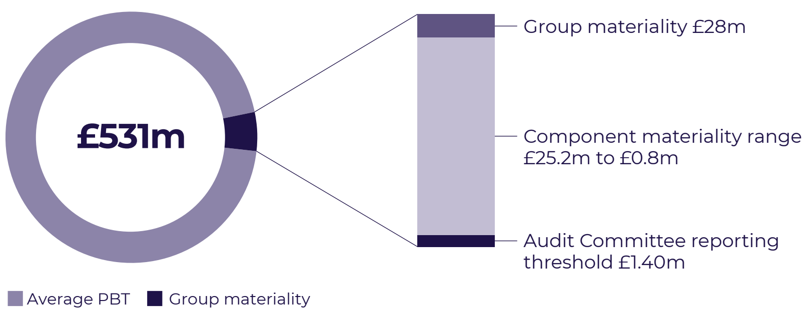
6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£28.0 million (2018: £28.0 million)	£25.2 million (2018: £25.2 million)
Basis for determining materiality	Materiality was determined as approximately 5.3% (2018: 5.2%) of three-year average profit before tax, excluding the impact of the Ogden rate discount change on year-end results.	Materiality equates to less than 1% (2018: 1%) of shareholders' equity and is capped at 90% (2018: 90%) of Group materiality.
Rationale for the benchmark applied	We determined that the critical benchmark for the Group was average profit before tax. This measure uses a three-year average of profit before tax which we deemed appropriate due to the inherent volatility of profits in the insurance industry. We also elected to exclude the impact of the Ogden discount rate change to 0% in the 2018 results and minus 0.25% in the 2019 results due to the non-recurring nature of these events. We also considered this measure to be suitable having compared to other benchmarks: our materiality equates to 5.5% (2018: 4.8%) of statutory profit before tax, 0.9% (2018: 0.9%) of gross earned premium and 0.9% (2018: 1.0%) of total equity.	We determined that the critical benchmark for the Parent Company was shareholder's equity. This is because the Parent Company is not a trading entity but rather received dividend income from its subsidiaries. When determining materiality for the Parent Company, we also considered the appropriateness of this materiality for the consolidation of this set of financial statements to the Group's results.

Group materiality is used for setting audit scope and the assessment of uncorrected misstatements. Materiality is set for each significant component in line with the components proportion of the chosen benchmark. This is capped at the lower of 90% of Group materiality and the component materiality determined for a standalone audit. The main UK insurance trading entity, U K Insurance Limited, which makes up 100% of Group gross earned premium and 72% of Group statutory profit before tax, is scoped to a component materiality of £25.2 million (2018: £25.2 million). Component materialities for other entities within the scope of our Group audit ranged from £0.8 million to £9 million.



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2019 audit (2018: 70%) and this equates to £19.6 million (2018: £19.6 million). In determining performance materiality, we considered the following factors:

- we have audited the Group for a number of years and so have knowledge of both the group and the environment it operates in;
- our ability to rely on controls over a number of significant business processes;
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods; and
- misstatements noted in prior periods have not been indicative of deficiencies in internal control and so there is a low likelihood they will occur in the current period.

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.4 million (2018: £1.4 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

The scope of our Group audit was determined by obtaining an understanding of the Group and its environment, including group wide controls and assessing the risks of material misstatement at Group level.

Consistent with the prior period, this resulted in two entities being subject to a full scope audit and a further two were subject to an audit of specified account balances where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations. All entities within scope of the Group audit are based in the UK.

These four entities represent the principal trading and service operations of the Group and account for 99% (2018: 99%) of the Group's net assets, 100% (2018: 100%) of the Group's gross earned premium and 98% (2018: 98%) of the Group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

At the Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit team directly performed the audit work for all of the entities listed above, including the Parent Company.

7.2 Our consideration of the control environment

Business process and financial reporting controls

In planning our 2019 audit we identified 18 business cycles that were material to the Group's financial reporting processes. These cycles spanned the Group's material transactions and account balances including the premiums, claims, reinsurance, expenses, payroll, investments and intangibles cycles and part of the reserving cycle relating to reconciliation of data, and we intended to rely on the business controls associated with all of these cycles. Having completed our testing over the operating effectiveness of business controls associated with these cycles, through a combination of current period testing and reliance on prior period testing, we concluded that we were able to rely upon the business controls associated with all 18 cycles.

IT Controls

In planning our 2019 audit we identified 10 systems that were material to the Group's financial reporting processes. These systems handled data relating to premiums, claims, expenses and payroll and we intended to rely on the IT and business controls associated with these systems. Having worked with our in-house IT specialists to assess the operating effectiveness of the IT controls associated with these systems, as well as the wider general IT control environment across the Group, we were able to rely upon the IT controls associated with all 10 systems identified.

8. Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

8. Other information continued

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- fair, balanced and understandable – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the Board Risk Committee on 6 February 2020;
- results of our enquiries of management, internal audit, and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and

- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: the valuation of the insurance liabilities as well as the valuation of the intangible assets due to the estimates and judgements exercised by management. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation. In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's operating licence and regulatory solvency requirements, such as those under the relevant Solvency II requirements and those required by the PRA and FCA.

11.2. Audit response to risks identified

As a result of performing the above, we identified valuation of insurance liabilities and valuation of intangible assets as key audit matters related to the potential risk of fraud or non-compliance with laws and regulations. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, PRA and FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13. Matters on which we are required to report by exception continued

13.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14. Other matters

14.1 Auditor tenure

Following the recommendation of the Audit Committee of Royal Bank of Scotland Group plc ("**RBSG**"), which at the time owned Direct Line, we were appointed by the Board of Directors of RBSG on 21 March 2000 to audit the financial statements for the year ending 31 December 2000 and subsequent financial periods. When the Group became independent of RBSG the Group's Board reappointed us to audit the newly demerged Group. Taking into account our service to predecessor organisations, the period of total uninterrupted engagement including previous renewals and reappointments of the firm is 20 years, covering the years ending 31 December 2000 to 31 December 2019. Under the Companies Act 2006, the last financial year of our maximum engagement period is the year ending 31 December 2023.

14.2 Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

COLIN RAWLINGS FCA (SENIOR STATUTORY AUDITOR)

FOR AND ON BEHALF OF DELOITTE LLP
SENIOR STATUTORY AUDITOR
LONDON, UNITED KINGDOM

2 MARCH 2020

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Notes	2019 £m	2018[1] £m restated
Gross earned premium		**3,202.6**	3,306.7
Reinsurance premium		**(217.7)**	(217.2)
Net earned premium	5	**2,984.9**	3,089.5
Investment return	6	**134.6**	154.6
Instalment income		**114.0**	119.9
Other operating income	7	**66.2**	72.1
Total income		**3,299.7**	3,436.1
Insurance claims		**(1,917.3)**	(1,966.2)
Insurance claims recoverable from reinsurers		**69.7**	55.1
Net insurance claims	8	**(1,847.6)**	(1,911.1)
Commission expenses	9	**(211.5)**	(200.4)
Operating expenses (including restructuring and one-off costs)	10	**(704.9)**	(718.2)
Total expenses		**(916.4)**	(918.6)
Finance costs	11	**(26.0)**	(25.9)
Profit before tax		**509.7**	580.5
Tax charge	12	**(89.8)**	(108.5)
Profit for the year attributable to owners of the Company		**419.9**	472.0
Earnings per share:			
Basic (pence)	15	**29.5**	33.3
Diluted (pence)	15	**29.2**	32.9

Note:

1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.

The attached notes on pages 158 to 211 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 £m	2018[1] £m restated
Profit for the year		**419.9**	472.0
Other comprehensive income			
Items that will not be reclassified subsequently to the income statement:			
Actuarial (loss) / gain on defined benefit pension scheme	27	**(7.3)**	2.7
Tax relating to item that will not be reclassified	13	**1.3**	(0.4)
		(6.0)	2.3
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges		**(0.7)**	0.5
Fair value gain / (loss) on AFS investments	31	**118.1**	(121.4)
Less: realised net gains on AFS investments included in the income statement	31	**(16.5)**	(19.5)
Tax relating to items that may be reclassified	31	**(17.3)**	23.9
		83.6	(116.5)
Other comprehensive income / (loss) for the year net of tax		**77.6**	(114.2)
Total comprehensive income for the year attributable to owners of the Company		**497.5**	357.8

Note:

1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.

The attached notes on pages 158 to 211 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Notes	2019 £m	31 December 2018[1] £m restated	1 January 2018[1] £m restated
Assets				
Goodwill and other intangible assets	17	**702.5**	566.8	471.1
Property, plant and equipment	18	**143.4**	156.2	174.4
Right-of-use assets	19	**149.2**	153.4	157.9
Investment property	20	**291.7**	322.1	309.3
Reinsurance assets	22	**1,251.3**	1,208.7	1,178.5
Deferred acquisition costs	23	**176.2**	170.4	185.0
Insurance and other receivables	24	**846.5**	875.9	981.2
Prepayments, accrued income and other assets	25	**120.2**	124.5	143.0
Derivative financial instruments	26	**121.5**	48.2	84.4
Retirement benefit asset	27	**9.7**	17.0	14.4
Financial investments	28	**4,673.4**	4,737.8	5,040.4
Cash and cash equivalents	29	**948.6**	1,154.4	1,358.6
Assets held for sale		**–**	–	4.2
Total assets		**9,434.2**	9,535.4	10,102.4
Equity				
Shareholders' equity		**2,643.6**	2,558.2	2,701.9
Tier 1 notes	32	**346.5**	346.5	346.5
Total equity		**2,990.1**	2,904.7	3,048.4
Liabilities				
Subordinated liabilities	33	**259.0**	259.5	264.7
Insurance liabilities	34	**3,819.6**	4,005.9	4,225.7
Unearned premium reserve	35	**1,506.0**	1,505.5	1,600.3
Borrowings	29	**52.3**	62.0	54.1
Derivative financial instruments	26	**30.5**	25.9	12.0
Provisions[2]	37	**74.3**	72.8	74.2
Trade and other payables, including insurance payables	38	**478.1**	481.3	583.8
Lease liabilities		**164.4**	167.3	170.1
Deferred tax liabilities	13	**9.6**	4.5	28.4
Current tax liabilities	13	**50.3**	46.0	40.7
Total liabilities		**6,444.1**	6,630.7	7,054.0
Total equity and liabilities		**9,434.2**	9,535.4	10,102.4

Notes:

1. The balance sheet as at 1 January 2018 and 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.
2. Presentational amendments included 'Provisions' previously presented within 'Trade and other payables, including insurance payables' are now presented separately on the consolidated balance sheet. This amendment has been made to provide additional analysis of these balances and is in accordance with international accounting standards.

The attached notes on pages 158 to 211 form an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 2 March 2020. They were signed on its behalf by:

TIM HARRIS
CHIEF FINANCIAL OFFICER

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital (note 30) £m	Employee trust shares £m	Capital reserves (note 31) £m	Available for sale revaluation reserve (note 31) £m	Foreign exchange translation reserve £m	Retained earnings £m	Shareholders' equity £m	Tier 1 notes (note 32) £m	Total equity £m
Balance at 1 January 2018 (audited)	150.0	(34.1)	1,450.0	80.2	0.3	1,068.7	2,715.1	346.5	3,061.6
First application of IFRS 16[1]	–	–	–	–	–	(13.2)	(13.2)	–	(13.2)
Balance at 1 January 2018 (restated)	150.0	(34.1)	1,450.0	80.2	0.3	1,055.5	2,701.9	346.5	3,048.4
Profit for the year	–	–	–	–	–	472.0	472.0	–	472.0
Other comprehensive loss	–	–	–	(117.0)	0.5	2.3	(114.2)	–	(114.2)
Dividends and appropriations paid (note 14)	–	–	–	–	–	(503.8)	(503.8)	–	(503.8)
Shares acquired by employee trusts	–	(19.5)	–	–	–	–	(19.5)	–	(19.5)
Credit to equity for equity-settled share-based payments (note 36)	–	–	–	–	–	21.0	21.0	–	21.0
Shares distributed by employee trusts	–	18.4	–	–	–	(18.4)	–	–	–
Tax on share-based payments	–	–	–	–	–	0.8	0.8	–	0.8
Balance at 31 December 2018 (restated)	150.0	(35.2)	1,450.0	(36.8)	0.8	1,029.4	2,558.2	346.5	2,904.7
Profit for the year	**–**	**–**	**–**	**–**	**–**	**419.9**	**419.9**	**–**	**419.9**
Other comprehensive income	**–**	**–**	**–**	**84.3**	**(0.7)**	**(6.0)**	**77.6**	**–**	**77.6**
Dividends and appropriations paid (note 14)	**–**	**–**	**–**	**–**	**–**	**(420.7)**	**(420.7)**	**–**	**(420.7)**
Shares acquired by employee trusts	**–**	**(10.4)**	**–**	**–**	**–**	**–**	**(10.4)**	**–**	**(10.4)**
Credit to equity for equity-settled share-based payments (note 36)	**–**	**–**	**–**	**–**	**–**	**18.4**	**18.4**	**–**	**18.4**
Shares distributed by employee trusts	**–**	**15.4**	**–**	**–**	**–**	**(15.4)**	**–**	**–**	**–**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**0.6**	**0.6**	**–**	**0.6**
Balance at 31 December 2019	**150.0**	**(30.2)**	**1,450.0**	**47.5**	**0.1**	**1,026.2**	**2,643.6**	**346.5**	**2,990.1**

Note:

1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.

The attached notes on pages 158 to 211 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019

	Notes	**2019 £m**	2018[1] £m restated
Net cash generated from operating activities before investment of insurance assets	39	**88.2**	23.5
Cash generated from investment of insurance assets	39	**373.9**	468.1
Net cash generated from operating activities		**462.1**	491.6
Cash flows used in investing activities			
Purchases of goodwill and other intangible assets	17	**(175.7)**	(142.4)
Purchases of property, plant and equipment	18	**(11.9)**	(13.3)
Proceeds on disposals of assets held for sale		**–**	13.8
Proceeds on disposal of property, plant and equipment		**–**	0.1
Net cash used in investing activities		**(187.6)**	(141.8)
Cash flows used in financing activities			
Dividends and appropriations paid	14	**(420.7)**	(503.8)
Finance costs (including lease interest)		**(26.4)**	(26.1)
Principal element of lease payments	39	**(13.1)**	(12.5)
Purchase of employee trust shares		**(10.4)**	(19.5)
Net cash used in financing activities		**(470.6)**	(561.9)
Net decrease in cash and cash equivalents		**(196.1)**	(212.1)
Cash and cash equivalents at the beginning of the year	29	**1,092.4**	1,304.5
Cash and cash equivalents at the end of the year	29	**896.3**	1,092.4

Note:

1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.

The attached notes on pages 158 to 211 form an integral part of these consolidated financial statements.

Corporate information

Direct Line Insurance Group plc is a public limited company registered in England and Wales (company number 02280426). The address of the registered office is Churchill Court, Westmoreland Road, Bromley, BR1 1DP, England.

1. Accounting policies

Basis of preparation

As required by the Companies Act 2006 and Article 4 of the EU IAS Regulation, the Group's consolidated financial statements are prepared in accordance with IFRSs issued by the IASB as adopted by the EU. The Group has elected to prepare its parent entity financial statements in accordance with FRS 101 'Reduced Disclosure Framework'.

The consolidated financial statements are prepared on the historical cost basis except for available-for-sale ("**AFS**") financial assets, investment property and derivative financial instruments, which are measured at fair value (fair value is defined in note 42).

Where necessary, adjustments have been made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. The policies set out below have been applied consistently throughout the years ended 31 December 2019 and 31 December 2018 to items considered material to the consolidated financial statements.

The Company's financial statements and the Group's consolidated financial statements are presented in sterling, which is the functional currency of the Company and the Group.

Adoption of new and revised standards

The Group has adopted the following new amendments to IFRSs and International Accounting Standards ("**IASs**") that became mandatorily effective for the Group for the first time during 2019.

The Group has adopted IFRS 16 'Leases' for the first time in 2019. IFRS 16 replaces IAS 17 'Leases' and sets out the principles for recognition, measurement and disclosure of lease arrangements entered into by the Group. For all contractual arrangements where the Group is a lessee, it is required to account for these leases under a single on-balance sheet model with exemptions available for low value and short-term leases. The Group recognises a lease liability measured at the present value of future lease payments from the commencement of all lease arrangements which were previously classified as 'operating leases' under IAS 17. A further assessment was performed to ensure all leases had been recognised. These lease payments are discounted using the lessees' incremental borrowing rate at the commencement of the lease unless the interest rate implicit in the lease is readily determinable. A corresponding right-of-use asset is recognised on the balance sheet. Lease payments are allocated between the liability and finance cost, and the right-of-use asset is depreciated on a straight-line basis over the lease term.

IFRS 16 'Leases' has been adopted on a fully retrospective basis and therefore, in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', prior periods have been restated. The opening equity and prior period impact of IFRS 16 on the primary financial statements are presented in note 44 to the consolidated financial statements. An assessment has been undertaken to determine whether adoption of IFRS 16 included any material new accounting judgements or identifying any sources of estimation uncertainty. The Group concluded that there were none.

In September 2019, the IASB issued 'Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7' which although not mandatory for the Group until 2020, has been adopted in 2019. The amendments modify some specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by the IBOR reform. In addition, it requires companies to disclose additional information about their hedging relationships which are directly affected by these uncertainties. By adopting these amendments early, the Group is able to continue applying hedge accounting to some of its benchmark interest rate exposure as the amendments permit the continuation of hedge accounting where in future the hedged benchmark interest rate may no longer be separately available. The amendment does not alter the requirement for the designated interest rate risk component to be measurable. If the risk component is no longer reliably measurable, the hedging relationship is discontinued.

- The Group has issued sterling-denominated fixed rate subordinated debt which it hedges to fair value using a sterling fixed to GBP LIBOR interest rate swap.
- The Group holds investments in US dollar and Euro fixed rate debt securities which it includes in a macro fair value hedge of the USD LIBOR and EURIBOR risk component of these investments respectively.

The Group will not discontinue hedge accounting should the retrospective assessment of hedge effectiveness fall outside the 80-125% range where the hedging relationship is subject to interest rate benchmark reforms. For those hedging relationships that are not subject to the interest rate benchmark reforms the entity continues to cease hedge accounting if retrospective effectiveness is outside the 80-125% range.

A number of further narrow scope amendments which become mandatorily effective for the Group but do not have an impact on existing accounting policies, are as follows:

Amendments to IAS 28: 'Long-term Interests in Associates and Joint Ventures' clarifies that an entity applies IFRS 9 to long-term interests in associates or joint ventures that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

IFRIC 23 'Uncertainty over Income Tax Treatments' provides interpretation when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'.

Amendments to IAS 19 'Employee Benefits: Plan Amendment, Curtailment or Settlement' clarify the accounting when a pension plan amendment, curtailment or settlement occurs.

'Annual Improvements to IFRS Standards 2015-2017 Cycle' includes the following three amendments:

- IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements' – the amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business; the amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business;
- IAS 12 'Income Taxes' – the amendments clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits; and
- IAS 23 'Borrowing Costs' – the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

New accounting pronouncements are included in note 1.23.

1.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities that are controlled by the Group at 31 December 2019 and 31 December 2018. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing if the Group controls another entity, the existence and effect of the potential voting rights that are currently exercisable or convertible are considered.

A subsidiary acquired is included in the consolidated financial statements from the date it is controlled by the Group until the date the Group ceases to control it. On acquisition of a subsidiary, its identifiable assets, liabilities and contingent liabilities are included in the consolidated financial statements at fair value.

All intercompany transactions, balances, income and expenses between Group entities are eliminated on consolidation.

1.2 Foreign currencies

The Group's consolidated financial statements are presented in sterling which is the presentational currency of the Group. Group entities record transactions in the currency of the primary economic environment in which they operate (their functional currency), translated at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on the settlement of foreign currency transactions and from the translation of monetary assets and liabilities are reported in the income statement.

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into the relevant functional currency at the foreign exchange rates ruling at the dates the values are determined. Translation differences arising on non-monetary items measured at fair value are recognised in the income statement except for differences arising on AFS non-monetary financial assets, which are recognised in other comprehensive income.

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into sterling at the foreign exchange rates ruling at the balance sheet date. Income and expenses of foreign operations are translated into sterling at average exchange rates unless these do not approximate the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on the translation of a foreign operation are recognised in the consolidated statement of comprehensive income. The amount accumulated in equity is reclassified from equity to the consolidated income statement on disposal or partial disposal of a foreign operation.

1.3 Contract classification

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished.

1.4 Revenue recognition

Premiums earned

Insurance and reinsurance premiums comprise the total premiums receivable for the whole period of cover provided by contracts incepted during the financial year, adjusted by an unearned premium reserve, which represents the proportion of the premiums incepted in the year or prior periods that relate to periods of insurance cover after the balance sheet date. Unearned premiums are calculated over the period of exposure under the policy, on a daily basis, 24ths basis or allowing for the estimated incidence of exposure under policies.

Premiums collected by intermediaries or other parties, but not yet received, are assessed based on estimates from underwriting or past experience and are included in insurance premiums. Insurance premiums exclude insurance premium tax or equivalent local taxes and are shown gross of any commission payable to intermediaries or other parties.

Cash back payments to policyholders under motor telematics policies represent a reduction in earned premiums.

1.4 Revenue recognition continued

Investment return

Interest income on financial assets is determined using the effective interest rate method. The effective interest rate method is a way of calculating the amortised cost of a financial asset (or group of financial assets) and of allocating the interest income over the expected life of the asset.

Rental income from investment property is recognised in the income statement on a straight-line basis over the period of the contract.

Any gains or losses arising from a change in fair value are recognised in the income statement.

Instalment income

Instalment income comprises the interest income earned on policyholder receivables, where outstanding premiums are settled by a series of instalment payments. Interest is earned using an effective interest rate method over the term of the policy.

Other operating income

Vehicle replacement referral income

Vehicle replacement referral income comprises fees recognised at a point in time in respect of referral income received when a customer or a non-fault policyholder (claimant) of another insurer has been provided with a hire vehicle from a preferred supplier.

Income is recognised when the customer or claimant has been provided with a vehicle by the supplier.

Revenue from vehicle recovery and repair services

Fees in respect of services for vehicle recovery are recognised at a point in time on satisfaction of performance obligations. The cost of providing the service is incurred as the service is rendered.

The Group's income also comprises vehicle repair services provided to other third-party customers. Income in respect of repairs to vehicles is recognised upon completion of the repair obligations. The price is determined using market rates for the services and materials used after discounts have been deducted where applicable.

Legal services income

Legal services income represents the amount charged to clients for professional services provided during the year including recovery of expenses but excluding value added tax. Income relating to variable legal services fees is recognised on a best estimate basis.

Other income

Commission fee income in respect of services is recognised at a point in time on satisfaction of related performance obligations. Where variable consideration is identified in a contract, this revenue is estimated and constrained to the extent that it is highly improbable that revenue recognised will be reversed. Income is stated excluding applicable sales taxes.

1.5 Insurance claims

Insurance claims are recognised in the accounting period in which the loss occurs. Provision is made for the full cost of settling outstanding claims at the balance sheet date, including claims incurred but not yet reported at that date, net of salvage and subrogation recoveries.

Outstanding claims provisions are not discounted for the time value of money except for claims to be settled by PPOs established under the Courts Act 2003.

A court can award damages for future pecuniary loss in respect of personal injury or for other damages in respect of personal injury and may order that the damages are wholly or partly to take the form of PPOs. These are covered in more detail in note 2.3. Costs for both direct and indirect claims handling expenses are also included.

Provisions are determined by management based on experience of claims settled and on statistical models which require certain assumptions to be made regarding the incidence, timing and amount of claims and any specific factors such as adverse weather conditions. When calculating the total provision required, the historical development of claims is analysed using statistical methodology to extrapolate, within acceptable probability parameters, the value of outstanding claims (gross and net) at the balance sheet date. Also included in the estimation of outstanding claims are factors such as the potential for judicial or legislative inflation.

Provisions for more recent claims make use of techniques that incorporate expected loss ratios and average claims cost (adjusted for inflation) and frequency methods. As claims mature, the provisions are increasingly driven by methods based on actual claims experience. The approach adopted takes into account the nature, type and significance of the business and the type of data available, with large claims generally being assessed separately. The data used for statistical modelling purposes is generated internally and reconciled to the accounting data.

The calculation is particularly sensitive to the estimation of the ultimate cost of claims for the particular classes of business at gross and net levels and the estimation of future claims handling costs. Actual claims experience may differ from the historical pattern on which the actuarial best estimate is based and the cost of settling individual claims may exceed that assumed. As a result, the Group sets provisions at a margin above the actuarial best estimate. This amount is recorded within claims provisions.

A liability adequacy provision is made for unexpired risks arising where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premium reserve in relation to such policies after the deduction of any acquisition costs deferred and other prepaid amounts. The expected value is determined by reference to recent experience and allowing for changes to the premium rates. The provision for unexpired risks is calculated separately by reference to classes of business that are managed together after taking account of relevant investment returns.

1.6 Reinsurance

The Group has reinsurance treaties and other reinsurance contracts that transfer significant insurance risk.

The Group cedes insurance risk by reinsurance in the normal course of business, with the arrangement and retention limits varying by product line. Outward reinsurance premiums are generally accounted for in the same accounting period as the premiums for the related direct business being reinsured. Outward reinsurance recoveries are accounted for in the same accounting period as the direct claims to which they relate.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a consistent manner with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract. Recoveries in respect of PPOs are discounted for the time value of money.

A reinsurance bad debt provision is assessed in respect of reinsurance debtors, to allow for the risk that the reinsurance asset may not be collected or where the reinsurer's credit rating has been downgraded significantly and this is taken as an indication of a reinsurer's difficulty in meeting its obligations under the reinsurance contracts. This also includes an assessment in respect of the ceded part of claims provisions to reflect the counterparty default risk exposure to long-term reinsurance assets particularly in relation to PPOs. Increases in this provision affect the Group by reducing the carrying value of the asset and the impairment loss is recognised in the income statement.

1.7 Deferred acquisition costs

Acquisition costs relating to new and renewing insurance policies are matched with the earning of the premiums to which they relate. A proportion of acquisition costs incurred during the year is therefore deferred to the subsequent accounting period to match the extent to which premiums written during the year are unearned at the balance sheet date.

The principal acquisition costs deferred are direct advertising expenditure, directly attributable administration costs, commission paid and costs associated with telesales and underwriting staff.

1.8 Goodwill and other intangible assets

Acquired goodwill, being the excess of the cost of an acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or joint venture acquired, is initially recognised at cost and subsequently at cost less any accumulated impairment losses. Goodwill arising on the acquisition of subsidiaries, associates and joint ventures is included in the balance sheet category 'goodwill and other intangible assets'. The gain or loss on the disposal of a subsidiary, associate or joint venture includes the carrying value of any related goodwill.

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement over the assets' economic lives using methods that best reflect the pattern of economic benefits and is included in operating expenses. The estimated useful economic lives for software development costs is up to 10 years.

Expenditure on internally generated goodwill and indirect advertising costs is written off as incurred. Direct costs relating to the development of internal-use computer software and associated business processes are capitalised once technical feasibility and economic viability have been established. These costs include payroll costs, the costs of materials and services and directly attributable overheads. Capitalisation of costs ceases when the software is capable of operating as intended. During and after development, accumulated costs are reviewed for impairment against the projected benefits that the software is expected to generate. Costs incurred prior to the establishment of technical feasibility and economic viability are expensed as incurred, as are all training costs and general overheads.

1.9 Property, plant and equipment

Items of property, plant and equipment (except investment property – note 1.12) are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately.

Depreciation is charged to the income statement on a straight-line basis so as to write-off the depreciable amount of property, plant and equipment over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Land is not depreciated. The estimated useful lives are as follows:

Freehold and leasehold buildings	50 years or the period of the lease if shorter
Vehicles	3 years
Computer equipment	Up to 5 years
Other equipment, including property adaptation costs	2 to 15 years

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the disposal proceeds, if any, and the carrying amount of the item.

1.10 Impairment of intangible assets, goodwill and property, plant and equipment

At each reporting date, the Group assesses whether there is any indication that its intangible assets, goodwill or property, plant and equipment are impaired. If any such indication exists, the Group estimates the recoverable amount of the asset and the impairment loss, if any. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. If an asset does not generate cash flows that are independent of those of other assets or groups of assets, the recoverable amount is determined for the cash-generating unit ("**CGU**") to which the asset belongs. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Value in use is the present value of future cash flows from the asset or CGU, discounted at a rate that reflects market interest rates, adjusted for risks specific to the asset or CGU that have not been reflected in the estimation of future cash flows.

If the recoverable amount of an intangible or a tangible asset is less than its carrying value, an impairment loss is recognised immediately in the income statement and the carrying value of the asset is reduced by the amount of the impairment loss.

A reversal of an impairment loss on intangible assets or property, plant and equipment is recognised as it arises provided the increased carrying value does not exceed the carrying amount that would have been determined had no impairment loss been recognised. Impairment losses on goodwill are not reversed.

1.11 Right-of-use assets and lease liabilities

Where the Group is a lessee

At inception, the Group assesses whether a contract contains a lease arrangement which involves assessing whether it obtains substantially all the economic benefits from the use of a specific asset, and it has the right to direct the use of that asset. The Group recognises a right-of-use asset and a lease liability at the commencement of the lease (when the underlying asset is available for use), except for short-term leases of 12 months or less and low value leases which are expensed on a straight-line basis in the income statement. The right-of-use asset is initially measured based on the present value of the lease payments, plus initial direct costs less any incentives received. Lease payments include fixed payments and variable payments. Variable payments relate to contractual rent increases linked to inflation indices. The right-of-use asset is depreciated over the lease term and is subject to impairment testing if there is an indicator of impairment. When leases contain an extension or purchase option which is reasonably expected to be exercised this is included in the measurement of the lease.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date unless the interest rate implicit in the lease is readily determinable. The incremental borrowing rate is determined based on available risk-free market yield to maturity pricing linked to the lease amount and term, and includes a credit spread. The lease liability is subsequently measured at amortised cost using the effective interest rate method and remeasured, with a corresponding adjustment to the right-of-use asset when there is a change in future lease payments, terms or reassessment of options.

The Group's leasehold property mainly relates to office space and vehicle repair centres. Leases in respect of motor vehicles relate to recovery and replacement vehicles, and management cars. The Group also leases certain IT equipment which is not a significant portion of the total leased asset portfolio.

Where the Group is a lessor

Leases where a significant proportion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term.

Where assets are subject to finance leases, the present value of the lease payments, together with any unguaranteed residual value, is recognised as a receivable.

1.12 Investment property

Investment property comprises freehold and leasehold properties that are held to earn rentals or for capital appreciation or both. Investment property is not depreciated but is stated at fair value based on valuations by independent registered valuers. Fair value is based on current prices for similar properties adjusted for the specific characteristics of each property. Any gain or loss arising from a change in fair value is recognised in the income statement.

Investment property is derecognised when it has been either disposed of or permanently withdrawn from use and no future economic benefit is expected from disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the income statement in the year of retirement or disposal.

1.13 Financial assets

Financial assets are classified as AFS, HTM, designated at fair value through profit or loss, or loans and receivables.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place are recognised on the date that the Group commits to purchase or sell the asset.

Available-for-sale

Financial assets can be designated as AFS on initial recognition. AFS financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Impairment losses and exchange differences resulting from translating the amortised cost of foreign currency monetary AFS financial assets are recognised in the income statement, together with interest calculated using the effective interest rate method. Other changes in the fair value of AFS financial assets are reported in a separate component of shareholders' equity until disposal, when the cumulative gain or loss is recognised in the income statement.

A financial asset is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The appropriate quoted market price for an asset held is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (for example, a change in the risk-free interest rate following the most recent price quote for a corporate bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate. The valuation methodology described above uses observable market data.

If the market for a financial asset is not active, the Group establishes the fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties (if available), reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

Held-to-maturity

Non-derivative financial assets not designated as AFS or loans and receivables with fixed or determinable payments and fixed maturity where the intention and ability to hold them to maturity exists are classified as HTM.

Subsequent to initial recognition, HTM financial assets are measured at amortised cost using the effective interest rate method less any impairment losses.

Loans and receivables

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as AFS or HTM. Loans and receivables are initially recognised at fair value plus directly related transaction costs and are subsequently measured at amortised cost using the effective interest rate method less any impairment losses.

Impairment of financial assets

At each balance sheet date, the Group assesses whether there is any objective evidence that a financial asset or group of financial assets classified as AFS, HTM or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

Available-for-sale

When a decline in the fair value of a financial asset classified as AFS has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in the income statement. The loss is measured as the difference between the amortised cost of the financial asset and its current fair value. Impairment losses on AFS equity instruments are not reversed through profit or loss, but those on AFS debt instruments are reversed, if there is an increase in fair value that is objectively related to a subsequent event.

Held-to-maturity and loans and receivables

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as HTM or loans and receivables has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets, discounted at the effective interest rate of the instrument at initial recognition.

Impairment losses are assessed individually where significant or collectively for assets that are not individually significant.

Impairment losses are recognised in the income statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for the impairment losses. If in a subsequent period the amount of the impairment loss reduces, and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

Insurance receivables

Insurance receivables comprise outstanding insurance premiums where the policyholders have elected to pay in instalments or amounts due from third parties where they have collected or are due to collect the money from the policyholder.

Receivables also include amounts due in respect of the provision of legal services.

For amounts due from policyholders, the bad debt provision is calculated based upon prior loss experience. For all balances outstanding in excess of three months, a bad debt provision is made. Where a policy is subsequently cancelled, the outstanding debt that is overdue is charged to the income statement and the bad debt provision is released back to the income statement.

Derivatives and hedging

Derivative financial instruments are recognised initially, and subsequently measured, at fair value. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

Gains and losses arising from changes in the fair value of a derivative are recognised as they arise in the income statement unless the derivative is the hedging instrument in a qualifying hedge. The Group enters into fair value hedge relationships and a small amount of cash flow hedges.

Hedge relationships are formally documented at inception. The documentation identifies the hedged item and the hedging instrument and details the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in cash flows and fair values attributable to the hedged risk, consistent with the documented risk management strategy, or if the hedging instrument expires or is sold, terminated or exercised, hedge accounting is discontinued.

In a cash flow hedge, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity. Any ineffective portion is recognised in the income statement.

In a fair value hedge, the gain or loss on the hedging instrument is recognised in the income statement. The gain or loss on the hedged item attributable to the hedged risk is recognised in the income statement and, where the hedged item is measured at amortised cost, adjusts the carrying amount of the hedged item.

Derecognition of financial assets

A financial asset is derecognised when the rights to receive the cash flows from that asset have expired or when the Group has transferred its rights to receive cash flows from the asset and has transferred substantially all the risk and rewards of ownership of the asset.

1.14 Cash and cash equivalents and borrowings

Cash and cash equivalents comprise cash in hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

Borrowings, comprising bank overdrafts, are measured at amortised cost using the effective interest rate method and are part of the Group's cash management approach and are repayable on demand.

1.15 Financial liabilities

Financial liabilities are initially recognised at fair value net of transaction costs incurred. Other than derivatives which are recognised and measured at fair value, all other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

1.16 Subordinated liabilities

Subordinated liabilities comprise subordinated guaranteed dated notes which are initially measured at the consideration received less related transaction costs. Subsequently, subordinated liabilities are measured at amortised cost using the effective interest rate method.

1.17 Provisions

The Group recognises a provision for a present legal or constructive obligation from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount can be reliably estimated.

The Group makes provision for all insurance industry levies, such as the Financial Services Compensation Scheme and Motor Insurance Bureau.

When the Group has an onerous contract, it recognises the present obligation under the contract as a provision. A contract is onerous when the unavoidable costs of meeting the contractual obligations exceed the expected future economic benefit.

Restructuring provisions are made, including redundancy costs, when the Group has a constructive obligation to restructure. An obligation exists when the Group has a detailed formal plan and has communicated the plan to those affected.

1.18 Pensions and other post-retirement benefits

The Group provides post-retirement benefits in the form of pensions and healthcare plans to eligible employees.

Contributions to the Group's defined contribution pension scheme are recognised in the income statement when payable.

The Group's defined benefit pension scheme, as described in note 27, was closed in 2003. Scheme liabilities are measured on an actuarial basis, using the projected unit credit method, and discounted at a rate that reflects the current rate of return on a high-quality corporate bond of equivalent term and currency to the scheme liabilities.

Scheme assets are measured at their fair value. Any surplus or deficit of scheme assets over liabilities is recognised in the balance sheet as an asset (surplus) or liability (deficit). The current service cost and any past service costs, together with the net interest on net pension liability or asset, is charged or credited to operating expenses. Actuarial gains and losses are recognised in full in the period in which they occur outside the income statement and presented in other comprehensive income under 'Items that will not be reclassified subsequently to the income statement'.

1.19 Taxation

The tax charge or credit represents the proportion of the tax payable and receivable arising in the current year only.

The current tax charge is based on the taxable profits for the year as determined in accordance with the relevant tax legislation, after any adjustments in respect of prior years. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Provision for taxation is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date and is allocated over profits before taxation and amounts charged or credited to components of other comprehensive income and equity, as appropriate.

Deferred taxation is accounted for in full using the balance sheet liability method on all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes.

Deferred tax liabilities are generally recognised for all taxable temporary timing differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is probable that they will not be recovered.

Deferred tax assets and liabilities are calculated at the tax rates expected to apply when the assets are realised or liabilities are settled based on laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current assets and liabilities on a net basis.

1.20 Share-based payment

The Group operates a number of share-based compensation plans under which it awards Ordinary Shares and share options to its employees. Such awards are generally subject to vesting conditions that vary the amount of cash or shares to which an employee is entitled.

Vesting conditions include service conditions (requiring the employee to complete a specified period of service) and performance conditions (requiring the Group to meet specified performance targets).

The fair value of options granted is estimated using valuation techniques which incorporate exercise price, term, risk-free interest rates, the current share price and its expected volatility.

The cost of employee services received in exchange for an award of shares or share options granted is measured by reference to the fair value of the shares or share options on the date the award is granted and takes into account non-vesting conditions and market performance conditions (conditions related to the market price of the Company's Ordinary Shares).

The cost is expensed on a straight-line basis over the vesting period (the period during which all the specified vesting conditions must be satisfied) with a corresponding increase in equity in an equity-settled award, or a corresponding liability in a cash-settled award. The cost is adjusted for vesting conditions (other than market performance conditions) so as to reflect the number of shares or share options that actually vest.

The cancellation of an award through failure to meet non-vesting conditions triggers an immediate expense for any unrecognised element of the cost of an award.

1.21 Capital instruments

The Group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms, or as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities.

The Tier 1 notes are classified as equity as they have a perpetual maturity and the Group has full discretion over interest payments, including ability to defer or cancel interest payments indefinitely.

The consideration for any Ordinary Share of the Company purchased by the Group for the benefit of the employee trusts is deducted from equity.

1.22 Dividends

Interim dividends on Ordinary Shares are recognised in equity in the period in which they are paid. Final dividends on Ordinary Shares are recognised when they have been approved at the AGM.

1.23 Accounting developments

New IFRS standards and amendments that are issued, but not yet effective for the 31 December 2019 reporting period and have not been early adopted by the Group are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective, except for amendments to IFRS 9 'Financial Instruments', as explained below.

In July 2014, the IASB issued the final version of IFRS 9 'Financial Instruments' which replaces IAS 39 'Financial Instruments: Recognition and Measurement' and all previous versions of IFRS 9; it was endorsed by the EU in 2016. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets; it was effective for annual periods beginning on or after 1 January 2018, however adoption by the Group has been deferred as described below.

In September 2016, the IASB issued 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' to address issues arising from the different effective dates of IFRS 9 and IFRS 17 'Insurance Contracts'. Amendments to IFRS 4 was endorsed by the EU in November 2017. These amendments permitted insurers who satisfied certain criteria to defer the effective date of IFRS 9, to coincide with the expected effective date of IFRS 17. The Group conducted a high-level assessment of the three aspects of IFRS 9 and based on current information, the impact of applying the expected loss model for the first time is currently immaterial. The Group does not expect any other significant impact on its financial statements.

When first published, Amendments to IFRS 4 required insurance entities to evaluate whether their activities were predominantly connected to insurance as at its annual reporting date immediately preceding 1 April 2016, providing an option to defer adoption of IFRS 9 if liabilities connected to insurance comprised a predominant proportion of its total liabilities as at that date. The Group concluded that it satisfied the criteria and there have been no significant changes in the Group's activities since this assessment to require a reassessment of the criteria.

As a result, the Group has decided to defer the application of IFRS 9 and continues to do so.

The amendments to IFRS 4 also require certain interim disclosures in relation to the fair value movements of financial assets as outlined below.

The fair value at the end of the reporting period for financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount are disclosed in note 42. The amount of change in the fair value during the period for these financial assets was:

- AFS debt securities £118.6 million increase (2018: £103.7 million decrease);
- HTM debt securities £3.8 million increase (2018: £3.2 million decrease);
- infrastructure debt £10.6 million increase (2018: £18.2 million decrease); and
- commercial real estate loans £2.5 million decrease (2018: £nil).

STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS

1.23 Accounting developments continued

Derivative assets do not have contractual terms that give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding. The fair value of these financial assets is disclosed in note 42 and the amount of change in the fair value during the period was an increase of £111.8 million (2018: £26.7 million increase).

In note 3.3.3 the Group has disclosed the carrying amount of financial assets at the end of the reporting period by credit risk rating grade, as defined in IFRS 7 'Financial Instruments: Disclosures'. The fair value and the carrying amount of financial assets that meet the solely payments of principal and interest criteria and, at the end of the reporting period do not have a low credit risk, was of £390.8 million (2018: 393.9 million).

IFRS 9 information that relates to entities within the Group that is not provided in the Group's consolidated financial statements can be obtained from their individual financial statements, which are filed at Companies House.

'Amendments to IFRS 9: Prepayment Features with Negative Compensation' was issued in October 2017 and is endorsed by the EU to allow instruments with symmetric prepayment options to qualify for amortised cost or fair value through other comprehensive income measurement because they would otherwise fail the 'solely payments of principal and interest on the principal amount' condition. The amendments are effective from the same period as IFRS 9.

IFRS 17 'Insurance Contracts' was issued by the IASB in May 2017 to replace IFRS 4 'Insurance Contracts'. IFRS 17 is currently effective for reporting periods beginning on or after 1 January 2021, however it is expected to be delayed until 1 January 2022 following the IASB's 'Amendments to IFRS 17' exposure draft published in June 2019. Comparative figures are required.

IFRS 17 is a comprehensive new accounting standard for all insurance contracts covering recognition and measurement, presentation and disclosure. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers and to replace the requirements of IFRS 4 that allowed insurers to apply grandfathering of previous local accounting policies.

The core of IFRS 17 is the general model, supplemented by an optional simplified premium allocation approach which is permitted for the liability for the remaining coverage for short duration contracts. The general model measures insurance contracts using the building blocks of: discounted probability weighted cash flows; an explicit risk adjustment; and a contractual service margin representing the unearned profit of the contract which is recognised as revenue over the coverage period.

An assessment on the impact of IFRS 17 on the Group's financial statements remains in progress. The Group expects to be able to apply the simplified premium allocation approach to most of its insurance and reinsurance contracts. IFRS 17 is yet to be endorsed by the EU.

In March 2018 the IASB issued 'Amendments to References to the Conceptual Framework in IFRS standards' amending some references to previous versions of the 'Conceptual Framework in IFRS Standards' and their accompanying documents and IFRS Practice Statements. These amendments are effective from 1 January 2020 and are endorsed by the EU.

In October 2018 the IASB issued 'Amendments to IAS 1 and IAS 8 Definition of Material.' This clarifies and aligns the definition of 'material' and provides guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. This is effective from 1 January 2020 and is endorsed by the EU.

Also, in October 2018 the IASB issued 'Amendments to IFRS 3 Business Combinations' which narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. This is effective from 1 January 2020 but is yet to be endorsed by the EU.

2. Critical accounting judgements and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underline the preparation of its financial information. The Group's principal accounting policies are set out on pages 158 to 166. Company law and IFRSs require the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable.

In the absence of an applicable standard or interpretation, IAS 8 'Accounting policies, Changes in Accounting Estimates and Errors' requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are discussed below.

2.1 Impairment provisions – financial assets

Accounting judgement

The Group makes a judgement that financial assets are impaired when there is objective evidence that an event or events since initial recognition of the assets have adversely affected the amount or timing of future cash flows from the asset. The determination of which events could have adversely affected the amount or timing of future cash flows from the asset requires judgement. In making this judgement, the Group evaluates, among other factors, the normal price volatility of the financial asset, the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flow or whether there has been a significant or prolonged decline in the fair value of the asset below its cost. Impairment may be appropriate when there is evidence of deterioration in these factors. There was no evidence of impairment of any assets within the loan and receivables portfolio in the year ended 31 December 2019 (2018: £6 million).

On a quarterly basis, the Group reviews whether there is any objective evidence that a financial asset is impaired based on the following criteria:

- actual, or imminent, default on coupon interest or nominal;
- adverse movements in the credit rating for the investee/borrower;
- price performance of a particular AFS debt security, or group of AFS debt securities, demonstrating an adverse trend compared to the market as a whole; and
- an event has occurred that could be reliably estimated and which had an impact on the financial asset or its future cash flows.

Had all the declines in AFS asset values met the criteria above at 31 December 2019, the Group would suffer a loss of £4 million (2018: £21 million), being the transfer of the total AFS reserve for unrealised losses to the income statement. These movements represent mark-to-market movements and there was no objective evidence of any loss events that could affect future cash flows, no impairments have therefore been recorded.

2.2 Impairment provisions - intangible assets

Accounting judgement

Judgement is applied to determine whether there is indication of impairment to intangible assets. In making this judgement, the Group considers: the projection of the economic benefits associated with each asset; subsequent re-measurement of these benefits through the development cycle and into use; the projected ultimate cost of each asset at each point through the development cycle due to specification changes; and the likelihood of obsolescence of any component parts.

Sources of estimation uncertainty

Sources of estimation uncertainty can arise where there are indicators of impairment of an intangible asset and an impairment provision is deemed appropriate. Factors such as whether the carrying amount of the asset is expected to be greater than the recoverable amount are assessed and in 2019, the Group recognised an impairment provision of £1.3 million (2018: £1.5 million) in relation to ongoing IT projects primarily relating to the development of new systems. The sensitivity from the assumptions made by the Group in respect of the testing for impairment of intangible assets are shown in note 17.

2. Critical accounting judgements and key sources of estimation uncertainty continued

2.3 General insurance: outstanding claims provisions and related reinsurance recoveries

Source of estimation uncertainty

The Group makes provision for the full cost of outstanding claims from its general insurance business at the balance sheet date, including claims estimated to have been incurred but not yet reported at that date and claims handling costs. Outstanding claims provisions net of related reinsurance recoveries at 31 December 2019 amounted to £2,670.0 million (2018: £2,900.7 million).

Claims reserves are assessed separately for large and attritional claims, typically using standard actuarial methods of projection. Key sources of estimation uncertainty include those arising from the selection of specific methods as well as assumptions for claims frequency and severity through the review of historical claims and emerging trends. The Group seeks to adopt a conservative approach to assessing claims liabilities, as evidenced by the favourable development of historical claims reserves. Reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal actuarial best estimate. This margin is set by reference to various actuarial scenario assessments and reserve distribution percentiles. It also considers other long and short-term risks not reflected in the actuarial inputs, as well as management's view of the uncertainties in relation to the actuarial best estimate.

The corresponding reinsurance recoveries are calculated on an equivalent basis, with similar estimation uncertainty, as discussed in note 1.6. The reinsurance bad debt provision is mainly held against expected recoveries on future PPO payments.

The most common method of settling bodily injury claims is by a lump sum. When this includes an element of indemnity for recurring costs, such as loss of earnings or ongoing medical care, the settlement calculations apply the statutory discount rate (known as the Ogden discount rate) to reflect the fact that payment is made on a one-off basis rather than periodically over time. The Ogden discount rate changed from 2.5% to minus 0.75% in 2017 in England, Wales and Scotland, reflecting the low interest rate environment, and case law holding that claimants were entitled to invest purely in zero risk investments, such as index-linked gilts. The Civil Liability Act 2018 changed the law in two ways: firstly, by requiring the Government to review the Ogden discount rate at least every five years, and secondly to do so by reference to low risk rather than very low or zero risk investments.

At 31 December 2018, the Group decided that it was likely that the Ogden discount rate would change in 2019 and selected an estimate of 0% to value its lump sum bodily injury reserves. When the Ogden discount rate review process subsequently concluded in July 2019, the discount rate increased from minus 0.75% to minus 0.25% for England and Wales. As the Ogden discount rate is a devolved matter in Scotland and Northern Ireland, it has remained at minus 0.75% in Scotland by choice, and at 2.5% in Northern Ireland.

The Group reserves its large bodily injury claims at the relevant discount rate for each jurisdiction, with the overwhelming majority now reserved at minus 0.25% as most will be settled under the law in England and Wales. The Ogden discount rate will be reviewed again at the latest in 2024 but, following the change in 2017, only small movements are expected in future. These will have a low impact on the Group's reserves. This is also a function of the ongoing reduction in large bodily injury exposures as a result of continued positive prior-year development of claims reserves, and a higher proportion of reserves being covered by reinsurance as a result of the decision to opt for a lower reinsurance attachment point from 2014 onwards.

The Group settles some large bodily injury claims as PPOs rather than lump sum payments. The Group has estimated the likelihood of large bodily injury claims settling as PPOs. In line with the Group's experience, and the negative Ogden discount rate, the assumed PPO propensity has reduced in 2019. Anticipated PPOs consist of both existing large loss case reserves including allowances for development and claims yet to be reported to the Group. Reinsurance is applied at claim level and the net cash flows are discounted for the time value of money. The discount rate is consistent with the long duration of the claims payments and the assumed future indexation of the claims payments.

The table in note 34 to the financial statements provides an analysis of outstanding PPO claims provisions on a discounted and an undiscounted basis at 31 December 2019 and 31 December 2018 and further details on sources of estimation uncertainty. Details of sensitivity analysis to the discount rate applied to PPO claims are shown in note 3.3.1.

3. Risk management

3.1 Enterprise Risk Management Strategy and Framework

The Enterprise Risk Management Strategy and Framework sets out, at a high level, the Group's approach and processes for managing risks. Further information can be found in the Risk management section of the Strategic report on page 52.

3.2 Risk and capital management modelling

The Board has ultimate responsibility for ensuring that the Group has sufficient funds to meet its liabilities as they fall due. The Group carries out detailed modelling of its assets, liabilities and the key risks to which these are exposed. This modelling includes the Group's own assessment of its SCR, using its Partial Internal Model approved by the PRA in 2016. The SCR quantifies the insurance, market, credit, operational and liquidity risks that the regulated entities are undertaking.

The Board is closely involved in the SCR process and reviews, challenges and approves its assumptions and results.

3.3 Principal risks from insurance activities and use of financial instruments

The Risk management section of the Strategic report also sets out all the risks assessed by the Group as principal risks. Detailed below is the Group's risk exposure arising from its insurance activities and use of financial instruments specifically in respect of insurance risk, market risk, credit risk, operational risk and liquidity risk.

There is considerable uncertainty as to the effect of Brexit on the Group and the Group has proactively considered a variety of possible implications of a disruptive end to the Brexit implementation period on 31 December 2020, including of a financial and operational nature; these are referred to in the Risk management section of the Strategic report.

3.3.1 Insurance risk

The Group is exposed to insurance risk as a primary consequence of its business. Key insurance risks focus on the risk of loss due to fluctuations in the timings, amount, frequency and severity of an insured event relative to the expectations at the time of underwriting.

The Group is mainly exposed to the following insurance risks:

Reserve risk

Reserve risk relates to both premium and claims. This is the risk of understatement or overstatement of reserves arising from:

- the uncertain nature of claims;
- data issues and changes to the claims reporting process;
- operational failures;
- failure to recognise claims trends in the market; and
- changes in underwriting and business written so that past trends are not necessarily a predictor of the future.

Understatement of reserves may result in not being able to pay claims when they fall due. Alternatively, overstatement of reserves can lead to a surplus of funds being retained resulting in opportunity cost; for example, lost investment return or insufficient resource to pursue strategic projects and develop the business.

Reserve risk is controlled through a range of processes:

- regular reviews of the claims and premiums, along with an assessment of the requirement for a liability adequacy provision for the main classes of business by the internal actuarial team;
- the use of external actuaries to review periodically the actuarial best estimate reserves produced internally, either through peer review or through provision of independent reserve estimates;
- accompanying all reserve reviews with actuarial assessment of the uncertainties through a variety of techniques including bootstrapping and scenario analysis;
- oversight of the reserving process by relevant senior management and the Board;
- regular reconciliation of the data used in the actuarial reviews against general ledger data and reconciliation of the claims data history against the equivalent data from prior reviews; and
- regular assessment of the uncertainty in the reserves to help the Board set management best estimate reserves.

The Group's reserves are subject to the risk of retrospective changes in judicial conditions such as the recent changes in the Ogden discount rate. Detailed information on the Ogden discount rate is provided in note 2.3.

Uncertainty in claims reserves estimation is larger for claims such as PPOs for which annually indexed payments are made, typically over the lifetime of the injured party. Claims reserves for PPOs are held on a discounted basis and are sensitive to a change in the discount rate.

3. Risk management continued

3.3.1 Insurance risk continued

The table below provides a sensitivity analysis of the potential net impact of a change in a single factor (the internal discount rate used for PPOs and separately the Ogden discount rate) with all other assumptions left unchanged. Other potential risks beyond the ones described could have additional financial impacts on the Group.

At 31 December	Increase / (decrease) in profit before tax[1,2] 2019 £m	2018 £m
PPOs[3]		
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	**48.5**	50.7
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(66.5)**	(70.1)
Ogden discount rate[4]		
Impact of the Group reserving at a discount rate of 0.75% compared to minus 0.25% (2018: 1% compared to 0%)	**53.3**	56.2
Impact of the Group reserving at a discount rate of minus 1.25% compared to minus 0.25% (2018: minus 1% compared to 0%)	**(75.0)**	(76.3)

Notes:

1. These sensitivities are net of reinsurance and exclude the impact of taxation.
2. These sensitivities reflect one-off impacts at 31 December and should not be interpreted as predictions.
3. The sensitivities relating to an increase or decrease in the real discount rate used for PPOs illustrate a movement in the time value of money from the assumed level of 0% for reserving. The PPO sensitivity has been calculated on the direct impact on the change in the internal discount rate with all other factors remaining unchanged.
4. Ogden discount rate sensitivity has been calculated on the direct impact of a permanent change in the discount rate in England and Wales with all other factors remaining unchanged. The Group will consider the statutory discount rate when setting its reserves but not necessarily provide on this basis, as was the case at the year ended 31 December 2018. This is intended to ensure that reserves are appropriate for current and potential future developments.

The sensitivity above is calculated on the basis of a change in the internal discount rate used for the actuarial best estimate reserves as at 31 December 2019. It does not take into account any second order impacts such as changes in PPO propensity or reinsurance bad debt assumptions.

There is the risk that claims are reserved or paid inappropriately, including the timing of such activity. However, there are claims management controls in place to mitigate this risk, as outlined below:

- claims are managed utilising a range of IT system-driven controls coupled with manual processes outlined in detailed policies and procedures to ensure claims are handled in an appropriate, timely and accurate manner;
- each member of staff has a specified handling authority, with controls preventing them handling or paying claims outside their authority, as well as controls to mitigate the risk of paying invalid claims. In addition, there are various outsourced claims handling arrangements, all of which are monitored closely by management, with similar principles applying in terms of the controls and procedures;
- loss adjustors are used in certain circumstances to handle claims to conclusion. This involves liaison with the policyholder, third parties, suppliers and the claims function;
- specialist bodily injury claims teams are responsible for handling these types of losses with the nature of handling dependent on the level and type of claim. Claims exceeding a certain threshold are referred to the technical and large loss teams who also deal with all other claim types above defined limits or within specific criteria; and
- a process is in place to deal with major weather and other catastrophic events, known as the ‘Surge Demand Plan’. A surge is the collective name given to an incident which significantly increases the volume of claims reported to the Group’s claims function. The plan covers surge demand triggers, stages of incident, operational impact, communication and management information monitoring of the plan.

Underwriting risk

This is the risk that future claims experience on business written is materially different from the results expected, resulting in current-year losses. The Group predominantly underwrites personal lines insurance including motor, residential property, roadside assistance, creditor, travel and pet business. The Group also underwrites commercial risks primarily for low-to-medium risk trades within the small and medium-sized enterprises market. Contracts are typically issued on an annual basis which means that the Group’s liability usually extends for a 12-month period, after which the Group is entitled to decline to renew or can revise renewal terms by amending the premium or other policy terms and conditions such as the excess as appropriate.

Underwriting risk includes catastrophe risk and the risk of loss, or of adverse change in the value of the insurance liabilities resulting from significant uncertainty of pricing, underwriting and provisioning assumptions related to extreme or exceptional circumstances.

When underwriting policies, the Group is subject to concentration risk in a variety of forms, including:

- geographic concentration risk – the Group purchases a catastrophe reinsurance programme to protect against a modelled 1 in 200-years catastrophe loss. The programme is structured with the retention and limits expressed as percentages of gross earned premium. At 31 December 2019 this was the equivalent of £1,000.0 million (118% of gross earned premium of the previous 12 months) in excess of a retained deductible of £132.5 million (15.64% of gross earned premium);
- product concentration risk – the Group's business is heavily concentrated in the UK general insurance market. However, the Group offers a diversified portfolio of products and a variety of brands sold through a range of distribution channels to its customers; and
- sector concentration risk – the concentration of the Group to any given industry sector is monitored and analysed in respect of commercial customers.

It is important to note that none of these risk categories is independent of the others and that giving due consideration to the relationship between these risks is an important aspect of the effective management of insurance risk.

Distribution risk

The risk of a material reduction in profit compared to plan due to the Group not writing its planned policy volumes in each segment.

Pricing risk

The risk of economic loss arising from business being incorrectly priced or underwritten.

Reinsurance risk

This is the risk of inappropriate selection and/or placement of reinsurance arrangements, with either individual or multiple reinsurers, which renders the transfer of insurance risk to the reinsurer(s) inappropriate and/or ineffective.

Other risks include:

- reinsurance concentration risk – the concentration of credit exposure to any given counterparty;
- reinsurance capacity being reduced and/or withdrawn;
- underwriting risk appetite and reinsurance contract terms not being aligned;
- reinsurance contract terms being inappropriate or ineffective resulting in classes or types of business not being appropriately reinsured;
- non-adherence to the reinsurance policy terms and conditions, in terms of both policy management and claims not being handled within the reinsurance contract terms and conditions or paid on an ex-gratia basis resulting in reinsurance recoveries not being made in full;
- inappropriate or inaccurate management information and/or modelling being used to determine the value for money and purchasing of reinsurance (including aggregate modelling); and
- changes in the external legal, regulatory, social or economic environment (including changes resulting from climate change) altering the definition and application of reinsurance policy wordings or the effectiveness or value for money of reinsurance.

The Group uses reinsurance to:

- protect the underwriting result against low-frequency, high-severity losses through the transfer of catastrophe claims volatility to reinsurers;
- protect the underwriting result against unforeseen volumes of, or adverse trends in, large individual claims in order to reduce volatility and to improve stability of earnings;
- reduce the Group's capital requirements; and/or
- transfer risk that is not within the Group's current risk appetite.

3.3.2 Market risk

Market risk is the risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

The Group is mainly exposed to the following market risk factors:

- spread risk;
- interest rate risk;
- property risk; and
- currency risk.

The Group has policies and limits approved by the Investment Committee for managing the market risk exposure. These set out the principles that the business should adhere to for managing market risk and establishing the maximum limits the Group is willing to accept having considered strategy, risk appetite and capital resources.

The Group monitors its market risk exposure on a monthly basis and, in addition, has established an aggregate exposure limit consistent with its risk objective to maintain capital adequacy. Interdependencies across risk types have also been considered within the aggregate exposure limit. The allocation of the Group's investments across asset classes has been approved by the Investment Committee.

3. Risk management continued

3.3.2 Market risk continued

The strategic asset allocation within the investment portfolio is reviewed by the Investment Committee, which makes recommendations to the Board for its investment strategy approval. The Investment Committee determines policy and controls, covering such areas as risk, liquidity and performance. The Investment Committee meets at least three times a year to evaluate risk exposure, the current strategy, associated policies and investment guidelines and to consider investment recommendations submitted to it. Oversight of the implementation of decisions taken by the Investment Committee is via the First and Second Lines of Defence.

The investment management objectives are to:

- maintain the safety of the portfolio's principal both in economic terms and from a capital, accounting and reporting perspective;
- maintain sufficient liquidity to provide cash requirements for operations, including in the event of a catastrophe; and
- maximise the portfolio's total return within the constraints of the other objectives and the limits defined by the investment guidelines and capital allocation.

The Group has a property portfolio and an infrastructure debt portfolio to generate a real return which, from an asset liability matching perspective, is used to offset the liability arising from longer duration PPOs.

When setting the strategic asset allocation, the Group is subject to concentration risk in a variety of forms including:

- large exposures to individual assets (either bond issuers or deposit-taking institutions); and
- large exposures to different assets where movements in values and ratings are closely correlated.

Concentration risk on investments arises through excessive exposure to particular industry sectors, groups of business undertakings or similar activities. The Group may suffer significant losses in its investment portfolio as a result of over exposure to particular sectors engaged in similar activities or similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The table below analyses the distribution of debt securities by geographical area (commercial real estate loans and infrastructure debt are all within the UK).

At 31 December 2019	Corporate £m	Local government £m	Sovereign £m	Supranational £m	**Debt securities total £m**
Australia	198.1	–	–	–	**198.1**
Austria	17.8	–	–	–	**17.8**
Belgium	35.6	–	–	–	**35.6**
Canada	89.7	–	–	–	**89.7**
Cayman Islands	14.1	–	–	–	**14.1**
Denmark	7.6	–	–	–	**7.6**
Finland	19.9	12.1	–	–	**32.0**
France	293.8	7.0	0.7	–	**301.5**
Germany	176.4	–	1.3	–	**177.7**
Ireland	12.9	–	–	–	**12.9**
Italy	30.2	–	–	–	**30.2**
Japan	33.6	–	–	–	**33.6**
Luxembourg	8.0	–	–	–	**8.0**
Mexico	17.2	–	–	–	**17.2**
Netherlands	133.4	–	0.3	–	**133.7**
New Zealand	34.7	–	–	–	**34.7**
Norway	23.2	10.1	–	–	**33.3**
South Africa	2.4	–	–	–	**2.4**
South Korea	3.0	–	–	–	**3.0**
Spain	67.1	–	–	–	**67.1**
Sweden	77.4	–	–	–	**77.4**
Switzerland	86.5	–	–	–	**86.5**
UK	1,105.5	–	91.8	–	**1,197.3**
USA	1,540.4	–	5.4	–	**1,545.8**
Zambia	1.1	–	–	–	**1.1**
Supranational	–	–	–	31.3	**31.3**
Total	**4,029.6**	**29.2**	**99.5**	**31.3**	**4,189.6**

The table below analyses the distribution of debt securities by geographical area (commercial real estate loans and infrastructure debt are all within the UK).

At 31 December 2018	Corporate £m	Local government £m	Sovereign £m	Supranational £m	Debt securities total £m
Australia	169.5	–	–	–	169.5
Austria	11.3	–	–	–	11.3
Belgium	37.2	–	–	–	37.2
Bermuda	1.5	–	–	–	1.5
Canada	72.7	–	–	–	72.7
Cayman Islands	5.7	–	–	–	5.7
Denmark	12.0	–	–	–	12.0
Finland	22.5	12.0	–	–	34.5
France	217.1	7.5	–	–	224.6
Germany	200.5	–	–	–	200.5
Hong Kong	6.3	–	–	–	6.3
Ireland	13.8	–	–	–	13.8
Italy	38.7	–	–	–	38.7
Japan	33.9	–	–	–	33.9
Luxembourg	2.6	–	–	–	2.6
Mexico	14.3	–	–	–	14.3
Netherlands	139.9	–	–	–	139.9
New Zealand	27.0	–	–	–	27.0
Norway	15.8	10.0	–	–	25.8
Spain	35.2	–	–	–	35.2
Sweden	85.4	–	–	–	85.4
Switzerland	64.5	–	–	–	64.5
UK	1,081.6	–	156.9	–	1,238.5
USA	1,708.0	–	–	–	1,708.0
Supranational	–	–	–	43.2	43.2
Total	4,017.0	29.5	156.9	43.2	4,246.6

The table below analyses the distribution of debt securities by industry sector classifications.

At 31 December	**2019** £m	**2019** %	2018 £m	2018 %
Basic materials	**121.0**	**3%**	104.4	2%
Communications	**262.2**	**6%**	241.9	6%
Consumer, cyclical	**305.1**	**7%**	312.8	8%
Consumer, non-cyclical	**405.5**	**10%**	449.8	11%
Diversified	**6.4**	**0%**	51.8	1%
Energy	**181.7**	**4%**	206.9	5%
Financial	**1,861.7**	**44%**	1,817.6	43%
Industrial	**293.5**	**7%**	233.3	5%
Sovereign, supranational and local government	**160.1**	**4%**	229.6	5%
Technology	**145.3**	**4%**	115.5	3%
Transport	**13.4**	**0%**	13.4	0%
Utilities	**433.7**	**11%**	469.6	11%
Total	**4,189.6**	**100%**	4,246.6	100%

3. Risk management continued

3.3.2 Market risk continued

The table below analyses the distribution of infrastructure debt by industry sector classifications.

At 31 December	2019 £m	2019 %	2018 £m	2018 %
Social, of which:				
Education	**121.1**	**44%**	125.8	44%
Healthcare	**73.2**	**26%**	76.0	26%
Other	**53.5**	**19%**	54.9	19%
Transport	**30.3**	**11%**	32.9	11%
Total	**278.1**	**100%**	289.6	100%

The Group uses its internal economic capital model to determine its capital requirements and market risk limits and monitors its market risk exposure based on a 99.5% value-at-risk measure. The Group also applies market risk stress and scenario testing for the economic impact of specific severe market conditions. The results of this analysis are used to enhance the understanding of market risk. The market risk minimum standard explicitly prohibits the use of derivatives for speculative or gearing purposes. However, the Group is able to and does use derivatives for hedging its currency risk and interest rate risk exposures.

Spread risk

This is the risk of loss from the sensitivity of the value of assets and investments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. The level of spread is the difference between the risk-free rate and actual rate paid on the asset, with larger spreads being associated with higher risk assets. The Group is exposed to spread risk through its asset portfolio, most notably through its investment in corporate bonds.

Net interest rate risk

This is the risk of loss from changes in the term structure of interest rates or interest rate volatility which impact assets and liabilities. The Group's interest rate risk arises mainly from its debt, floating interest rate investments and assets and liabilities exposed to fixed interest rates.

The Group has subordinated guaranteed dated notes with fixed coupon rates which were issued on 27 April 2012 at a fixed rate of 9.25% and have a redemption date of 27 April 2042; at the same time the Group entered into a 10-year designated hedging instrument, to exchange the fixed rate of interest on these notes to a floating rate, to hedge exposure to interest rate.

Of the £500 million notes issued, the Group has bought back a total nominal value of £250 million.

The hedging relationship was redesignated to reflect this transaction and ensure continuing hedge effectiveness.

The Group also has perpetual Tier 1 notes with fixed coupon rates with a nominal value of £350 million that were issued on 7 December 2017.

The Group also invests in floating rate debt securities, whose investment income is influenced by the movement of the short-term interest rate. A movement of the short-term interest rate will affect the expected return on these investments.

The market value of the Group's financial investments with fixed coupons is affected by the movement of interest rates. For the majority of investments in US dollar and Euro corporate bonds, excluding £398.9 million of short duration high yield bonds (2018: £405.2 million) and £176.1 million of subordinated financial debt (2018: £167.6 million), the Group hedges the exposure of this portfolio to the US dollar and Euro interest rate risk using swaps.

The Group is exposed to the following interest rate benchmarks within its hedge accounting relationships, which are subject to interest rate benchmark reform: GBP LIBOR, USD LIBOR and EURIBOR (collectively 'IBORs'). As listed in note 1, the hedged items include issued sterling fixed rate subordinated debt and holdings of US dollar and Euro denominated fixed rate debt securities.

As well as the benchmark interest rate exposures described in note 1, the Group has material non-derivative financial instruments in its investment portfolio that are not included in hedge accounting relationships. Given hedge accounting is not applied, there is no accounting relief. The fair values of these financial assets reflect the uncertainties arising from the interest rate benchmark reforms.

The Group is closely monitoring the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the FCA and the US Commodity Futures Trading Commission) regarding the transition away from LIBOR (including GBP LIBOR, USD LIBOR) to Sterling Overnight Index Average Rate and the Secured Overnight Financing Rate respectively and announcements on the transition from EURIBOR to Euro Short Term Rate. The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

In response to the announcements, the Group has prepared an IBOR transition plan which has been reviewed by the Board's Investment Committee and shared with the PRA. The plan identifies where the Group has IBOR exposures and the departments responsible for ensuring suitable actions/monitoring is in place to enable a smooth transition to alternative benchmark rates. Delivering the plan is under the governance of the Chief Financial Officer.

Some of the Group's current GBP LIBOR linked loan contracts do contain fall back provisions for the cessation of the referenced benchmark interest rate. Different working groups in the industry are working on fall back language for different instruments and different IBORs, which the Group is monitoring closely and will look to implement when appropriate.

For the Group's derivatives, the International Swaps and Derivatives Association's fall-back clauses were made available at the end of 2019 and the Group will begin discussion with its banks with the aim to implement this language into its International Swaps and Derivatives Association's agreements in early 2020.

Below are details of the hedging instruments and hedged items in scope of the IFRS 9 / IAS 39 amendments due to benchmark interest rate reform, by hedge type.

Hedge Type	Instrument type	Maturing in	Nominal	Hedged item
Fair value hedges	Pay 3-month GBP LIBOR, receive sterling fixed interest rate swap	2022	£250 million	Sterling fixed rate issued subordinated debt of the same maturity and nominal as the swap
	Pay USD fixed, receive 3-month USD LIBOR interest rate swaps	2022 - 2050	US$151 million	Portfolio fair value hedge of the 3-month USD LIBOR component of US dollar denominated fixed rate debt securities
	Pay USD fixed, receive 1-month USD LIBOR interest rate swaps	2020 - 2028	US$901 million	Portfolio fair value hedge of the 1-month USD LIBOR component of US dollar denominated fixed rate debt securities
	Pay Euro fixed, receive 6-month EURIBOR interest rate swaps	2022 - 2040	€102 million	Portfolio fair value hedge of the 6-month EURIBOR component of Euro denominated fixed rate debt securities

The Group will continue to apply the amendments to IFRS 9/IAS 39 until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the Group is exposed ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference IBORs are amended to specify the date the interest rate benchmark will be replaced and the cash flows of the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependent on the introduction of fall-back clauses which have yet to be added to some of the Group's contracts and the negotiation with borrowers.

Property risk

This is the risk of loss arising from sensitivity of assets and financial investments to the level or volatility of market prices, rental yields, or occupancy rates of properties. At 31 December 2019, the value of these property investments was £291.7 million (2018: £322.1 million). The property investments are located in the UK.

Currency risk

This is the risk of loss from changes in the level or volatility of currency exchange rates.

Exposure to currency risk is generated by the Group's investments in US dollar and Euro denominated corporate bonds.

The Group maintains exposure to US dollar securities through £1,366.1 million (2018: £1,699.3 million) of investments in US dollar corporate bonds and Euro securities through £359.1 million (2018: £79.4 million) of Euro corporate bonds. The foreign currency exposure of these investments is hedged by foreign currency forward contracts, maintaining a minimal unhedged currency exposure on these portfolios, as well as a low basis risk on the hedging contracts.

A limited exposure to currency risk also arises through the Group's insurance and other contractual liabilities.

Currency risk is not material at Group level.

3. Risk management continued

3.3.2 Market risk continued

Use of derivatives

As mentioned above, the Group uses derivatives to hedge against interest rate and currency risk.

The tables below analyse the maturity of the Group's derivative assets and liabilities.

At 31 December 2019	Notional amounts £m	Maturity and fair value: Less than 1 year £m	1 – 5 years £m	Over 5 years £m	Total £m
Derivative assets					
At fair value through the income statement:					
Foreign exchange contracts (forwards)	**2,310.3**	112.1	–	–	**112.1**
Designated as hedging instruments:					
Foreign exchange contracts (forwards)	**7.8**	0.4	–	–	**0.4**
Interest rate swaps	**277.7**	0.7	8.3	–	**9.0**
Total	**2,595.8**	**113.2**	**8.3**	**–**	**121.5**

At 31 December 2019	Notional amounts £m	Maturity and fair value: Less than 1 year £m	1 – 5 years £m	Over 5 years £m	Total £m
Derivative liabilities					
At fair value through the income statement:					
Foreign exchange contracts (forwards)	**652.6**	10.1	–	–	**10.1**
Designated as hedging instruments:					
Foreign exchange contracts (forwards)	**10.4**	0.2	–	–	**0.2**
Interest rate swaps	**853.2**	2.6	2.8	14.8	**20.2**
Total	**1,516.2**	**12.9**	**2.8**	**14.8**	**30.5**

At 31 December 2018	Notional amounts £m	Maturity and fair value: Less than 1 year £m	1 – 5 years £m	Over 5 years £m	Total £m
Derivative assets					
At fair value through the income statement:					
Foreign exchange contracts (forwards)	1,354.6	19.2	–	–	19.2
Designated as hedging instruments:					
Foreign exchange contracts (forwards)	18.5	1.2	0.2	–	1.4
Interest rate swaps	1,198.3	(2.7)	15.9	14.4	27.6
Total	2,571.4	17.7	16.1	14.4	48.2

At 31 December 2018	Notional amounts £m	Maturity and fair value: Less than 1 year £m	1 – 5 years £m	Over 5 years £m	Total £m
Derivative liabilities					
At fair value through the income statement:					
Foreign exchange contracts (forwards)	1,716.2	20.6	–	–	20.6
Designated as hedging instruments:					
Interest rate swaps	341.2	0.4	0.4	4.5	5.3
Total	2,057.4	21.0	0.4	4.5	25.9

Sensitivity analysis

The table below provides a sensitivity analysis of the potential impact on financial investments and derivatives of a change in a single factor with all other assumptions left unchanged. Other potential risks beyond the ones described in the table could have an additional financial impact on the Group.

	Increase / (decrease) in profit before tax[1]		Decrease in total equity[1] at 31 December	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Spread				
Impact of a 100 basis points increase in spreads on financial investments[2,3]	**–**	–	**(146.4)**	(171.1)
Interest rate				
Impact of a 100 basis points increase in interest rates on financial investments and derivatives[2,3,4]	**12.0**	15.6	**(103.7)**	(101.1)
Investment property				
Impact of a 15% decrease in property markets	**(43.8)**	(48.3)	**(43.8)**	(48.3)

Notes:
1. These sensitivities exclude the impact of taxation.
2. The income statement impact on financial investments is limited to floating rate instruments and interest rate derivatives used to hedge a portion of the portfolio. The income statement is not impacted in relation to fixed rate instruments, in particular AFS debt securities, where the coupon return is not impacted by a change in prevailing market rates, as the accounting treatment for AFS debt securities means that only the coupon received is processed through the income statement with fair value movements being recognised through total equity.
3. The increase or decrease in total equity does not reflect any fair value movement in infrastructure debt, HTM debt securities and commercial real estate loans that would not be recorded in the financial statements under IFRSs as they are classified as loans and receivables and HTM respectively, which are carried at amortised cost. It is estimated that a fair value reduction in these asset categories resulting from a 100 basis points increase in spreads would have been £16.7 million (2018: £22.2 million) and a 100 basis points increase in interest rate would have been £4.9 million (2018: £5.8 million).
4. The sensitivities set out above reflect one-off impacts at 31 December with the exception of the income statement interest rate sensitivity on financial investments and derivatives, which projects a movement in a full year's interest charge as a result of the increase in the interest rate applied to these assets or liabilities on those positions held at 31 December.
5. The sensitivities set out above have not considered the impact of the general market changes on the value of the Group's insurance liabilities or retirement benefit obligations. They reflect one-off impacts at 31 December and should not be interpreted as predictions.

The Group has a number of open interest rate and foreign exchange derivative positions. Collateral management arrangements are in place for significant counterparty exposures. At 31 December 2019, the Group has pledged £37.8 million in cash (2018: £31.8 million and £2.9 million in UK Gilts) to cover initial margins and out-of-the-money derivative positions. At 31 December 2019, counterparties have pledged £0.3 million in cash and £9.2 million in UK Gilts (2018: £24.0 million in cash and £7.6 million in UK Gilts) to the Group to cover in-the-money derivative positions.

The terms and conditions of collateral pledged for both assets and liabilities are market standard. When securities are pledged they are required to be readily convertible to cash, and as such no policy has been established for the disposal of assets not readily convertible into cash.

3.3.3 Credit risk

This is the risk of loss resulting from defaults in obligations due and/or changes in credit standing of either issuers of securities, counterparties or any debtors to which the Group is exposed. The Group is mainly exposed to counterparty default risk.

Counterparty default risk

This is the risk of loss from unexpected default or deterioration in the credit standing of the counterparties and debtors of Group undertakings. This risk is monitored by three forums: the Investment Risk Forum monitors credit spreads as indicators of potential losses on investments incurred but not yet realised; the Credit Risk Forum monitors reinsurance and corporate insurance counterparty default risk; and the NIG Credit Committee is responsible for monitoring broker credit risk. The main responsibility of these forums is to ensure that all material aspects of counterparty default risk within the Group are identified, monitored and measured.

The main sources of counterparty default risk for the Group are:

– investments – this arises from the investment of funds in a range of investment vehicles permitted by the investment policy;
– reinsurance recoveries – this arises in respect of reinsurance claims against which a reinsurance bad debt provision is assessed. PPOs have the potential to increase the ultimate value of a claim and, by their very nature, to increase significantly the length of time to reach final payment. This can increase reinsurance counterparty default risk in terms of both amount and longevity;
– commercial credit – this arises as brokers collect premiums on behalf of the Group; and
– consumer credit – exposure from offering monthly instalments on annual insurance contracts.

3. Risk management continued

3.3.3 Credit risk continued

The Group cedes insurance risk to reinsurers but, in return, assumes counterparty default risk against which a reinsurance bad debt provision is assessed. The financial security of the Group's panel of reinsurers is therefore important and both the quality and amount of the assumed counterparty default risk are subject to an approval process whereby reinsurance is only purchased from reinsurers that hold a credit rating of at least A– at the time cover is purchased. The Group's leading counterparty exposures are reviewed on a quarterly basis by the Head of Reinsurance and Corporate Insurance. The Group aims to contract with a diverse range of reinsurers on its contracts to mitigate the credit and/or non-payment risks associated with its reinsurance exposures.

Certain reinsurance contracts have long durations as a result of bodily injury and PPO claims, and insurance reserves therefore include provisions beyond the levels created for shorter-term reinsurance bad debt. For these contracts, reinsurance is only purchased from reinsurers that hold a credit rating of at least A+ at the time cover is purchased.

The following tables analyse the carrying value of financial and insurance assets that bear counterparty default risk between those assets that have not been impaired by age in relation to due date, and those that have been impaired.

At 31 December 2019	Neither past due nor impaired £m	Past due 1 – 90 days £m	Past due more than 90 days £m	Assets that have been impaired £m	Carrying value in the balance sheet £m
Reinsurance assets	1,251.2	–	0.1	–	1,251.3
Insurance and other receivables	805.9	40.5	0.1	–	846.5
Derivative assets	121.5	–	–	–	121.5
Debt securities	4,189.6	–	–	–	4,189.6
Infrastructure debt	278.1	–	–	–	278.1
Commercial real estate loans	205.7	–	–	–	205.7
Cash and cash equivalents[1]	948.6	–	–	–	948.6
Total	**7,800.6**	**40.5**	**0.2**	**–**	**7,841.3**

At 31 December 2018	Neither past due nor impaired £m	Past due 1 – 90 days £m	Past due more than 90 days £m	Assets that have been impaired £m	Carrying value in the balance sheet £m
Reinsurance assets	1,208.7	–	–	–	1,208.7
Insurance and other receivables	836.0	39.6	0.3	–	875.9
Derivative assets	48.2	–	–	–	48.2
Debt securities	4,246.6	–	–	–	4,246.6
Infrastructure debt	289.6	–	–	–	289.6
Commercial real estate loans	201.6	–	–	–	201.6
Cash and cash equivalents[1]	1,154.4	–	–	–	1,154.4
Total	7,985.1	39.6	0.3	–	8,025.0

Note:
1. This represents money market funds with no notice period for withdrawal and cash at bank and in hand.

Within the analysis of debt securities above are bank debt securities at 31 December 2019 of £ 1,292.2 million (2018: £1,125.2 million) that can be further analysed as: secured £20.9 million (2018: £63.0 million); unsecured £1,105.5 million (2018: £949.8 million); and subordinated £165.8 million (2018: £112.4 million).

The tables below analyse the credit quality of debt securities that are neither past due nor impaired.

At 31 December 2019	AAA £m	AA+ to AA– £m	A+ to A– £m	BBB+ to BBB– £m	BB+ and below £m	Total £m
Corporate	70.9	498.8	1,809.2	1,259.9	390.8	4,029.6
Supranational	31.3	–	–	–	–	31.3
Local government	10.1	19.1	–	–	–	29.2
Sovereign	6.7	92.8	–	–	–	99.5
Total	**119.0**	**610.7**	**1,809.2**	**1,259.9**	**390.8**	**4,189.6**

At 31 December 2018	AAA £m	AA+ to AA– £m	A+ to A– £m	BBB+ to BBB– £m	BB+ and below £m	Total £m
Corporate	145.8	549.3	1,785.0	1,143.0	393.9	4,017.0
Supranational	38.7	4.5	–	–	–	43.2
Local government	10.0	19.5	–	–	–	29.5
Sovereign	–	156.9	–	–	–	156.9
Total	194.5	730.2	1,785.0	1,143.0	393.9	4,246.6

The tables below analyse the credit quality of financial and insurance assets that are neither past due nor impaired (excluding debt securities analysed above). The tables include reinsurance exposure, after provision. The Group's approach to reinsurance counterparty default risk is detailed on page 177.

At 31 December 2019	AAA £m	AA+ to AA– £m	A+ to A– £m	BBB+ to BBB– £m	BB+ and below £m	Not rated £m	Total £m
Reinsurance assets	–	842.0	406.3	2.3	–	0.6	**1,251.2**
Insurance and other receivables[1]	–	2.8	30.3	11.3	–	761.5	**805.9**
Derivative assets	–	111.5	10.0	–	–	–	**121.5**
Infrastructure debt	–	–	75.8	202.3	–	–	**278.1**
Commercial real estate loans	–	46.6	118.9	26.7	13.5	–	**205.7**
Cash and cash equivalents[2]	725.5	123.7	98.8	0.6	–	–	**948.6**
Total	**725.5**	**1,126.6**	**740.1**	**243.2**	**13.5**	**762.1**	**3,611.0**

At 31 December 2018	AAA £m	AA+ to AA– £m	A+ to A– £m	BBB+ to BBB– £m	BB+ and below £m	Not rated £m	Total £m
Reinsurance assets	–	837.4	366.9	3.0	–	1.4	1,208.7
Insurance and other receivables[1]	–	7.0	15.7	16.1	–	797.2	836.0
Derivative assets	–	15.5	22.6	10.1	–	–	48.2
Infrastructure debt	–	–	78.7	210.9	–	–	289.6
Commercial real estate loans	–	58.6	117.2	25.8	–	–	201.6
Cash and cash equivalents[2]	997.0	39.6	59.1	58.7	–	–	1,154.4
Total	997.0	958.1	660.2	324.6	–	798.6	3,738.5

Notes:
1. Includes receivables due from policyholders, agents, brokers and intermediaries which generally do not have a credit rating.
2. This represents money market funds with no notice period for withdrawal and cash at bank and in hand.

3.3.4 Operational risk

This is the risk of loss due to inadequate or failed internal processes, people, systems, or from external events. Material sources of operational risk for the Group include:

Change risk

This is the risk of failing to manage the Group's change portfolio resulting in conflicting priorities and failure to deliver strategic outcomes to time, cost or quality.

Technology and infrastructure risk

This is the risk that the IT infrastructure is insufficient to deliver the Group's strategy.

Outsourcing risk

This is the risk of failing to implement a robust framework for the sourcing, appointment and ongoing contract management of third-party suppliers, outsourced service providers and intragroup relationships. This includes both domestic and offshore outsourcing activities.

Information security risk

This is the risk of loss, corruption to Group or customer data, intellectual property or failure of business-critical systems resulting in reputational damage, regulatory censure, supervision, fines and/or loss of competitive advantage.

Partnership contractual obligations

This is the risk of contractual obligations not being delivered for business partners resulting in damaged reputation, the loss of contract at renewal, significant liability payments and/or the early termination of a partnership scheme.

The Group has in place agreed policies and standards to establish and monitor key controls relating to operational risk.

3. Risk management continued

3.3.5 Liquidity risk

This is the risk of being unable to access cash from the sale of investments or other assets in order to settle financial obligations as they fall due.

The measurement and management of the Group's liquidity risk is undertaken within the limits and other policy parameters of the Group's liquidity risk appetite and is detailed in the liquidity risk minimum standard. As part of this process the Investment and Treasury team are required to put in place a liquidity plan which must consider expected and stressed scenarios for cash in-flows and out-flows that is reviewed at least annually by the Investment Risk Committee. Compliance is monitored in respect of both the minimum standard and the regulatory requirements of the PRA.

The following table analyses the carrying value of financial investments and cash and cash equivalents, by contractual maturity, which can fund the repayment of liabilities as they crystallise.

At 31 December 2019	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	**Total £m**
Debt securities	506.1	1,054.8	1,089.7	1,391.3	147.7	**4,189.6**
Infrastructure debt	13.8	29.2	34.2	95.1	105.8	**278.1**
Commercial real estate loans	45.8	122.9	37.0	–	–	**205.7**
Cash and cash equivalents[1]	948.6	–	–	–	–	**948.6**
Total	**1,514.3**	**1,206.9**	**1,160.9**	**1,486.4**	**253.5**	**5,622.0**

At 31 December 2018	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	Total £m
Debt securities	411.5	907.1	1,153.4	1,612.3	162.3	4,246.6
Infrastructure debt	13.3	27.0	31.3	94.2	123.8	289.6
Commercial real estate loans	18.2	74.6	108.8	–	–	201.6
Cash and cash equivalents[1]	1,154.4	–	–	–	–	1,154.4
Total	1,597.4	1,008.7	1,293.5	1,706.5	286.1	5,892.2

Note:
1. This represents money market funds with no notice period for withdrawal and cash at bank and in hand.

The following table analyses the undiscounted cash flows of insurance and financial liabilities by contractual repricing or maturity dates, whichever is earlier.

At 31 December 2019	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	**Total £m**	Carrying value £m
Subordinated liabilities	23.1	284.7	–	–	–	**307.8**	259.0
Insurance liabilities[1]	1,120.0	1,000.1	514.9	428.0	2,096.7	**5,159.7**	3,819.6
Borrowings	52.3	–	–	–	–	**52.3**	52.3
Lease liabilities	18.3	32.8	29.1	48.8	95.7	**224.7**	164.4
Provisions	74.3	–	–	–	–	**74.3**	74.3
Trade and other payables, including insurance payables	473.7	4.2	0.2	–	–	**478.1**	478.1
Total	**1,761.7**	**1,321.8**	**544.2**	**476.8**	**2,192.4**	**6,296.9**	**4,847.7**

At 31 December 2018	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	Total £m	Carrying value £m
Subordinated liabilities	23.1	46.3	261.6	–	–	331.0	259.5
Insurance liabilities[1]	1,175.0	1,025.1	547.1	452.9	2,299.9	5,500.0	4,005.9
Borrowings	62.0	–	–	–	–	62.0	62.0
Lease liabilities	19.3	33.6	29.5	49.6	103.8	235.8	167.3
Provisions	72.8	–	–	–	–	72.8	72.8
Trade and other payables, including insurance payables	474.8	5.2	0.7	0.6	–	481.3	481.3
Total[2]	1,827.0	1,110.2	838.9	503.1	2,403.7	6,682.9	5,048.8

Notes:
1. Insurance liabilities exclude unearned premium reserves as there are no liquidity risks inherent in them.
2. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.

The following table analyses the undiscounted cash flows of derivative financial instruments, by contractual maturity.

At 31 December 2019	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	Total £m	Carrying value £m
Derivatives assets	116.1	5.5	–	–	–	**121.6**	121.5
Derivatives liabilities	(15.4)	(6.8)	(5.3)	(3.7)	–	**(31.2)**	(30.5)
Total	**100.7**	**(1.3)**	**(5.3)**	**(3.7)**	**–**	**90.4**	**91.0**

At 31 December 2018	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	Total £m	Carrying value £m
Derivatives assets	29.7	9.5	5.6	4.5	–	49.3	48.2
Derivatives liabilities	(24.5)	(0.5)	(0.5)	(0.7)	–	(26.2)	(25.9)
Total	5.2	9.0	5.1	3.8	–	23.1	22.3

3.4 Capital management

At 31 December 2019, the Group's capital position was comprised of shareholders' equity of £2,643.6 million (31 December 2018: £2,558.2 million) and Tier 1 notes of £346.5 million (31 December 2018: £346.5 million). In addition, the Group's balance sheet also included £259.0 million of subordinated loan capital (31 December 2018: £259.5 million) which is classified as Tier 2 for Solvency II purposes.

The Group manages capital in accordance with the Group’s capital management minimum standard, the aims of which are to manage capital efficiently and generate long-term sustainable value for shareholders, while balancing operational, regulatory, credit rating agency and policyholder requirements. The Group seeks to hold capital resources such that, in normal circumstances, the solvency capital ratio is around the middle of the target range of 140% to 180%.

The Group’s regulatory capital position is assessed against the Solvency II framework. From 1 July 2016, the Group gained approval to assess its SCR using a partial internal model, including a full internal economic capital model for the UKI underwriting entity. The model is calibrated to a 99.5% confidence interval and considers business written to date and one year of future written business over a one-year time horizon, in line with Solvency II requirements.

3.5 Capital adequacy (unaudited)

Using the Group’s partial internal model, there is a capital surplus of approximately £0.85 billion above an estimated SCR of £1.32 billion as at 31 December 2019 (31 December 2018: £0.89 billion and £1.26 billion respectively). The Group’s capital requirements and solvency position are produced and presented to the Board on a regular basis.

4. Segmental analysis

The Directors manage the Group primarily by product type and present the segmental analysis on that basis. The segments, which are all UK based, reflect the management structure whereby a member of the Executive Committee is accountable to the Chief Executive Officer for each of the operating segments:

Motor

This segment consists of personal motor insurance together with the associated legal protection cover. The Group sells motor insurance direct to customers through its own brands Direct Line, Churchill, Privilege and Darwin, and through partnership brands such as vehicle manufacturers and through PCWs.

Home

This segment consists of home insurance together with associated legal protection cover. The Group sells home insurance products through its brands Direct Line, Churchill and Privilege, and its partnership brands (Royal Bank of Scotland and NatWest), as well as through PCWs.

Rescue and other personal lines

This segment consists of rescue products which are sold direct through the Group’s own brand, Green Flag, and other personal lines insurance, including travel, pet and creditor sold through its own brands Direct Line, Churchill and Privilege, and through partnership brands and through PCWs.

Commercial

This segment consists of commercial insurance for small and medium-sized enterprises sold through the Group’s brands NIG, Direct Line for Business and Churchill. NIG sells its products exclusively through brokers operating across the UK. Direct Line for Business sells its products directly to customers, and Churchill sells its products directly to customers and through PCWs.

Restructuring and one-off costs

Restructuring costs are costs incurred in respect of the business activities which have a material effect on the nature and focus of the Group’s operations. One-off costs are costs that are non-recurring in nature.

4. Segmental analysis continued

No inter-segment transactions occurred in the year ended 31 December 2019 (2018: £nil). If any transaction were to occur, transfer prices between operating segments would be set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expenses and results will include those transfers between business segments which will then be eliminated on consolidation.

For each operating segment, there is no individual policyholder or customer that represents 10% or more of the Group's total revenue.

The table below analyses the Group's revenue and results by reportable segment for the year ended 31 December 2019.

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	**Total Group £m**
Gross written premium	1,651.6	586.6	436.0	528.9	**3,203.1**
Gross earned premium	1,653.2	598.8	427.4	523.2	**3,202.6**
Reinsurance premium	(145.5)	(25.2)	(2.2)	(44.8)	**(217.7)**
Net earned premium	1,507.7	573.6	425.2	478.4	**2,984.9**
Investment return	88.6	16.7	5.6	23.7	**134.6**
Instalment income	83.8	20.5	2.8	6.9	**114.0**
Other operating income	51.3	0.6	11.1	3.2	**66.2**
Total income	1,731.4	611.4	444.7	512.2	**3,299.7**
Insurance claims	(1,086.8)	(276.2)	(285.2)	(269.1)	**(1,917.3)**
Insurance claims recoverable from reinsurers	43.5	7.8	0.8	17.6	**69.7**
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 before restructuring and one-off costs	(345.6)	(136.7)	(94.0)	(117.4)	**(693.7)**
Total expenses	(385.5)	(192.4)	(121.2)	(206.1)	**(905.2)**
Operating profit	**302.6**	**150.6**	**39.1**	**54.6**	**546.9**
Restructuring and one-off costs					**(11.2)**
Operating profit after restructuring and one-off costs					**535.7**
Finance costs					**(26.0)**
Profit before tax					**509.7**

	Motor	Home	Rescue and other personal lines	Commercial	Total Group
Underwriting profit	**78.9**	**112.8**	**19.6**	**20.8**	**232.1**
Loss ratio	69.3%	46.8%	66.9%	52.7%	**61.9%**
Commission ratio	2.6%	9.7%	6.4%	18.5%	**7.1%**
Expense ratio	22.9%	23.8%	22.1%	24.5%	**23.2%**
Combined operating ratio	**94.8%**	**80.3%**	**95.4%**	**95.7%**	**92.2%**

The table below analyses the Group's assets and liabilities by reportable segment at 31 December 2019.

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	**Total £m**
Goodwill	129.6	45.8	28.7	10.1	**214.2**
Other segment assets	6,839.9	682.6	230.3	1,467.2	**9,220.0**
Segment liabilities	(4,770.4)	(489.1)	(154.6)	(1,030.0)	**(6,444.1)**
Segment net assets	**2,199.1**	**239.3**	**104.4**	**447.3**	**2,990.1**

The segmental analysis of assets and liabilities is prepared using a combination of asset and liability balances directly attributable to each operating segment and an apportionment of assets and liabilities managed at a Group wide level. This does not represent the Group's view of the capital requirements for its operating segments.

The table below analyses the Group's revenue and results by reportable segment for the year ended 31 December 2018[1] (restated).

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total Group £m
Gross written premium	1,671.2	606.9	422.8	511.0	3,211.9
Gross earned premium	1,684.3	698.0	416.6	507.8	3,306.7
Reinsurance premium	(142.5)	(30.2)	(1.9)	(42.6)	(217.2)
Net earned premium	1,541.8	667.8	414.7	465.2	3,089.5
Investment return	105.9	15.9	5.2	27.6	154.6
Instalment income	89.2	21.9	2.5	6.3	119.9
Other operating income	48.3	2.7	15.8	5.3	72.1
Total income	1,785.2	708.3	438.2	504.4	3,436.1
Insurance claims	(1,026.0)	(421.0)	(277.1)	(242.1)	(1,966.2)
Insurance claims recoverable from / (payable to) reinsurers	46.7	7.7	(0.1)	0.8	55.1
Net insurance claims	(979.3)	(413.3)	(277.2)	(241.3)	(1,911.1)
Commission expenses	(30.9)	(62.6)	(19.0)	(87.9)	(200.4)
Operating expenses before restructuring and one-off costs	(356.9)	(148.5)	(98.0)	(114.8)	(718.2)
Total expenses	(387.8)	(211.1)	(117.0)	(202.7)	(918.6)
Operating profit	418.1	83.9	44.0	60.4	606.4
Restructuring and one-off costs					–
Operating profit after restructuring and one-off costs					606.4
Finance costs					(25.9)
Profit before tax					580.5

Underwriting profit	174.7	43.4	20.5	21.2	259.8
Loss ratio	63.5%	61.8%	66.8%	51.8%	61.9%
Commission ratio	2.0%	9.4%	4.6%	18.9%	6.5%
Expense ratio	23.1%	22.3%	23.6%	24.7%	23.2%
Combined operating ratio	88.6%	93.5%	95.0%	95.4%	91.6%

Note:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.

The table below analyses the Group's assets and liabilities by reportable segment at 31 December 2018[1] (restated).

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total £m
Goodwill	128.1	45.8	28.7	10.1	212.7
Other segment assets	6,865.7	799.3	213.5	1,444.2	9,322.7
Segment liabilities	(4,897.4)	(563.3)	(150.6)	(1,019.4)	(6,630.7)
Segment net assets	2,096.4	281.8	91.6	434.9	2,904.7

Note:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.

The segmental analysis of assets and liabilities is prepared using a combination of asset and liability balances directly attributable to each operating segment and an apportionment of assets and liabilities managed at a Group-wide level. This does not represent the Group's view of the capital requirements for its operating segments.

5. Net earned premium

	2019 £m	2018 £m
Gross earned premium:		
Gross written premium	**3,203.1**	3,211.9
Movement in unearned premium reserve	**(0.5)**	94.8
	3,202.6	3,306.7
Reinsurance premium paid and payable:		
Premium payable	**(215.9)**	(223.5)
Movement in reinsurance unearned premium reserve	**(1.8)**	6.3
	(217.7)	(217.2)
Total	**2,984.9**	3,089.5

6. Investment return

	2019 £m	2018 £m
Investment income:		
Interest income from debt securities	**108.4**	124.0
Interest income from cash and cash equivalents	**7.9**	6.2
Interest income from infrastructure debt	**7.0**	6.9
Interest income from commercial real estate loans	**6.9**	6.2
Interest income	**130.2**	143.3
Rental income from investment property	**16.2**	15.9
	146.4	159.2
Net realised gains / (losses):		
AFS debt securities	**16.5**	19.5
Derivatives	**(9.5)**	(32.2)
Investment property (note 20)	**(0.7)**	–
	6.3	(12.7)
Net unrealised (losses) / gains:		
Impairment of loans and receivables	**–**	(6.0)
Derivatives	**(12.6)**	1.4
Investment property (note 20)	**(5.5)**	12.7
	(18.1)	8.1
Total	**134.6**	154.6

The table below analyses the realised and unrealised gains and losses on derivative instruments included in investment return.

	Realised 2019 £m	Unrealised 2019 £m	Realised 2018 £m	Unrealised 2018 £m
Derivative (losses) / gains:				
Foreign exchange forward contracts[1]	**(56.8)**	**103.4**	(102.6)	(41.3)
Associated foreign exchange risk	**53.4**	**(123.8)**	72.6	41.3
Net losses on foreign exchange forward contracts	**(3.4)**	**(20.4)**	(30.0)	–
Interest rate swaps[1]	**(16.8)**	**(33.6)**	22.1	(1.8)
Associated interest rate risk on hedged items	**10.7**	**41.4**	(24.3)	3.2
Net (losses) / gains on interest rate derivatives	**(6.1)**	**7.8**	(2.2)	1.4
Total	**(9.5)**	**(12.6)**	(32.2)	1.4

Note:

1. Foreign exchange forward contracts are measured at fair value through profit and loss and interest rate swaps are designated as hedging instruments.

7. Other operating income

	2019 £m	2018 £m
Revenue from vehicle recovery and repair services[1]	**28.3**	25.1
Vehicle replacement referral income	**19.1**	17.2
Legal services income	**11.3**	11.2
Other income[2,3]	**7.5**	18.6
Total	**66.2**	72.1

Notes:
1. Revenue from vehicle recovery and repair services includes salvage income previously reported in other income. Comparative data for the year ended 31 December 2018 has been re-presented accordingly.
2. Other income includes mainly fee income from insurance intermediary services.
3. In 2018 other income included a £9.6 million gain on the sale of a property in Bristol.

8. Net insurance claims

	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	2019 £m	2019 £m	2019 £m	2018[1] £m restated	2018 £m	2018[1] £m restated
Current accident year claims paid	**1,232.9**	**(0.2)**	**1,232.7**	1,307.8	(0.2)	1,307.6
Prior accident year claims paid	**870.7**	**(25.1)**	**845.6**	878.2	(30.9)	847.3
Decrease in insurance liabilities	**(186.3)**	**(44.4)**	**(230.7)**	(219.8)	(24.0)	(243.8)
Total	**1,917.3**	**(69.7)**	**1,847.6**	1,966.2	(55.1)	1,911.1

Claims handling expenses[2] for the year ended 31 December 2019 of £202.9 million (2018[1]: £192.2 million) have been included in the claims figures above.

Notes:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.
2. Includes costs in respect of low value leases of £0.3 million (31 December 2018 £0.3 million).

9. Commission expenses

	2019 £m	2018 £m
Commission expenses	**171.2**	188.5
Expenses incurred under profit participations	**40.3**	11.9
Total	**211.5**	200.4

10. Operating expenses

	2019 £m	2018[1] £m restated
Staff costs[2,3]	**267.3**	269.9
IT and other operating expenses[2,3,4]	**163.4**	167.6
Marketing	**113.9**	121.2
Insurance levies[5]	**81.5**	67.6
Depreciation and amortisation[6,7]	**78.8**	91.9
Total operating expenses (including restructuring and one-off costs)	**704.9**	718.2
Of which restructuring and one-off costs	**11.2**	–
Total excluding restructuring and one-off costs	**693.7**	718.2

Notes:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.
2. Restructuring and one-off costs of £11.2 million are included as follows: staff costs (£5.8 million) and other operating expenses (£5.4 million).
3. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
4. IT and other operating expenses include professional fees and property costs.
5. Insurance levies were previously reported in IT and other operating expenses. Comparative data for the year ended 31 December 2018 has been re-presented accordingly.
6. Depreciation and amortisation include a £1.3 million impairment charge for year ended 31 December 2019 (2018: £1.5 million), which relates to capitalised software development costs for ongoing IT projects primarily relating to development of new systems.
7. Includes depreciation on right-of-use assets of £14.2 million (31 December 2018: £14.1 million).

10. Operating expenses continued

The table below analyses the number of people employed by the Group's operations.

	At 31 December		Average for the year	
	2019	2018	**2019**	2018
Insurance operations	**7,963**	8,583	**8,388**	8,569
Repair centre operations	**1,444**	1,368	**1,384**	1,326
Support	**1,355**	1,278	**1,350**	1,266
Total	**10,762**	11,229	**11,122**	11,161

The aggregate remuneration of those employed by the Group's operations comprised:

	2019 £m	2018 £m
Wages and salaries[1]	**387.2**	380.9
Social security costs	**41.9**	41.2
Pension costs[1]	**25.5**	22.7
Share-based payments	**18.4**	21.0
Total	**473.0**	465.8

Note:

1. For the year ended 31 December 2018, an amount of £6.0 million has been reclassified from pension costs to wages and salaries.

The table below analyses Auditor's remuneration in respect of the Group's operations.

	2019 £m	2018 £m
Fees payable for the audit of:		
The Company's annual accounts	**0.2**	0.2
The Company's subsidiaries	**1.8**	1.7
Total audit fees	**2.0**	1.9
Audit-related assurance services	**0.1**	0.1
Other assurance services	**0.1**	0.1
Non-audit services	**0.1**	0.6
Total	**2.3**	2.7

Aggregate Directors' emoluments

The table below analyses the total amount of Directors' remuneration in accordance with Schedule 5 to the Accounting Regulations.

	2019 £m	2018 £m
Salaries, fees, bonuses and benefits in kind	**4.4**	5.9
Gains on exercise of share options	**5.3**	4.2
Total	**9.7**	10.1

Further information about the remuneration of individual Directors is provided in the Directors' remuneration report.

At 31 December 2019, one Director (2018: no Directors) had retirement benefits accruing under the defined contribution pension scheme in respect of qualifying service. During the year ended 31 December 2019, three Directors exercised share options (2018: four Directors).

11. Finance costs

	2019 £m	2018[1] £m restated
Interest expense on subordinated liabilities	**23.1**	23.1
Net interest received on designated hedging instrument[2]	**(3.4)**	(3.8)
Unrealised losses on designated hedging instrument[2]	**0.1**	5.0
Unrealised gains on associated interest rate risk on hedged item[2]	**(0.8)**	(5.6)
Amortisation of arrangement costs and discount on issue of subordinated liabilities	**0.3**	0.4
Interest expense on lease liabilities	**6.7**	6.8
Total	**26.0**	25.9

Notes:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.
2. As described in note 33, on 27 April 2012 the Group issued subordinated guaranteed dated notes with a nominal value of £500 million at a fixed rate of 9.25%. On the same date, the Group also entered into a 10-year designated hedging instrument to exchange the fixed rate of interest on the notes for a floating rate of 3-month LIBOR plus a spread of 706 basis points, which increased to 707 basis points with effect from 29 July 2013. On 8 December 2017, the Group redeemed £250 million nominal value of the notes.

12. Tax charge

	2019 £m	2018[1] £m restated
Current taxation:		
Charge for the year	**101.9**	114.4
Over provision in respect of prior year	**(1.1)**	(4.8)
	100.8	109.6
Deferred taxation (note 13):		
Credit for the year	**(5.4)**	(4.6)
(Over) / under provision in respect of prior year	**(5.6)**	3.5
	(11.0)	(1.1)
Current taxation	**100.8**	109.6
Deferred taxation (note 13)	**(11.0)**	(1.1)
Tax charge for the year	**89.8**	108.5

Note:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.

The following table analyses the difference between the actual income tax charge and the expected income tax charge computed by applying the standard rate of corporation tax of 19.0%[1] (2018: 19.0%).

	2019 £m	2018[2] £m restated
Profit before tax	**509.7**	580.5
Expected tax charge	**96.8**	110.3
Effects of:		
Disallowable expenses	**2.9**	5.4
Non-taxable items	**–**	(2.5)
Effect of change in corporation taxation rate	**–**	(0.2)
Over provision in respect of prior year	**(6.7)**	(1.3)
Deductible Tier 1 notes coupon payment in equity	**(3.2)**	(3.2)
Tax charge for the year	**89.8**	108.5
Effective income tax rate	**17.6%**	18.7%

Notes:
1. In the Finance Act 2016 the UK Government enacted a reduction in the UK corporation tax rate from 19% to 17% effective from 1 April 2020. As a consequence, the closing deferred tax assets and liabilities have been recognised at the tax rates expected to apply when the assets or liabilities are settled. The impact of these changes on the tax charge for the year is set out in the table above.
2. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.

13. Current and deferred tax

	2019 £m	2018[1] £m restated
Per balance sheet:		
Current tax liabilities	**50.3**	46.0
Deferred tax liabilities	**9.6**	4.5

Note:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.

The table below analyses the major deferred tax assets and liabilities recognised by the Group and movements thereon.

	Provisions and other temporary differences £m	Retirement benefit obligations £m	Depreciation in excess of capital allowances £m	Non distributable reserve[1] £m	Share-based payments £m	AFS revaluation reserve £m	Total £m
At 1 January 2018 (restated)[2]	4.7	(2.5)	0.5	(18.6)	3.3	(15.8)	(28.4)
Credit / (charge) to the income statement	0.7	(0.1)	(3.9)	4.9	(0.5)	–	1.1
Credit / (charge) to other comprehensive income	–	(0.4)	–	–	–	23.8	23.4
Charge direct to equity	–	–	–	–	(0.6)	–	(0.6)
At 31 December 2018 (restated)[2]	5.4	(3.0)	(3.4)	(13.7)	2.2	8.0	(4.5)
(Charge) / credit to the income statement	**(1.1)**	**(0.1)**	**7.4**	**4.9**	**(0.1)**	**–**	**11.0**
Credit / (charge) to other comprehensive income	**–**	**1.3**	**–**	**–**	**–**	**(17.4)**	**(16.1)**
At 31 December 2019	**4.3**	**(1.8)**	**4.0**	**(8.8)**	**2.1**	**(9.4)**	**(9.6)**

Notes:
1. The non-distributable reserve was a statutory claims equalisation reserve calculated in accordance with the rules of the PRA. With the introduction of Solvency II on 1 January 2016, the requirement to maintain the claims equalisation reserve ceased and the balance at 31 December 2015 was released to retained earnings. The taxation of this release is spread over six years from the change in regulation. It is provided for in deferred tax above as it represents the future unwind of previously claimed tax deductions for transfers into the reserve.
2. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.

In addition, the Group has an unrecognised deferred tax asset at 31 December 2019 of £4.5 million (2018: £4.7 million) in relation to capital losses of which £4.5 million (2018: £4.7 million) relates to realised losses and £nil (2018: £nil) relates to unrealised losses.

14. Dividends and appropriations

	2019 £m	2018 £m
Amounts recognised as distributions to equity holders in the period:		
2018 final dividend of 14.0 pence per share paid on 16 May 2019	**191.8**	–
2017 final dividend of 13.6 pence per share paid on 17 May 2018	**–**	186.1
2019 first interim dividend of 7.2 pence per share paid on 6 September 2019	**98.6**	–
2018 first interim dividend of 7.0 pence per share paid on 7 September 2018	**–**	95.8
2018 special dividend of 8.3 pence per share paid on 16 May 2019	**113.7**	–
2017 special dividend of 15.0 pence per share paid on 17 May 2018	**–**	205.3
	404.1	487.2
Coupon payments in respect of Tier 1 notes[1]	**16.6**	16.6
	420.7	503.8
Proposed dividends:		
2019 final dividend of 14.4 pence per share	**198.0**	–
2018 final dividend of 14.0 pence per share	**–**	192.5
2018 special dividend of 8.3 pence per share	**–**	114.1

Note:
1. Coupon payments on the Tier 1 notes issued in December 2017 are treated as an appropriation of retained profits and, accordingly, are accounted for when paid.

The proposed final dividends for 2019 have not been included as a liability in these financial statements.

The Board has also approved a share buyback of up to £150 million which it expects to complete by the end of July 2020.

The Trustees of the employee share trusts waived their entitlement to dividends on shares held to meet obligations arising on the Long-Term Incentive Plan, Deferred Annual Incentive Plan and Restrictive Share Plan awards, which reduced the total dividends paid for the year ended 31 December 2019 by £1.5 million (2018: £2.4 million).

15. Earnings per share

Earnings per share is calculated by dividing earnings attributable to the owners of the Company less coupon payments in respect of Tier 1 notes by the weighted average number of Ordinary Shares during the year.

Basic

Basic earnings per share is calculated by dividing the earnings attributable to the owners of the Company less coupon payments in respect of Tier 1 notes by the weighted average number of Ordinary Shares during the period, excluding Ordinary Shares held as employee trust shares.

	2019 £m	2018[1] £m restated
Earnings attributable to owners of the Company	**419.9**	472.0
Coupon payments in respect of Tier 1 notes	**(16.6)**	(16.6)
Profit for the calculation of earnings per share	**403.3**	455.4
Weighted average number of Ordinary Shares (millions)	**1,367.2**	1,366.5
Basic earnings per share (pence)	**29.5**	33.3

Diluted

Diluted earnings per share is calculated by dividing the earnings attributable to the owners of the Company less coupon payments in respect of Tier 1 notes by the weighted average number of Ordinary Shares during the period adjusted for the dilutive potential Ordinary Shares. The Company has share options and contingently issuable shares as categories of dilutive potential Ordinary Shares.

	2019 £m	2018[1] £m restated
Earnings attributable to owners of the Company	**419.9**	472.0
Coupon payments in respect of Tier 1 notes	**(16.6)**	(16.6)
Profit for the calculation of earnings per share	**403.3**	455.4
Weighted average number of Ordinary Shares (millions)	**1,367.2**	1,366.5
Effect of dilutive potential of share options and contingently issuable shares (millions)	**15.3**	15.8
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	**1,382.5**	1,382.3
Diluted earnings per share (pence)	**29.2**	32.9

Note:

1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.

16. Net assets per share and return on equity

Net asset value per share is calculated as total shareholders' equity (which excludes Tier 1 notes) divided by the number of Ordinary Shares at the end of the period excluding shares held by employee share trusts.

Tangible net asset value per share is calculated as total shareholders' equity less goodwill and other intangible assets divided by the number of Ordinary Shares at the end of the period excluding shares held by employee share trusts.

The table below analyses net asset and tangible net asset value per share.

At 31 December	2019 £m	2018[1] £m restated
Net assets	2,643.6	2,558.2
Goodwill and other intangible assets[2]	(702.5)	(566.8)
Tangible net assets	1,941.1	1,991.4
Number of Ordinary Shares (millions)	1,375.0	1,375.0
Shares held by employee share trusts (millions)	(8.4)	(10.4)
Closing number of Ordinary Shares (millions)	1,366.6	1,364.6
Net asset value per share (pence)	**193.4**	187.5
Tangible net asset value per share (pence)	**142.0**	145.9

Notes:

1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.
2. Goodwill has arisen on acquisition by the Group of subsidiary companies and on acquisition of new accident repair centres. Intangible assets are primarily comprised of software development costs.

Return on equity

The table below details the calculation of return on equity.

	2019 £m	2018[1] £m restated
Earnings attributable to owners of the Company	419.9	472.0
Coupon payments in respect of Tier 1 notes	(16.6)	(16.6)
Profit for the calculation of return on equity	403.3	455.4
Opening shareholders' equity	2,558.2	2,701.9
Closing shareholders' equity	2,643.6	2,558.2
Average shareholders' equity	2,600.9	2,630.1
Return on equity	**15.5%**	17.3%

Note:

1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.

17. Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 January 2018	212.3	642.1	854.4
Acquisitions and additions	0.4	142.0	142.4
Disposals and write-off[1]	–	(4.7)	(4.7)
At 31 December 2018	212.7	779.4	992.1
Acquisitions and additions	**1.5**	**174.2**	**175.7**
Disposals and write-off[1]	**–**	**(8.8)**	**(8.8)**
At 31 December 2019	**214.2**	**944.8**	**1,159.0**
Accumulated amortisation and impairment			
At 1 January 2018	–	383.3	383.3
Charge for the year	–	45.2	45.2
Disposals and write-off[1]	–	(4.7)	(4.7)
Impairment losses[2]	–	1.5	1.5
At 31 December 2018	–	425.3	425.3
Charge for the year	**–**	**38.7**	**38.7**
Disposals and write-off[1]	**–**	**(8.8)**	**(8.8)**
Impairment losses[2]	**–**	**1.3**	**1.3**
At 31 December 2019	**–**	**456.5**	**456.5**
Carrying amount			
At 31 December 2019	**214.2**	**488.3**	**702.5**
At 31 December 2018	212.7	354.1	566.8

Notes:

1. Disposals and write-off include fully amortised intangible assets no longer utilised by the Group in its operating activities.
2. The impairment losses relate to capitalised software development costs for ongoing IT projects primarily relating to development of new systems.

Included within other intangible assets, are assets still in development of £343.5 million (2018: £269.9 million). These assets are tested for impairment during the Group's annual impairment review at each reporting date.

Goodwill arose on the acquisition of U K Insurance Limited (£141.0 million), Churchill Insurance Company Limited (£70.0 million) and accident repair networks (£3.2 million) and is allocated to reportable segments. The addition to goodwill in the year ended 31 December 2019 of £1.5 million arose on acquisition of a new accident repair centre.

The Group's testing for impairment of goodwill and intangible assets includes the comparison of the recoverable amount of each CGU to which goodwill and other intangible assets have been allocated with its carrying value and updated at each reporting date and whenever there are indications of impairment.

The table below analyses the carrying amount of goodwill allocated to each CGU.

	2019 £m	2018 £m
Motor	**129.6**	128.1
Home	**45.8**	45.8
Rescue and other personal lines	**28.7**	28.7
Commercial	**10.1**	10.1
Total	**214.2**	212.7

There is no goodwill impairment for the year ended 31 December 2019 (2018: £nil).

The recoverable amount is the higher of the CGU fair value less the costs to sell and its value-in-use. Value-in-use is the present value of expected future cash flows from the CGU. Fair value is the estimated amount that could be obtained from the sale of the CGU in an arm's length transaction between knowledgeable and willing parties.

The recoverable amounts of all CGUs were based on the value-in-use test, using the Group's strategic plan. The long-term growth rates have been based on gross domestic product rates adjusted for inflation. The risk discount rates incorporate observable market long-term government bond yields and average industry betas adjusted for an appropriate risk premium based on independent analysis.

17. Goodwill and other intangible assets continued

The table below details the recoverable amounts in excess of carrying value for the CGUs where goodwill and other intangible assets are held. Sensitivity information is included to enhance user understanding of the influence of key assumptions. Following the annual impairment review, no reasonable possible change in these key assumptions would have resulted in an impairment of goodwill and other intangible assets.

	Assumptions			Sensitivity: Impact on recoverable amount of a:		
CGU	Terminal growth rate %	Pre-tax discount rate %	Recoverable amount in excess of carrying value £m	1% decrease in terminal growth rate £m	1% increase in pre-tax discount rate £m	1% decrease in forecast pre-tax profit[1] £m
Motor	3.0	11.4	889.9	(237.1)	(324.9)	(30.6)
Home	3.0	11.4	753.4	(79.6)	(108.8)	(10.2)
Rescue and other personal lines	3.0	11.4	606.9	(59.6)	(80.9)	(7.2)
Commercial	3.0	11.4	376.5	(73.1)	(89.0)	(7.8)

Note:

1. Reflects a 1% decrease in the profit for each year of the strategic plan, which is five years.

18. Property, plant and equipment

	Freehold land and buildings £m	Other equipment £m	Total £m
Cost			
At 1 January 2018	79.8	203.6	283.4
Additions	–	13.3	13.3
Disposals	–	(31.9)	(31.9)
At 31 December 2018	79.8	185.0	264.8
Additions	**–**	**11.9**	**11.9**
Disposals	**–**	**(7.7)**	**(7.7)**
At 31 December 2019	**79.8**	**189.2**	**269.0**
Accumulated depreciation and impairment			
At 1 January 2018	4.2	104.8	109.0
Depreciation charge for the year	1.1	30.0	31.1
Disposals	–	(31.5)	(31.5)
At 31 December 2018	5.3	103.3	108.6
Depreciation charge for the year	**1.1**	**23.5**	**24.6**
Disposals	**–**	**(7.6)**	**(7.6)**
At 31 December 2019	**6.4**	**119.2**	**125.6**
Carrying amount			
At 31 December 2019	**73.4**	**70.0**	**143.4**
At 31 December 2018	74.5	81.7	156.2

The Group is satisfied that the aggregate fair value of property, plant and equipment is not less than its carrying value.

19. Right-of-use assets

	Property £m	Motor vehicles £m	IT equipment £m	Total £m
Cost				
At 1 January 2018	199.0	13.5	1.2	213.7
Additions	6.6	3.2	–	9.8
Disposals	(1.6)	(2.7)	–	(4.3)
At 31 December 2018	204.0	14.0	1.2	219.2
Additions	**5.9**	**4.3**	**–**	**10.2**
Disposals	**–**	**(4.3)**	**–**	**(4.3)**
At 31 December 2019	**209.9**	**14.0**	**1.2**	**225.1**
Accumulated depreciation and impairment				
At 1 January 2018	50.2	5.5	0.1	55.8
Depreciation charge for the year	9.9	4.0	0.2	14.1
Disposals	(1.6)	(2.5)	–	(4.1)
At 31 December 2018	58.5	7.0	0.3	65.8
Depreciation charge for the year	**10.2**	**3.8**	**0.2**	**14.2**
Disposals	**–**	**(4.1)**	**–**	**(4.1)**
At 31 December 2019	**68.7**	**6.7**	**0.5**	**75.9**
Carrying amount				
At 31 December 2019	**141.2**	**7.3**	**0.7**	**149.2**
At 31 December 2018	145.5	7.0	0.9	153.4

Note:
1. The right-of-use assets has been recognised in the current year due to the adoption of IFRS 16 'Leases'. For further details on the first-time adoption of IFRS 16 'Leases', see note 44.

20. Investment property

	2019 £m	2018 £m
At 1 January	**322.1**	309.3
Additions at cost	**–**	0.1
(Decrease) / increase in fair value during the year	**(6.2)**	12.7
Disposals	**(24.2)**	–
At 31 December	**291.7**	322.1

Note:
1. The cost included in the carrying value at 31 December 2019 is £222.9 million (2018: £252.5 million).

The investment properties are measured at fair value derived from valuation work carried out at the balance sheet date by independent property valuers.

The valuation conforms to international valuation standards. The fair value was determined using a methodology based on recent market transactions for similar properties, which have been adjusted for the specific characteristics of each property within the portfolio. This approach to valuation is consistent with the methodology used in the year ended 31 December 2018.

Lease agreements with tenants are drawn up in line with local practice and the Group has no exposure to leases that include contingent rents.

21. Subsidiaries

The principal subsidiary undertakings of the Group, over which it exercises 100% voting power, are shown below. Their capital consists of Ordinary Shares which are unlisted. All subsidiaries (a full list of which is included in note 2 of the Parent Company's financial statements) are included in the Group's consolidated financial statements.

Name of subsidiary	Company registration number	Place of incorporation and operation	Principal activity
DL Insurance Services Limited	03001989	United Kingdom	Management services
U K Insurance Limited	01179980	United Kingdom	General insurance

The Group did not acquire or dispose of any subsidiaries in the years ended 31 December 2019 and 31 December 2018.

22. Reinsurance assets

	Notes	2019 £m	2018 £m
Reinsurers' share of general insurance liabilities		1,190.1	1,159.9
Impairment provision[1]		(40.5)	(54.7)
Total excluding reinsurers' unearned premium reserves	34	1,149.6	1,105.2
Reinsurers' unearned premium reserve	35	101.7	103.5
Total		1,251.3	1,208.7

Note:
1. Impairment provision relates to reinsurance debtors, allowing for the risk that reinsurance assets may not be collected, or where the reinsurer's credit rating has been significantly downgraded and may have difficulty in meeting its obligations.

Movements in reinsurance asset impairment provision

	2019 £m	2018 £m
At 1 January	(54.7)	(59.9)
Additional provision	(4.2)	(7.5)
Release to income statement	18.4	12.7
At 31 December	(40.5)	(54.7)

23. Deferred acquisition costs

	2019 £m	2018[1] £m restated
At 1 January	170.4	185.0
Additions	366.8	385.2
Recognised in the income statement	(361.0)	(399.8)
At 31 December	176.2	170.4

Note:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.

24. Insurance and other receivables

	2019 £m	2018 £m
Receivables arising from insurance contracts:		
Due from policyholders	684.8	740.4
Impairment provision of policyholder receivables	(1.0)	(0.9)
Due from agents, brokers and intermediaries	111.5	82.9
Impairment provision of agent, broker and intermediary receivables	(0.2)	(0.5)
Amounts due from reinsurers[1]	10.1	13.5
Other debtors	41.3	40.5
Total	846.5	875.9

Note:
1. Amounts due from reinsurers have previously been reported in other debtors. Comparative data for the year ended 31 December 2018 has been re-presented accordingly.

Movement in impairment provisions during the year

	Policyholders £m	Agents, brokers and intermediaries £m	Total £m
At 1 January 2019	0.9	0.5	1.4
Additional provision	14.9	0.2	15.1
Released to income statement	(14.8)	(0.5)	(15.3)
At 31 December 2019	1.0	0.2	1.2

25. Prepayments, accrued income and other assets

	2019 £m	2018[1] £m restated
Prepayments	**99.2**	99.0
Accrued income and other assets	**21.0**	25.5
Total	**120.2**	124.5

Note:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.

26. Derivative financial instruments

	2019 £m	2018 £m
Derivative assets		
At fair value through the income statement:		
Foreign exchange contracts (forwards)	**112.1**	19.2
Designated as hedging instruments:		
Foreign exchange contracts (forwards)[1]	**0.4**	1.4
Interest rate swaps	**9.0**	27.6
Total	**121.5**	48.2
Derivative liabilities		
At fair value through the income statement:		
Foreign exchange contracts (forwards)	**10.1**	20.6
Designated as hedging instruments:		
Foreign exchange contracts (forwards)[1]	**0.2**	–
Interest rate swaps	**20.2**	5.3
Total	**30.5**	25.9

Note:
1. Cash flow hedges in relation to supplier payments.

27. Retirement benefit obligations

Defined contribution scheme

The pension charge in respect of the defined contribution scheme for the year ended 31 December 2019 was £25.5 million (2018[1]: £22.7 million).

Defined benefit scheme

The Group's defined benefit pension scheme was closed in 2003 although the Group remains the sponsoring employer for obligations to current and deferred pensioners based on qualifying years' service and final salaries. The defined benefit scheme is legally separated from the Group with Trustees who are required by law to act in the interests of the scheme and of all the relevant stakeholders. The Trustees of the pension scheme are responsible for the investment policy with regard to the assets of the scheme.

The trustee invests in the scheme's assets in an appropriate mix of return seeking assets and liability matching assets to better match the assets to future pension obligations. The main risks impacting funding levels are interest rates, changes in inflation expectations and the performance of the absolute return bond fund. The split of scheme assets is shown below. The matching assets are invested in liability-driven investment strategies, primarily UK gilts and index-linked gilt funds, but also including some leveraged gilt funds and interest rate and inflation swap funds. These are used to reducing the scheme's inflation and duration risks against its liabilities.

The weighted average duration of the defined benefit obligations at 31 December 2019 is 20 years (2018: 20 years) using accounting assumptions.

Note:
1. For the year ended 31 December 2018, an amount of £6.0 million has been reclassified from pension costs to wages and salaries.

27. Retirement benefit obligations continued

The table below sets out the principal assumptions used in determining the defined benefit scheme obligations.

	2019 %	2018 %
Rate of increase in pension payment	**2.1**	2.2
Rate of increase of deferred pensions	**2.1**	2.2
Discount rate	**2.0**	2.9
Inflation rate	**3.0**	3.3

No assumption has been made for salary growth as there are no obligations in the scheme that are linked to future increases in salaries.

Post-retirement mortality assumptions

	2019	2018
Life expectancy at age 60 now:		
Males	**87.1**	87.3
Females	**88.8**	89.0
Life expectancy at age 60 in 20 years' time:		
Males	**88.9**	89.1
Females	**90.7**	90.9

The table below analyses the fair value of the scheme assets by type of asset.

	2019 £m	2018 £m
Index-linked bonds	**28.1**	30.4
Government bonds	**29.1**	24.9
Liquidity fund[1]	**2.5**	0.8
Absolute return bond fund[2]	**40.2**	39.4
Other	**0.1**	0.1
Total	**100.0**	95.6

Notes:
1. The liquidity fund is an investment in an open-ended fund incorporated in the Republic of Ireland which targets capital stability and income in the UK. It is invested in short-term fixed income and variable rate securities (such as Treasury Bills) listed or traded on one or more recognised exchange.
2. The absolute return bond fund is an investment in an open-ended fund incorporated in Luxembourg which targets positive returns in all market conditions. It is invested in short-term fixed income asset classes and seeks additional returns via a range of additional investments including certificate of deposits, rates and global currencies.

All UK debt instruments have quoted prices in active markets. The absolute return bond fund holds bonds that, rather than being traded on exchange, are traded through agents, brokers or investment banks matching buyers and sellers.

Movement in net pension surplus

	Fair value of defined benefit scheme assets £m	Present value of defined benefit scheme obligations £m	Net pension surplus £m
At 1 January 2018	101.7	(87.3)	14.4
Income statement:			
Net interest income / (cost)[1]	2.4	(2.1)	0.3
Administration costs	(0.2)	–	(0.2)
Prior service costs[2]	–	(0.2)	(0.2)
Settlement[3]	(2.4)	2.4	–
Statement of comprehensive income:			
Remeasurement losses			
Return on plan assets excluding amounts included in the net interest on the defined benefit asset	(3.5)	–	(3.5)
Actuarial gains of defined benefit scheme			
Gains from change in demographic assumptions	–	0.4	0.4
Gains from change in financial assumptions	–	5.8	5.8
Benefits paid	(2.4)	2.4	–
At 31 December 2018	95.6	(78.6)	17.0
Income statement:			
Net interest income / (cost)[1]	**2.7**	**(2.2)**	**0.5**
Administration costs	**(0.5)**	**–**	**(0.5)**
Statement of comprehensive income:			
Remeasurement losses			
Return on plan assets excluding amounts included in the net interest on the defined benefit asset	**4.4**	**–**	**4.4**
Actuarial gains of defined benefit scheme			
Experience gains	**–**	**0.4**	**0.4**
Gains from change in demographic assumptions	**–**	**0.8**	**0.8**
Gains from change in financial assumptions	**–**	**(12.9)**	**(12.9)**
Benefits paid	**(2.2)**	**2.2**	**–**
At 31 December 2019	**100.0**	**(90.3)**	**9.7**

Notes:
1. The net interest income / (cost) in the income statement has been included under other operating expenses.
2. This resulted from the outcome of a court case ruling in October 2018 involving the Lloyds Bank pension schemes, which led to a one-off increase in liabilities for UK pension schemes more widely.
3. A number of historical annuity policies held by the scheme were transferred to individual members during 2018.

The table below details the history of the scheme for the current and prior years.

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Present value of defined benefit scheme obligations	**(90.3)**	(78.6)	(87.3)	(90.5)	(72.0)
Fair value of defined benefit scheme assets	**100.0**	95.6	101.7	102.5	85.1
Net surplus	**9.7**	17.0	14.4	12.0	13.1
Experience adjustment gains on scheme liabilities	**0.4**	–	1.5	1.2	1.2
Return on plan assets excluding amounts included in the net interest on the defined benefit asset	**4.4**	(3.5)	1.0	13.7	(1.9)

27. Retirement benefit obligations continued

Sensitivity analysis

The sensitivity analysis has been calculated by valuing the pension scheme liabilities using the amended assumptions shown in the table below and keeping the remaining assumptions the same as disclosed in the table above, except in the case of the inflation sensitivity where other assumptions that depend on assumed inflation have also been amended correspondingly. The pension cost has been determined allowing for the estimated impact on the scheme's assets. The sensitivity to discount rates is based on a movements in credit spreads, rather than gilt yields, which are hedged in the scheme's assets. The selection of these movements to illustrate the sensitivity of the defined benefit obligation to key assumptions should be viewed as illustrative, rather than providing a view on the likely size of any change.

	Impact on pension cost		Impact on present value of defined benefit scheme obligations	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Discount rate				
0.25% increase in discount rate	**(0.1)**	(0.2)	**(4.5)**	(3.9)
0.25% decrease in discount rate	**0.1**	0.1	**4.5**	3.9
Inflation rate				
0.25% increase in inflation rate	**–**	–	**2.3**	2.0
0.25% decrease in inflation rate	**–**	–	**(2.3)**	(2.0)
Life expectancy				
1-year increase in life expectancy	**0.1**	0.1	**3.2**	2.7
1-year decrease in life expectancy	**(0.1)**	(0.1)	**(3.2)**	(2.7)

The most recent funding valuation of the Group's defined benefit scheme was carried out as at 1 October 2017. This showed an excess of assets over liabilities. The Group agreed with the Trustees to make contributions of up to £1.5 million per annum in 2019, 2020 and 2021 in the event that a deficit subsequently emerges on the anniversary of the funding valuation date.

At the date of signing these financial statements, no contributions are expected to be payable in 2020 (2019: £nil).

28. Financial investments

	2019 £m	2018 £m
AFS debt securities		
Corporate	**3,925.6**	3,916.0
Supranational	**31.3**	43.2
Local government	**29.2**	29.5
Sovereign	**99.5**	156.9
Total	**4,085.6**	4,145.6
HTM debt securities		
Corporate	**104.0**	101.0
Total debt securities	**4,189.6**	4,246.6
Total debt securities		
Fixed interest rate[1]	**4,166.5**	4,211.1
Floating interest rate	**23.1**	35.5
Total	**4,189.6**	4,246.6
Loans and receivables		
Infrastructure debt	**278.1**	289.6
Commercial real estate loans	**205.7**	201.6
Total	**4,673.4**	4,737.8

Note:

1. The Group swaps a fixed interest rate for a floating rate of interest on its US dollar and Euro and a small amount of its sterling corporate debt securities by entering into interest rate derivatives. The hedged amount at 31 December 2019 was £955.8 million (2018: £1,206.1 million).

29. Cash and cash equivalents and borrowings

	2019 £m	2018 £m
Cash at bank and in hand	223.1	157.4
Short-term deposits with credit institutions[1]	725.5	997.0
Cash and cash equivalents	**948.6**	1,154.4
Bank overdrafts[2]	(52.3)	(62.0)
Cash and bank overdrafts[3]	**896.3**	1,092.4

Notes:

1. This represents money market funds.
2. Bank overdrafts represent short-term timing differences between transactions posted in the records of the Group and transactions flowing through the accounts at the bank.
3. Cash and bank overdrafts disclosure note is included for the purposes of the consolidated cash flow statement.

The effective interest rate on short-term deposits with credit institutions for the year ended 31 December 2019 was 0.79% (2018: 0.58%) and average maturity was 10 days (2018: 10 days).

30. Share capital

	2019 Number millions	2018 Number millions	2019 £m	2018 £m
Issued and fully paid: equity shares				
Ordinary Shares of 10$^{10}/_{11}$ pence each[1]	1,375	1,375	150.0	150.0

Note:

1. The shares have full voting dividend and capital distribution rights (including wind up) attached to them; these do not confer any rights of redemption.

Employee trust shares

The Group satisfies share-based payments under the Group's share plans primarily through shares purchased in the market and held by employee share trusts.

At 31 December 2019, 8,445,670 Ordinary Shares (2018: 10,432,376 Ordinary Shares) were owned by the employee share trusts with a cost of £30.2 million (2018: £35.2 million). These Ordinary Shares are carried at cost and at 31 December 2019 had a market value of £26.4 million (2018: £33.2 million).

31. Other reserves

Movements in the AFS investments revaluation reserve

	2019 £m	2018 £m
At 1 January	(36.8)	80.2
Revaluation during the year – gross	118.1	(121.4)
Revaluation during the year – tax	(20.1)	20.6
Realised gains – gross	(16.5)	(19.5)
Realised gains – tax	2.8	3.3
At 31 December	**47.5**	(36.8)

Capital reserves

	2019 £m	2018 £m
Capital contribution reserve[1]	100.0	100.0
Capital redemption reserve[2]	1,350.0	1,350.0
Total	**1,450.0**	1,450.0

Notes:

1. Arose on the cancellation of a debt payable to a shareholder.
2. Arose on the reduction of nominal value of each share in issue with a corresponding transfer to capital redemption reserve.

32. Tier 1 notes

	2019 £m	2018 £m
Tier 1 notes	**346.5**	346.5

On 7 December 2017, the Group issued £350 million of fixed rate perpetual Tier 1 notes with a coupon rate of 4.75% per annum.

The Group has an optional redemption date of 7 December 2027. If the notes are not repaid on that date, a fixed rate of interest per annum will be reset. The notes are direct, unsecured and subordinated obligations of the issuer ranking pari passu and without any preference amongst themselves.

The Tier 1 notes are treated as a separate category within equity and the coupon payments are recognised outside of the profit after tax result and directly in shareholders' equity.

The Group has the option to cancel the coupon payment; this becomes mandatory if the Solvency condition[1] is not met at the time of or following coupon payment, non-compliance with the SCR, non-compliance with the minimum capital requirement, where the Group has insufficient distributable reserves or where the relevant regulator requires the coupon payment to be cancelled.

Note:

1. All payments shall be conditional upon the Group being solvent at the time of payment and immediately after payment. The Issuer will be solvent if (i) it is able to pay its debts owed to senior creditors as they fall due and (ii) its assets exceed its liabilities.

33. Subordinated liabilities

	2019 £m	2018 £m
Subordinated guaranteed dated notes	**259.0**	259.5

The subordinated guaranteed dated notes with a nominal value of £500 million were issued on 27 April 2012 at a fixed rate of 9.25%. On the same date, the Group also entered into a 10-year designated hedging instrument to exchange the fixed rate of interest for a floating rate of 3-month LIBOR plus a spread of 706 basis points which was credit value adjusted to 707 basis points with effect from 29 July 2013.

On 8 December 2017, the Group repurchased £250 million nominal value of the subordinated guaranteed dated notes for a purchase price of £330.1 million including accrued interest of £2.7 million and associated transaction costs of £0.6 million.

The remaining notes, with a nominal value of £250 million, have a redemption date of 27 April 2042 with the option to repay the notes on 27 April 2022. If the notes are not repaid on that date, the rate of interest will be reset at a rate of the 6-month LIBOR plus 7.91%.

The Group has the option, in certain circumstances, to defer interest payments on the notes but to date has not exercised this right.

The notes are unsecured, subordinated obligations of the Group, and rank pari passu without any preference among themselves. In the event of a winding-up or of bankruptcy, they are to be repaid only after the claims of all other senior creditors have been met.

34. Insurance liabilities

	2019 £m	2018 £m
Insurance liabilities	**3,819.6**	4,005.9

Gross insurance liabilities

Accident year	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
Estimate of ultimate gross claims costs:											
At end of accident year	3,941.7	2,698.1	2,372.7	2,184.0	2,094.5	2,118.1	2,157.7	2,217.3	2,300.1	2,110.4	
One year later	(117.1)	(99.3)	(163.3)	(117.6)	20.7	(30.0)	(86.7)	(116.2)	(62.3)		
Two years later	(99.1)	(94.6)	(118.9)	(153.0)	(38.4)	(143.5)	(53.3)	(103.1)			
Three years later	(50.3)	(89.3)	(49.3)	(21.0)	(144.9)	(62.4)	(82.8)				
Four years later	(105.5)	(60.9)	(9.9)	(102.1)	(50.2)	(22.9)					
Five years later	(57.7)	(21.2)	(79.2)	(50.8)	(51.6)						
Six years later	(25.9)	(60.3)	(36.2)	(27.4)							
Seven years later	(50.0)	(25.1)	(23.8)								
Eight years later	(17.6)	(27.9)									
Nine years later	(17.8)										
Current estimate of cumulative claims	3,400.7	2,219.5	1,892.1	1,712.1	1,830.1	1,859.3	1,934.9	1,998.0	2,237.8	2,110.4	
Cumulative payments to date	(3,327.6)	(2,179.5)	(1,870.8)	(1,674.9)	(1,648.1)	(1,610.1)	(1,621.3)	(1,577.8)	(1,631.1)	(1,086.6)	
Gross liability recognised in balance sheet	**73.1**	**40.0**	**21.3**	**37.2**	**182.0**	**249.2**	**313.6**	**420.2**	**606.7**	**1,023.8**	**2,967.1**
2009 and prior											**774.3**
Claims handling provision											**78.2**
Total											**3,819.6**

Net insurance liabilities

Accident year	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
Estimate of ultimate net claims costs:											
At end of accident year	3,902.0	2,644.4	2,271.8	2,093.9	1,971.0	1,926.7	1,922.2	2,016.9	2,125.9	1,941.2	
One year later	(125.2)	(131.5)	(146.7)	(123.6)	(29.7)	(67.0)	(18.9)	(79.7)	(41.4)		
Two years later	(120.4)	(82.1)	(107.8)	(134.4)	(42.0)	(77.8)	(38.2)	(65.3)			
Three years later	(44.0)	(76.5)	(35.6)	(27.8)	(100.7)	(30.4)	(43.7)				
Four years later	(93.6)	(48.7)	(11.6)	(64.3)	(41.3)	(24.1)					
Five years later	(52.3)	(37.3)	(54.2)	(38.9)	(52.5)						
Six years later	(43.9)	(37.0)	(30.4)	(17.7)							
Seven years later	(24.8)	(20.4)	(14.6)								
Eight years later	(17.4)	(23.0)									
Nine years later	(17.1)										
Current estimate of cumulative claims	3,363.3	2,187.9	1,870.9	1,687.2	1,704.8	1,727.4	1,821.4	1,871.9	2,084.5	1,941.2	
Cumulative payments to date	(3,312.2)	(2,155.9)	(1,853.2)	(1,656.3)	(1,629.9)	(1,599.6)	(1,619.5)	(1,572.0)	(1,630.2)	(1,086.4)	
Net liability recognised in balance sheet	**51.1**	**32.0**	**17.7**	**30.9**	**74.9**	**127.8**	**201.9**	**299.9**	**454.3**	**854.8**	**2,145.3**
2009 and prior											**446.5**
Claims handling provision											**78.2**
Total											**2,670.0**

34. Insurance liabilities continued

Movements in gross and net insurance liabilities

	Gross[1] £m	Reinsurance £m	Net[1] £m
Claims reported	3,003.7	(742.5)	2,261.2
Incurred but not reported	1,142.7	(338.7)	804.0
Claims handling provision	79.3	–	79.3
At 1 January 2018	4,225.7	(1,081.2)	3,144.5
Cash paid for claims settled in the year[1] (restated)	(2,186.0)	31.1	(2,154.9)
Increase / (decrease) in liabilities[2]:			
Arising from current-year claims[1] (restated)	2,489.7	(174.2)	2,315.5
Arising from prior-year claims	(523.5)	119.1	(404.4)
At 31 December 2018	4,005.9	(1,105.2)	2,900.7
Claims reported	3,001.0	(809.8)	2,191.2
Incurred but not reported[2]	924.9	(295.4)	629.5
Claims handling provision	80.0	–	80.0
At 31 December 2018	4,005.9	(1,105.2)	2,900.7
Cash paid for claims settled in the year	**(2,103.6)**	**25.3**	**(2,078.3)**
Increase / (decrease) in liabilities:			
Arising from current-year claims	**2,311.3**	**(169.2)**	**2,142.1**
Arising from prior-year claims	**(394.0)**	**99.5**	**(294.5)**
At 31 December 2019	**3,819.6**	**(1,149.6)**	**2,670.0**
Claims reported	**2,916.0**	**(829.3)**	**2,086.7**
Incurred but not reported	**825.4**	**(320.3)**	**505.1**
Claims handling provision	**78.2**	**–**	**78.2**
At 31 December 2019	**3,819.6**	**(1,149.6)**	**2,670.0**

Notes:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.
2. Included within the incurred but not reported claims provision as at 31 December 2018 was a £55 million net provision decrease (£175 million gross provision decrease) for an assumed change in the Ogden discount rate from minus 0.75% to 0%.

Movement in prior-year net claims liabilities by operating segment

	2019 £m	2018 £m
Motor	**(180.5)**	(276.3)
Home	**(41.4)**	(32.6)
Rescue and other personal lines	**(7.6)**	(16.1)
Commercial	**(65.0)**	(79.4)
Total	**(294.5)**	(404.4)

Analysis of outstanding PPO claims provisions on a discounted and an undiscounted basis

The Group settles some large bodily injury claims as PPOs rather than lump sum payments.

The table below analyses the outstanding PPO claims provisions on a discounted and an undiscounted basis at 31 December 2019 and 31 December 2018. These represent the total cost of PPOs rather than any costs in excess of purely Ogden-based settlements.

At 31 December	Discounted 2019 £m	Undiscounted 2019 £m	Discounted 2018 £m	Undiscounted 2018 £m
Gross claims				
Approved PPO claims provisions	**529.7**	**1,425.5**	516.2	1,424.5
Anticipated PPOs	**270.4**	**716.8**	358.1	943.9
Total	**800.1**	**2,142.3**	874.3	2,368.4
Reinsurance				
Approved PPO claims provisions	**(277.2)**	**(786.9)**	(268.6)	(784.5)
Anticipated PPOs	**(185.6)**	**(529.1)**	(245.2)	(701.1)
Total	**(462.8)**	**(1,316.0)**	(513.8)	(1,485.6)
Net of reinsurance				
Approved PPO claims provisions	**252.5**	**638.6**	247.6	640.0
Anticipated PPOs	**84.8**	**187.7**	112.9	242.8
Total	**337.3**	**826.3**	360.5	882.8

The provisions for PPOs have been categorised as either claims which have already been determined by the courts as PPOs (approved PPO claims provisions) or those expected to settle as PPOs in the future (anticipated PPOs). The Group has estimated the likelihood of large bodily injury claims settling as PPOs. The anticipated PPOs in the table above are based on historically-observed propensities adjusted for the assumed Ogden discount rate.

In the majority of cases, the inflation agreed in the settlement is the Annual Survey of Hours and Earnings SOC 6115 inflation published by the Office for National Statistics, for which the long-term rate is assumed to be 4% (2018: 4%). The Group has estimated a rate of interest used for the calculation of present values as 4% (2018: 4%), which results in a real discount rate of 0% (2018: 0%). The Group will continue to review the inflation and discount rates used to calculate these insurance reserves.

35. Unearned premium reserve

Movement in unearned premium reserve

	Gross £m	Reinsurance £m	Net £m
At 1 January 2018	1,600.3	(97.3)	1,503.0
Written in the period	3,211.9	(223.4)	2,988.5
Earned in the period	(3,306.7)	217.2	(3,089.5)
At 31 December 2018	1,505.5	(103.5)	1,402.0
Written in the period	**3,203.1**	**(215.9)**	**2,987.2**
Earned in the period	**(3,202.6)**	**217.7**	**(2,984.9)**
At 31 December 2019	**1,506.0**	**(101.7)**	**1,404.3**

36. Share-based payments

The Group operates equity-settled, share-based compensation plans in the form of an LTIP, a Restricted Shares Plan, a DAIP and Direct Line Group Share Incentive Plans, including both the Free Share awards and a Buy-As-You-Earn Plan, details of which are set out below. All awards are to be satisfied using market purchased shares.

Long-Term Incentive Plan

Executive Directors and certain members of senior management are eligible to participate in the LTIP with awards granted in the form of nil-cost options. Under the plan, the shares vest at the end of a three-year period dependent upon the continued employment by the Group and also the Group achieving predefined performance conditions associated with TSR and RoTE. For awards since August 2017, the Directors are subject to an additional two-year holding period following the three-year vesting period.

Awards were made in the year ended 31 December 2019 over 4.5 million Ordinary Shares with an estimated fair value of £14.4 million at the 2019 grant dates (2018: 3.9 million Ordinary Shares with an estimated fair value of £10.5 million).

The estimated fair value of the LTIP share awards with market-based performance conditions was calculated using a Monte-Carlo simulation model.

The table below details the inputs into the model.

	2019	2018
Weighted average assumptions during the year:		
Share price (pence)	318	355
Exercise price (pence)	0	0
Volatility of share price	19%	21%
Average comparator volatility	29%	30%
Expected life	3 years	3 years
Risk-free rate	0.5%	0.9%

Expected volatility was determined by considering the actual volatility of the Group's share price since its initial public offering and that of a group of listed UK insurance companies.

Plan participants are entitled to receive additional shares in respect of dividends paid to shareholders over the vesting period. Therefore, no deduction has been made from the fair value of awards in respect of dividends.

Expected life was based on the contractual life of the awards and adjusted based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

Restricted Shares Plan

The purpose of the Restricted Shares Plan is to facilitate the wider participation in Group share-based awards to eligible employees. These awards can be granted in the form of a nil-cost option at any time during the year, generally have no performance criteria, and vest over periods ranging between one and three years from the date of the grant, subject to continued employment. During the year awards were made over 0.2 million Ordinary Shares (2018: 0.5 million Ordinary Shares) with an estimated fair value of £0.7 million (2018: £1.6 million) using the market value at the date of grant.

Deferred Annual Incentive Plan

To incentivise delivery of performance over a one-year operating cycle, Executive Directors and certain members of senior management are eligible for awards under the AIP, of which at least 40% is granted in the form of a nil-cost option under the DAIP with the remainder being settled in cash following year-end. During the year awards were made over 1.3 million Ordinary Shares (2018: 1.3 million Ordinary Shares) under this plan with an estimated fair value of £4.5 million (2018: £4.9 million) using the market value at the date of grant.

The awards outstanding at 31 December 2019 have no performance criteria attached; there is a requirement that the employee remains in employment with the Group for three years from the date of grant.

Direct Line Group Share Incentive Plans: Free Share awards

In early 2018, the Group offered all eligible employees a Free Share award granting 133 Ordinary Shares free of charge to celebrate the Group's fifth anniversary in October 2017 of its launch on the London Stock Exchange. These awards have no performance criteria attached and vest on the third anniversary of the award grant date, subject to completion of three years, continuing employment. The Group initially granted 1.4 million Ordinary Shares with an estimated fair value of £5.4 million using the market value at the date of grant.

Direct Line Group Share Incentive Plans: Buy-As-You-Earn Plan

The Buy-As-You-Earn Plan entitles employees to purchase shares from pre-tax pay for between £10 and £150 per month and receive one matching share for every two shares purchased.

In the year ended 31 December 2019, matching share awards were granted over 0.5 million Ordinary Shares (2018: 0.4 million Ordinary Shares) with an estimated fair value of £1.6 million (2018: £1.5 million). The fair value of each matching share award is estimated using the market value at the date of grant.

Under the plan, the shares vest at the end of a three-year period dependent upon the continued employment with the Group together with continued ownership of the associated purchased shares up to the point of vesting.

Movement in total share awards

	Number of share awards	
	2019 millions	2018 millions
At 1 January	**21.3**	20.2
Granted during the year[1]	**8.0**	9.2
Forfeited during the year	**(3.0)**	(2.7)
Exercised during the year	**(4.7)**	(5.4)
At 31 December	**21.6**	21.3
Exercisable at 31 December	**1.6**	1.5

Note:

1. In accordance with the rules of the LTIP and DAIP award plans, additional awards of 1.5 million shares were granted during the year ended 31 December 2019 (2018: 1.7 million) in respect of the equivalent dividend.

In respect of the outstanding options at 31 December 2019, the weighted average remaining contractual life is 1.57 years (2018: 1.58 years). No share awards expired during the year (2018: nil).

The weighted average share price for awards exercised during the year ended 31 December 2019 was £3.29 (2018: £3.58).

The Group recognised total expenses in the year ended 31 December 2019 of £18.4 million (2018: £21.0 million) relating to equity-settled share-based compensation plans.

Further information on share-based payments, in respect of Executive Directors, is provided in the Directors' remuneration report.

37. Provisions

Movement in provisions during the year

	Regulatory levies £m	Restructuring £m	Other £m	Total £m
At 1 January 2019	35.6	3.4	33.8	72.8
Additional provision	57.5	4.2	31.2	92.9
Utilisation of provision	(53.1)	(0.7)	(23.0)	(76.8)
Released to income statement	–	(4.4)	(10.2)	(14.6)
At 31 December 2019	40.0	2.5	31.8	74.3

Of the above, £nil (2018: £nil) is due to be settled outside of 12 months.

Regulatory levies provisions include undiscounted balances held for MIB, FSCS and other insurance levies where the Group is charged in the following year.

Restructuring provisions include balances held in respect of various property dilapidations and a number of small restructuring programmes within the Group, none of which are individually significant.

Other provisions primarily include balances held in respect of staff bonuses and reward.

38. Trade and other payables, including insurance payables

	2019 £m	2018 £m
Trade creditors and accruals	**224.2**	227.7
Other taxes	**101.3**	100.0
Other creditors	**95.3**	89.1
Due to reinsurers	**43.7**	47.4
Due to agents, brokers and intermediaries	**9.7**	11.9
Deferred income	**2.9**	4.7
Due to insurance companies	**1.0**	0.5
Total	**478.1**	481.3

39. Notes to the consolidated cash flow statement

	2019 £m	2018[1,2] £m restated
Profit for the year	**419.9**	472.0
Adjustments for:		
Investment return	**(134.6)**	(154.6)
Instalment income	**(114.0)**	(119.9)
Finance costs	**26.0**	25.9
Defined benefit pension scheme – net interest charge	**–**	0.1
Equity-settled share-based payment charge	**18.4**	21.0
Tax charge	**89.8**	108.5
Depreciation and amortisation charge	**77.5**	90.4
Impairment of property, plant and equipment, goodwill and intangible assets	**1.3**	1.5
Impairment provision movements on reinsurance contracts	**(14.1)**	(5.2)
Gain on sale on assets held for sale	**–**	(9.6)
Loss on sale of property, plant and equipment and ROU assets	**0.3**	0.3
Prepayments[2]	**(0.2)**	10.5
Operating cash flows before movements in working capital	**370.3**	440.9
Movements in working capital:		
Net decrease in net insurance liabilities including reinsurance assets, unearned premium reserves and deferred acquisition costs	**(220.1)**	(325.0)
Net decrease in insurance and other receivables	**29.4**	105.3
Net decrease in accrued income and other assets	**4.5**	7.9
Net decrease in trade and other payables, including insurance payables and provisions	**(1.7)**	(103.9)
Cash generated from operations	**182.4**	125.2
Taxes paid	**(95.8)**	(102.5)
Cash flow hedges	**1.6**	0.8
Net cash generated from operating activities before investment of insurance assets	**88.2**	23.5
Interest received	**280.7**	303.6
Rental income received from investment property	**16.2**	15.9
Purchase of investment property	**–**	(0.1)
Proceeds on disposal of investment property	**24.2**	–
Proceeds on disposal / maturity of AFS debt securities	**1,886.4**	2,159.2
Proceeds from maturity of HTM debt securities	**–**	2.5
Advances made for commercial real estate loans	**(32.3)**	(59.3)
Repayments of infrastructure debt and commercial real estate loans	**40.6**	49.2
Purchase of AFS debt securities	**(1,838.8)**	(2,002.9)
Purchase of HTM debt securities	**(3.1)**	–
Cash generated from investment of insurance assets	**373.9**	468.1

Notes:

1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.
2. Presentational amendments includes 'Prepayments' previously presented in 'Net decrease / (increase) in prepayments and accrued income and other assets' are now presented separately in the 'Operating cash flows before movements in working capital'. The comparative data for year ended 31 December 2018 has been re-presented accordingly.

The table below details changes in liabilities arising from the Group's financing activities.

	Leases		Subordinated liabilities		Interest rate swaps[1]	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
At 1 January	**167.3**	170.1	**(259.5)**	(264.7)	**9.0**	16.3
Interest paid on subordinated liabilities	**–**	–	**23.1**	23.1	**–**	–
Interest rate swap cash settlement	**–**	–	**–**	–	**(3.4)**	(5.8)
Lease cash flows	**(19.8)**	(19.2)	**–**	–	**–**	–
Interest on lease payments	**6.7**	6.7	**–**	–	**–**	–
Financing cash flows	**(13.1)**	(12.5)	**23.1**	23.1	**(3.4)**	(5.8)
Net lease additions	**10.2**	9.7	**–**	–	**–**	–
Amortisation of arrangement costs and discount on issue of subordinated liabilities	**–**	–	**(0.3)**	(0.4)	**–**	–
Accrued interest expense on subordinated liabilities	**–**	–	**(23.1)**	(23.1)	**–**	–
Unrealised gain on associated interest rate risk on hedged item	**–**	–	**0.8**	5.6	**–**	–
Net accrued interest on interest rate swap	**–**	–	**–**	–	**–**	(0.2)
Fair value movement in interest rate swap	**–**	–	**–**	–	**3.4**	(1.3)
Non-cash changes	**10.2**	9.7	**(22.6)**	(17.9)	**3.4**	(1.5)
At 31 December	**164.4**	167.3	**(259.0)**	(259.5)	**9.0**	9.0

Note:

1. The interest rate swaps relate to the Group's 10-year designated hedging instrument which exchanges the fixed rate of interest for a floating rate of 3-month LIBOR plus a spread of 706 basis points which was credit value adjusted to 707 basis points with effect from 29 July 2013.

40. Commitments and contingent liabilities

The Group did not have any material commitments and contingent liabilities at 31 December 2019 (2018: none).

41. Leases

Operating lease commitments where the Group is the lessor

The following table analyses future aggregate minimum lease payments receivable under non-cancellable operating leases in respect of property leased to third-party tenants.

	2019 £m	2018 £m
Within one year	**13.8**	14.5
In the second to fifth years inclusive	**39.2**	42.9
After five years	**69.1**	70.4
Total	**122.1**	127.8

Other leases disclosures

Sublease income in respect of property right-of-use assets was £0.3 million during the year (2018: £0.3 million). Expenses relating to short-term and variable lease payments were not included in the measurement of lease liabilities as they were not significant. Total cash outflow in respect of leases for year ended 31 December 2019 was £20.1 million (2018: £19.5 million).

42. Fair value

Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

For disclosure purposes, fair value measurements are classified as level 1, 2 or 3 based on the degree to which fair value is observable:

- level 1 financial assets are measured in whole or in part by reference to published quotes in an active market. In an active market quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.
- level 2 financial assets and liabilities are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. These include AFS debt security assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, or financial assets with fair values based on broker quotes or assets that are valued using the Group's own models whereby the majority of assumptions are market-observable. Derivatives are valued using broker quotes or appropriate valuation models. Model inputs include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of underlying instruments.
- level 3 fair value measurements used for investment properties, HTM debt securities, infrastructure debt and commercial real estate loans are those derived from a valuation technique that includes inputs for the asset that are unobservable.

Comparison of carrying value to fair value of financial instruments and assets carried at fair value

The following table compares the carrying value and the fair value of financial instruments and other assets where the Group discloses a fair value.

At 31 December 2019	**Carrying value £m**	Level 1 £m	Level 2 £m	Level 3 £m	**Fair value £m**
Assets held at fair value:					
Investment property (note 20)	**291.7**	–	–	291.7	**291.7**
Derivative assets (note 26)	**121.5**	–	121.5	–	**121.5**
AFS debt securities (note 28)	**4,085.6**	99.5	3,986.1	–	**4,085.6**
Other financial assets:					
HTM debt securities (note 28)	**104.0**	–	14.1	94.0	**108.1**
Infrastructure debt (note 28)	**278.1**	–	–	285.6	**285.6**
Commercial real estate loans (note 28)	**205.7**	–	–	203.0	**203.0**
Total	**5,086.6**	**99.5**	**4,121.7**	**874.3**	**5,095.5**
Liabilities held at fair value:					
Derivative liabilities (note 26)	**30.5**	–	30.5	–	**30.5**
Other financial liabilities:					
Subordinated liabilities (note 33)	**259.0**	–	297.8	–	**297.8**
Total	**289.5**	**–**	**328.3**	**–**	**328.3**

At 31 December 2018	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m
Assets held at fair value:					
Investment property (note 20)	322.1	–	–	322.1	322.1
Derivative assets (note 26)	48.2	–	48.2	–	48.2
AFS debt securities (note 28)	4,145.6	156.9	3,988.7	–	4,145.6
Other financial assets:					
HTM debt securities (note 28)	101.0	–	13.9	87.4	101.3
Infrastructure debt (note 28)	289.6	–	–	286.3	286.3
Commercial real estate loans (note 28)	201.6	–	–	201.6	201.6
Total	5,108.1	156.9	4,050.8	897.4	5,105.1
Liabilities held at fair value:					
Derivative liabilities (note 26)	25.9	–	25.9	–	25.9
Other financial liabilities:					
Subordinated liabilities (note 33)	259.5	–	297.8	–	297.8
Total	285.4	–	323.7	–	323.7

Differences arise between carrying value and fair value where the measurement basis of the asset or liability is not fair value (e.g. assets and liabilities carried at amortised cost). Fair values of the following assets and liabilities approximate their carrying values:

- insurance and other receivables;
- cash and cash equivalents;
- borrowings; and
- trade and other payables, including insurance payables.

The movements in assets held at fair value and classified as level 3 in the fair value hierarchy are within investment property and are analysed in note 20 along with further details on the Group's valuation approach. A summary of realised and unrealised gains or losses in relation to investment property at fair value are presented in note 6. Sensitivity analysis in respect of investment property has been provided in note 3. No other level 3 assets are measured at fair value. There were no changes in the categorisation of assets between levels 1, 2 and 3 for assets and liabilities held by the Group since 31 December 2018.

The table below shows the unobservable inputs used by the Group in the fair value measurement of its investment property.

31 December 2019	Fair value £m	Valuation technique	Unobservable input	Range (weighted average)
Investment property	287.7[1]	Income capitalisation	Equivalent yield	3.50 % - 6.88% (average 5%)
			Estimated rental value per square foot	£1.81 - £32.97 (average £14.83)

Note:
1. The methodology of valuation reflects commercial property held within U K Insurance Limited.

The table below analyses the movement in assets classified as level 3 in the fair value hierarchy.

	Investment property £m
At 1 January 2019	322.1
Decrease in fair value in the period through profit or loss (notes 6 & 20)	**(6.2)**
Disposals (notes 6 & 20)	**(24.2)**
At 31 December 2019	**291.7**

43. Related parties

Transactions between the Group's subsidiary undertakings, which are related parties, have been eliminated on consolidation and accordingly are not disclosed.

There were no sales and purchases of products and services to or from related parties in the year ended 31 December 2019 (2018: £nil).

Compensation of key management

	2019 £m	2018 £m
Short-term employee benefits	**11.6**	11.2
Share-based payments	**7.9**	8.9
Total	**19.5**	20.1

44. First-time adoption of IFRS 16

The Group adopted IFRS 16 for the first time on 1 January 2019 as explained in note 1 to the consolidated financial statements. As a result, leased liabilities in respect of property, motor vehicles and IT equipment are now recognised on the balance sheet, along with corresponding right-of-use assets. The impact of the adoption of the new standard on the income statement has been to replace rental expenses with a depreciation charge and a finance cost in respect of the leased assets. An element of the depreciation charge is attributed to claims handling expenses, which are included in claims costs.

The following tables reconcile the restated comparative financial statements to amounts previously presented under under IAS 17:

Impact on the consolidated income statement for the year ended 31 December 2018

	31 December 2018 £m	IFRS 16 first-time adoption £m	**31 December 2018 £m restated**
Total income	**3,436.1**	**–**	**3,436.1**
Insurance claims[1]	(1,966.9)	0.7	(1,966.2)
Insurance claims recoverable from reinsurers	55.1	–	55.1
Net insurance claims	**(1,911.8)**	**0.7**	**(1,911.1)**
Commission expenses	(200.4)	–	(200.4)
Operating expenses[2]	(722.2)	4.0	(718.2)
Total expenses	**(922.6)**	**4.0**	**(918.6)**
Operating profit	**601.7**	**4.7**	**606.4**
Finance costs[3]	(19.1)	(6.8)	(25.9)
Profit before tax	**582.6**	**(2.1)**	**580.5**
Tax charge	(108.9)	0.4	(108.5)
Profit for the period attributable to owners of the Company	**473.7**	**(1.7)**	**472.0**

Earnings per share:			
Basic (pence)	**33.5**	**(0.2)**	**33.3**
Diluted (pence)	**33.1**	**(0.2)**	**32.9**

Notes:
1. In prior periods, the internal cost reallocation model reflected a portion of rental expenses relating to claims handling expense in insurance claims. Under IFRS 16 rental expenses were replaced with a lower depreciation charge in operating expenses, reducing the costs recharged to claims handling after reallocations. The prior period has been restated in respect of this to improve comparability with the current period. This adjustment is also reflected in note 8 and note 34.
2. Net operating expense impact of replacing rental expenses with a depreciation charge on right-of-use assets.
3. Interest expense recognised on unwinding of discounted lease liabilities.

Impact on the consolidated statement of comprehensive income for the year ended 31 December 2018

	31 December 2018 £m	IFRS 16 first-time adoption £m	31 December 2018 £m restated
Profit for the period	**473.7**	**(1.7)**	**472.0**
Other comprehensive loss net of tax	**(114.2)**	**–**	**(114.2)**
Total comprehensive income for the period attributable to owners of the Company	**359.5**	**(1.7)**	**357.8**

Impact on the consolidated balance sheet as at 1 January 2018

	1 January 2018 £m	IFRS 16 first-time adoption £m	1 January 2018 £m restated
Assets			
Right-of-use assets	–	157.9	157.9
Deferred acquisition costs	185.4	(0.4)	185.0
Prepayments, accrued income and other assets	146.2	(3.2)	143.0
Equity			
Shareholders' equity	2,715.1	(13.2)	2,701.9
Liabilities			
Deferred tax	31.1	(2.7)	28.4
Lease liabilities	–	170.1	170.1

Impact on the consolidated balance sheet as at 31 December 2018

	31 December 2018 £m	IFRS 16 first-time adoption £m	31 December 2018 £m restated
Assets			
Right-of-use assets	–	153.4	153.4
Deferred acquisition costs	171.0	(0.6)	170.4
Prepayments, accrued income and other assets	128.0	(3.5)	124.5
Equity			
Shareholders' equity	2,573.1	(14.9)	2,558.2
Liabilities			
Deferred tax	7.6	(3.1)	4.5
Lease liabilities	–	167.3	167.3

Impact on the consolidated cash flow statement year ended 31 December 2018

	31 December 2018 £m	IFRS 16 first-time adoption £m	31 December 2018 £m restated
Net cash generated from operating activities before investment of insurance assets	4.2	19.3	23.5
Cash flows used in financing activities			
Finance costs	(19.3)	(6.8)	(26.1)
Principal elements of lease payments	–	(12.5)	(12.5)

PARENT COMPANY BALANCE SHEET

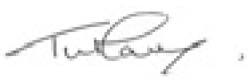
As at 31 December 2019

	Notes	2019 £m	2018 £m
Assets			
Investment in subsidiary undertakings	2	**3,137.4**	3,119.0
Other receivables	3	**299.1**	548.3
Current tax assets	4	**3.5**	–
Derivative financial instruments	5	**0.6**	1.4
Financial investments	6	**85.0**	5.1
Cash and cash equivalents	7	**124.2**	236.1
Total assets		**3,649.8**	3,909.9
Equity			
Shareholders' equity		**2,931.4**	3,205.8
Tier 1 notes	9	**346.5**	346.5
Total equity		**3,277.9**	3,552.3
Liabilities			
Subordinated liabilities	10	**253.4**	253.0
Borrowings	11	**116.3**	100.7
Derivative financial instruments	5	**0.6**	1.4
Trade and other payables	12	**1.0**	1.7
Deferred tax liabilities	4	**0.6**	0.6
Current tax liabilities	4	**–**	0.2
Total liabilities		**371.9**	357.6
Total equity and liabilities		**3,649.8**	3,909.9

The attached notes on pages 214 to 219 form an integral part of these separate financial statements.

The profit for the year net of tax was £143.3 million (2018: £449.6 million).

The financial statements were approved by the Board of Directors and authorised for issue on 2 March 2020.
They were signed on its behalf by:



TIM HARRIS
CHIEF FINANCIAL OFFICER

Direct Line Insurance Group plc

Registration No. 02280426

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 £m	2018 £m
Profit for the year	**143.3**	449.6
Other comprehensive loss		
Items that may be reclassified subsequently to income statement:		
Loss on fair value through other comprehensive income investments	**–**	(0.1)
Other comprehensive loss for the year net of tax	**–**	(0.1)
Total comprehensive income for the year attributable to owners of the Company	**143.3**	449.5

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital £m	Capital reserves £m	Share-based payment reserve £m	Fair value through other comprehensive income revaluation reserve £m	Retained earnings £m	Shareholders' equity £m	Tier 1 notes £m	Total equity £m
Balance at 1 January 2018	150.0	1,450.0	(3.2)	0.1	1,660.6	3,257.5	346.5	3,604.0
Total comprehensive income for the year	–	–	–	(0.1)	449.6	449.5	–	449.5
Dividends paid	–	–	–	–	(503.8)	(503.8)	–	(503.8)
Credit to equity for equity-settled share-based payments	–	–	21.0	–	–	21.0	–	21.0
Shares distributed by employee trusts	–	–	(18.4)	–	–	(18.4)	–	(18.4)
Balance at 31 December 2018	150.0	1,450.0	(0.6)	–	1,606.4	3,205.8	346.5	3,552.3
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**143.3**	**143.3**	**–**	**143.3**
Dividends and appropriations paid (note 13)	**–**	**–**	**–**	**–**	**(420.7)**	**(420.7)**	**–**	**(420.7)**
Credit to equity for equity-settled share-based payments	**–**	**–**	**18.4**	**–**	**–**	**18.4**	**–**	**18.4**
Shares distributed by employee trusts	**–**	**–**	**(15.4)**	**–**	**–**	**(15.4)**	**–**	**(15.4)**
Balance at 31 December 2019	**150.0**	**1,450.0**	**2.4**	**–**	**1,329.0**	**2,931.4**	**346.5**	**3,277.9**

The attached notes on pages 214 to 219 form an integral part of these separate financial statements.

1. Accounting policies

1.1 Basis of preparation

Direct Line Insurance Group plc, registered in England and Wales (company number 02280426), is the ultimate parent company of the Group. The principal activity of the Company is managing its investments in subsidiaries, providing loans to those subsidiaries, raising funds for the Group and the receipt and payment of dividends.

The address of the Company's registered office is Churchill Court, Westmoreland Road, Bromley, BR1 1DP, England.

The Company's financial statements are prepared on the historical cost basis except for financial investments and derivative financial investments, which are measured at fair value.

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the Company's income statement and related notes have not been presented in these separate financial statements.

The Company's financial statements are prepared in accordance with Financial Reporting Standard FRS 101 'Reduced Disclosure Framework'.

The Company has taken advantage of the following FRS 101 disclosure exemptions:

- FRS 101.8 (d): the requirements of IFRS 7 'Financial Instruments: Disclosures' to make disclosures about financial instruments;
- FRS 101.8 (e): the disclosure requirements of IFRS13 'Fair Value Measurement';
- FRS 101.8 (g): the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 111 and 134 – 136 of IAS 1 'Presentation of Financial Statements' to produce a cash flow statement and to make an explicit and unreserved statement of compliance with IFRSs;
- FRS 101.8 (h): the requirements of IAS 7 'Statements of Cash Flows' to produce a cash flow statement and related notes;
- FRS 101.8 (i): the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' to include a list of new IFRSs that have been issued but that have yet to be applied; and
- FRS 101.8 (k): the requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to a transaction is wholly owned by such a member.

1.2 Investment in subsidiaries

Investment in subsidiaries is stated at cost less any impairment.

1.3 Dividend income

Dividend income from investment in subsidiaries is recognised when the right to receive payment is established.

1.4 Financial assets

Financial assets are classified at initial recognition and subsequently measured at amortised cost or fair value through other comprehensive income. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Amortised cost

Assets which are held to collect contractual cash flows, and with contractual terms which give rise to cash flows which are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost, unless designated as fair value through profit or loss. The Company's financial assets at amortised cost include loans to subsidiary undertakings and cash and cash equivalents. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

Fair value through other comprehensive income

Assets which are held both to collect contractual cash flows and to sell the financial asset, where the contractual terms of the asset give rise to cash flows which are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income, unless designated as fair value through profit or loss. The Company's financial assets at fair value through the other comprehensive income relate to UK sovereign debt securities. Movements in the carrying amount are taken through other comprehensive income, except for gains or losses recognised in the income statement when the asset is derecognised, modified or impaired.

Impairment

On recognition of a financial asset measured at amortised cost or fair value through other comprehensive income, an expected credit loss allowance is recognised by multiplying the financial asset's gross carrying amount by the probability of default multiplied by the loss given default.

At each balance sheet date, the Company assesses on a forward-looking basis, whether there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as held at amortised cost or fair value through other comprehensive income, is expected. This assessment depends on whether there has been a deterioration in the instrument's credit quality since initial recognition. The Company measures the expected loss as the difference between the carrying amount of the asset or group of assets including the allowance for expected losses, and the present value of estimated future cash flows from the asset or group of assets, discounted at the effective interest rate of the instrument. The expected loss allowance is based on assumptions about risk of default and expected loss rates.

The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the credit quality and history of the financial asset or group of financial assets, as well as existing market conditions and forward-looking expectations.

Impairment losses, including the expected credit allowance, are recognised in the income statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for the impairment losses. If in a subsequent period the amount of the expected impairment allowance reduces, and this can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. A financial asset is written off when there is no reasonable expectation of recovery.

Hedge accounting

The Company has utilised the transition for hedge accounting option in IFRS 9 to continue applying the hedge accounting requirements of IAS 39.

2. Investment in subsidiary undertakings

	2019 £m	2018 £m
At 1 January	**3,119.0**	3,099.1
Additional investment in subsidiary undertakings	**18.4**	20.9
Impairment of investment in subsidiary undertakings	**–**	(1.0)
At 31 December	**3,137.4**	3,119.0

The subsidiary undertakings of the Company are set out in the table below. Their capital consists of Ordinary Shares which are unlisted. In all cases, the Company owns 100% of the Ordinary Shares, either directly or through its ownership of other subsidiaries, and exercises full control over their decision making.

Name of subsidiary	Company registration number	Place of incorporation and operation	Principal activity
Directly held by the Company:			
Direct Line Group Limited[1]	02811437	United Kingdom	Intermediate holding company
DL Insurance Services Limited[1]	03001989	United Kingdom	Management services
Finsure Premium Finance Limited[1]	01670887	United Kingdom	Non-trading company
Inter Group Insurance Services Limited[1]	02762848	United Kingdom	Dormant[7]
UK Assistance Accident Repair Centres Limited[1]	02568507	United Kingdom	Motor vehicle repair services
UK Assistance Limited[1]	02857232	United Kingdom	Dormant[7]
U K Insurance Business Solutions Limited[1]	05196274	United Kingdom	Insurance intermediary services
U K Insurance Limited[2,3]	01179980	United Kingdom	General insurance
Indirectly held by the Company:			
10-15 Livery Street, Birmingham UK Limited[4]	JE109119	Jersey	Dormant[8]
Churchill Insurance Company Limited[1]	02258947	United Kingdom	General insurance
Direct Line Insurance Limited[1]	01810801	United Kingdom	Dormant[7]
DL Support Services India Private Limited[5]	See footnote 5	India	Support and operational services
DLG Legal Services Limited[6]	08302561	United Kingdom	Legal services
DLG Pension Trustee Limited[1]	08911044	United Kingdom	Dormant[7]
Farmweb Limited[1]	03207393	United Kingdom	Dormant[7]
Green Flag Group Limited[2]	02622895	United Kingdom	Intermediate holding company
Green Flag Holdings Limited[1]	03577191	United Kingdom	Intermediate holding company
Green Flag Limited[2]	01003081	United Kingdom	Breakdown recovery services
Intergroup Assistance Services Limited[1]	03315786	United Kingdom	Dormant[7]
National Breakdown Recovery Club Limited[1]	02479300	United Kingdom	Dormant[7]
Nationwide Breakdown Recovery Services Limited[1]	01316805	United Kingdom	Dormant[7]
The National Insurance and Guarantee Corporation Limited[1]	00042133	United Kingdom	Dormant[7]
UKI Life Assurance Services Limited[1]	03034263	United Kingdom	Dormant[7]

Notes:
1. Registered office at: Churchill Court, Westmoreland Road, Bromley, BR1 1DP.
2. Registered office at: The Wharf, Neville Street, Leeds, LS1 4AZ.
3. U K Insurance Limited has a branch in the Republic of South Africa.
4. Registered office at: 22 Grenville Street, St Helier, JE4 8PX, Jersey.
5. Registered office at: ESC House, 155, 1st & 2nd Floor, Okhla Industrial Area Phase-3, New Delhi, 110020, India. Company registration number: U74140DL2014FTC265567.
6. Registered office at: 42 The Headrow, Leeds, LS1 8HZ.
7. These entities have not been audited in accordance with the exemptions available for dormant entities under section 480 of the Companies Act 2006.
8. Under the Companies (Jersey) Law 1991, there is no requirement to file individual accounts and audit a private limited company.

3. Other receivables

	2019 £m	2018 £m
Loans to subsidiary undertakings[1]	298.6	531.9
Trade receivables due from subsidiary undertakings	–	15.1
Other debtors	0.5	1.3
Total	299.1	548.3
Current	49.1	48.3
Non-current	250.0	500.0
Total	299.1	548.3

Note:

1. Included in loans to subsidiary undertakings is a £500 million unsecured subordinated loan to U K Insurance Limited. The loan was advanced on 27 April 2012 at a fixed rate of 9.5% with a repayment date of 27 April 2042. On 28 February 2019, the Board of U K Insurance Limited passed a resolution to repay £250 million of subordinated loan and the repayment date was 7 March 2019. All loans are neither past due nor impaired.

4. Current and deferred tax

	2019 £m	2018 £m
Per balance sheet:		
Current tax assets	3.5	–
Current tax liabilities	–	(0.2)
Deferred tax liabilities	(0.6)	(0.6)

The deferred tax liability of £0.6 million as at 1 January 2019 and 31 December 2019 is in respect of provisions and other temporary differences. There were no movements to the balance in the year.

5. Derivative financial instruments[1]

	Notional amount	Fair value	Notional amount	Fair value
	2019 £m	2019 £m	2018 £m	2018 £m
Derivative assets				
Designated as hedging instruments:				
Foreign exchange contracts[2]	18.2	0.6	18.5	1.4
Total	18.2	0.6	18.5	1.4
Derivative liabilities				
Designated as hedging instruments:				
Foreign exchange contracts[2]	18.2	0.6	18.5	1.4
Total	18.2	0.6	18.5	1.4

Notes:

1. The derivative assets and liabilities are both classified as level 2 within the Group's fair value hierarchy set out in note 42 of the consolidated financial statements.
2. The foreign exchange cash flow hedges have been entered into on behalf of the Group's subsidiary companies.

6. Financial investments

	2019 £m	2018 £m
Fair value through other comprehensive income debt securities[1]	**85.0**	5.1

Note:

1. At 31 December 2019 the fair value through other comprehensive income debt securities are corporate debt securities of £79.9 million (2018: £nil) classified as level 2 and fixed interest UK sovereign debt of £5.1 million (2018: £5.1 million) classified as level 1 within the Group's fair value hierarchy which is set out in note 42 of the consolidated financial statements.

7. Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank and in hand	**(0.2)**	0.1
Short-term deposits with credit institutions[1]	**124.4**	236.0
Total	**124.2**	236.1

Note:

1. This represents money market funds.

8. Share capital and capital reserves

Full details of the share capital and capital reserves of the Company are set out in notes 30 and 31 to the consolidated financial statements.

9. Tier 1 notes

Full details of the Tier 1 notes of the Company are set out in note 32 to the consolidated financial statements.

10. Subordinated liabilities

	2019 £m	2018 £m
Subordinated guaranteed dated notes	**253.4**	253.0

The subordinated guaranteed dated notes with a nominal value of £500 million were issued on 27 April 2012 at a fixed rate of 9.25% and have a redemption date of 27 April 2042. The Company has the option to repay the notes on specific dates from 27 April 2022. If the notes are not repaid on 27 April 2022, the rate of interest will be reset at a rate of six-month LIBOR plus 7.91%.

On 8 December 2017, the Company repurchased £250 million nominal value of subordinated guaranteed dated notes for a purchase price of £330.1 million including accrued interest of £2.7 million and associated transaction costs of £0.6 million.

The Company has the option, in certain circumstances, to defer interest payments on the notes but to date has not exercised this right.

The notes are unsecured, subordinated obligations of the Company, and rank pari passu without any preference among themselves. In the event of a winding up or insolvency, they are to be repaid only after the claims of all other senior creditors have been met.

The notes are guaranteed by U K Insurance Limited, a principal subsidiary of the Company.

The aggregate fair value of subordinated guaranteed dated notes at 31 December 2019 was £297.8 million (2018: £297.8 million).

11. Borrowings

	2019 £m	2018 £m
Loans from fellow subsidiaries within the Group[1]	**116.3**	100.7

Note:

1. Included in the above is a loan of £84.4 million (2018: £73.0 million) from UK Assistance Accident Repair Centres Limited. All loans from fellow Group subsidiaries are repayable by 31 December 2024 and are subject to interest on outstanding balances based on the average three-month LIBOR rate.

12. Trade and other payables

	2019 £m	2018 £m
Payables to third parties	**1.0**	1.7
Total	**1.0**	1.7

13. Dividends

Full details of the dividends paid and proposed by the Company are set out in note 14 to the consolidated financial statements.

14. Share-based payments

Full details of share-based compensation plans are provided in note 36 to the consolidated financial statements.

15. Risk management

The risks faced by the Company, arising from its investment in subsidiaries, are considered to be the same as those in the operations of the Group. Details of the key risks and the steps taken to manage them are disclosed in note 3 to the consolidated financial statements. The Company also holds, on behalf of its subsidiaries, designated hedging instruments which relate to foreign currency supplier payments.

16. Directors and key management remuneration

The Directors and key management of the Group and the Company are the same. The aggregate emoluments of the Directors are set out in note 10 to the consolidated financial statements, the compensation for key management is set out in note 43 to the consolidated financial statements and the remuneration and pension benefits payable in respect of the highest paid Director are included in the Directors' remuneration report in the Governance section of the Annual Report & Accounts.

Corporate website

The Group's corporate website is www.directlinegroup.co.uk. It contains useful information for the Company's investors and shareholders. For example, it includes press releases, details of forthcoming events, essential shareholder information, a dividend history, a financial calendar, and details of the Company's AGM. You can also subscribe to email news alerts.

Market

The Company has a premium listing on the UK Listing Authority's Official List. The Company's Ordinary Shares (EPIC: DLG) are admitted to trading on the London Stock Exchange.

Share ownership

Share capital

You can find details of the Company's share capital in note 30 to the consolidated financial statements.

Dividends

The Company pays its dividends in sterling to shareholders registered on its register of members at the relevant record date.

Shareholders can arrange to receive their cash dividend payments in a bank or building society account by completing a dividend mandate form. This is available from the Company's registrar, Computershare Investor Services Plc ("**Registrar**"), in the UK. You can find the Registrar's contact details on page 230. Alternatively, shareholders can access their shareholdings online and download a dividend mandate form from the Investor Centre. You can find details of this below.

Dividend Reinvestment Plan

The Company offers a Dividend Reinvestment Plan. This enables shareholders to use their cash dividends to buy the Company's Ordinary Shares in the market. You can find more details on the Company's website.

Shareholder enquiries

Shareholders with queries about anything relating to their shares can contact our Registrar.

Shareholders should notify the Registrar of any change in shareholding details, such as their address, as soon as possible.

Shareholders can access their current shareholding details online at www.investorcentre.co.uk/directline. Investor Centre is a free-to-use, secure, self-service website that enables shareholders to manage their holdings online. The website allows shareholders to:

- check their holdings;
- update their records, including address and direct credit details;
- access all their securities in one portfolio by setting up a personal account;
- vote online; and
- register to receive electronic shareholder communications.

To access information, the website requires shareholders to quote their shareholder reference number. Shareholders can find this number on their share certificates.

Shareholder warning

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that prove to be worthless or non-existent. Or they can offer to buy shares at an inflated price in return for you paying upfront. They promise high profits. However, if you buy or sell shares in this way, you will probably lose your money.

How to avoid share fraud

- Remember that FCA-authorised firms are unlikely to contact you unexpectedly offering to buy or sell shares.
- Do not converse with them. Note the name of the person and firm contacting you, then end the call.
- To see if the person and firm contacting you are authorised by the FCA, check the Financial Services Register at www.fca.org.uk/register.
- Beware of fraudsters claiming to be from an authorised firm; copying its website; or giving you false contact details.
- If you want to phone the caller back, use the firm's contact details listed on the Financial Services Register at www.fca.org.uk/register.
- If the firm does not have contact details on the Register or they tell you the details are out of date, call the FCA on 0800 111 6768.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/consumers/unauthorised-firms-individuals.
- Remember that if you buy or sell shares from an unauthorised firm, you cannot access the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Get independent financial and professional advice before handing over any money.
- If it sounds too good to be true, it probably is.

Report a scam

If fraudsters approach you, tell the FCA using the share fraud reporting form at www.fca.org.uk/consumers/report-scam-unauthorised-firm. You can also find out more about investment scams on the same web page.

You can call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters, call Action Fraud on 0300 123 2040.

Tips on protecting your shares

- Keep all your certificates in a safe place. Alternatively, consider holding your shares in the UK's electronic registration and settlement system for equity, called CREST, or via a nominee;
- Keep correspondence from the Registrar that shows your shareholder reference number in a safe place, and shred unwanted correspondence;
- Inform the Registrar as soon as you change your address;
- If you receive a letter from the Registrar regarding a change of address and you have not recently moved, contact them immediately;
- Find out when your dividends are paid and contact the Registrar if you do not receive them;
- Consider having your dividends paid direct into your bank account. You will need to complete a dividend mandate form and send it to the Registrar. This reduces the risk of cheques being stolen or lost in the post;
- If you change your bank account, inform the Registrar of your new account details immediately;
- If you are buying or selling shares, only deal with brokers registered in the UK or in your country of residence; and
- Be aware that the Company will never call you concerning investments. If you receive such a call from a person saying they represent the Group, please contact the Company Secretary immediately, by calling +44 (0)1132 920 667.

Electronic communications and voting

The Group produces various communications. Shareholders can view these online, download them, or receive paper copies by contacting the Registrar.

Shareholders, who register their email address with our Registrar, or at the Investor Centre, can receive emails with news on events, such as the AGM. They can also receive shareholder communications electronically, like the Annual Report & Accounts and Notice of Meeting.

Dealing facilities

Shareholders who wish to buy, sell or transfer their shares may do so through a stockbroker or a high street bank; or through the Registrar's share-dealing facility.

You can call or email the Registrar regarding its share-dealing facility using this contact information:

- For telephone sales, call +44 (0)370 703 0084 between 8.00 am and 6.00 pm, Monday to Friday, excluding public holidays, and
- For internet sales, go to www.investorcentre.co.uk/directline. You will need your shareholder reference number, as shown on your share certificate, or your welcome letter from the Chairman.

Dividend tax allowance

The dividend tax-free allowance is £2,000 across an individual's entire share portfolio. Above this amount, individuals will pay tax on their dividend income. The rate of this tax depends on their income tax bracket and personal circumstances. The Company will continue providing registered shareholders with a confirmation of the dividends paid. Shareholders should include this with any other dividend income they receive when calculating and reporting total dividend income received to HMRC. The shareholder is responsible for including all dividend income when calculating tax requirements. If you have any tax queries, please contact your financial adviser.

Financial calendar

2020

Date	Event
03 March	Preliminary Results 2019 announcement
09 April	'Ex-dividend' date for 2019 final dividend
14 April	Record date for 2019 final dividend
29 April	Final date for election under the Dividend Reinvestment plan
06 May[1]	Trading update for the first quarter of 2020
14 May	Annual General Meeting
21 May	Payment date for 2019 final dividend
04 August[1]	Half Year Report 2020
13 August[1]	'Ex-dividend' date for 2020 interim dividend
14 August[1]	Record date for 2020 interim dividend
20 August[1]	Final date for election under the Dividend Reinvestment plan
11 September[1]	Payment date for 2020 interim dividend
10 November[1]	Trading update for the third quarter of 2020

Annual General Meeting

The 2020 AGM will be held on 14 May 2020 at 11.00 am. All shareholders will receive a separate notice convening the AGM. This will explain the resolutions to be put to the meeting and include details regarding the venue and how to get there.

The Articles of Association of the Company (marked up to show the amendments proposed at the AGM) and the letters of appointment of the Executive Directors, the Chairman and the NEDs are available for inspection at the Company's registered office and at the offices of Allen & Overy LLP.

Note:
1. These dates are subject to change.

Term	Definition and explanation
Actuarial best estimate ("ABE")	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.
Annual Incentive Plan ("AIP")	This incentivises the performance of Executive Directors and employees over a one-year operating cycle. It focuses on the short to medium-term elements of the Group's strategic aims.
Assets under management ("AUM")	This represents all assets management or administered by or on behalf of the Group, including those assets managed by third parties.
Association of British Insurers ("ABI")	The trade body that represents the insurance and long-term savings industry in the UK.
Available-for-sale ("AFS") investment	Available-for-sale investments are non-derivative financial assets that are designated as such, or are not classified as loans and receivables, held to maturity, or financial assets at fair value through profit or loss.
Average written premium	The total written premium at inception divided by the number of policies.
Bootstrapping	A statistical sampling technique used to estimate reserve variability around the Actuarial Best Estimate ("**ABE**"). Results produced from bootstrapping historical data are used to set and inform the level of margin incorporated in the Management Best Estimate ("**MBE**").
Buy-As-You-Earn Plan	The HM Revenue & Customs approved Buy-As-You-Earn Share Incentive Plan gives all employees the opportunity to become shareholders in the Company.
Capital	The funds invested in the Group, including funds invested by shareholders and Tier 1 notes. In addition, subordinated liability in the Group's balance sheet is classified as Tier 2 capital for Solvency II purposes.
Claims frequency	The number of claims divided by the number of policies per year.
Claims handling provision (provision for losses and loss-adjustment expense)	Funds set aside by the Group to meet the estimated cost of settling claims and related expenses that the Group considers it will ultimately need to pay.
Clawback	The ability of the Company to claim repayment of paid amounts for equity-settled share-based payments.
Combined operating ratio	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 combined operating ratio** adjusts loss and commission ratios for weather and changes to the Ogden discount rate. (See page 225 alternative performance measures.)
Commission expenses	Payments to brokers, partners and price comparison websites for generating business.
Commission ratio	The ratio of commission expense divided by net earned premium. (See page 225 alternative performance measures.)
Company	Direct Line Insurance Group plc (the "**Company**").
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. (See page 225 alternative performance measures.)
Current-year combined operating ratio	This is calculated using the combined operating ratio less movement in prior year reserves. (See page 225 alternative performance measures.)
Current-year normalised operating profit	This is calculated using the normalised operating profit adjusted for prior-year reserve movements. (See page 225 alternative performance measures.)
Deferred Annual Incentive Plan ("DAIP")	For Executive Directors and certain members of senior management, at least 40% of the AIP award is deferred into shares typically vesting three years after grant. The remainder of the award is paid in cash following year-end.
Direct own brands	Direct own brands include Home and Motor under the Direct Line, Churchill, Darwin and Privilege brands, Rescue under the Green Flag brand and Commercial under the Direct Line for Business and Churchill brands.
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.
Employee Representative Body ("ERB")	The forum that represents all employees, including when there is a legal requirement to consult employees.
Expense ratio	The ratio of operating expenses divided by net earned premium. (See page 225 alternative performance measures.)
Finance costs	The cost of servicing the Group's external borrowings and including the interest on ROU assets.

Term	Definition and explanation
Financial Conduct Authority ("FCA")	The independent body responsible for regulating the UK's financial services industry.
Financial leverage ratio	Tier 1 notes and financial debt (subordinated guaranteed dated notes) as a percentage of total capital employed.
Financial Reporting Council	The UK's regulator for the accounting, audit and actuarial professions, promoting transparency and integrity in business.
Gross written premium	The total premiums from contracts that were accepted during the period.
Group	Direct Line Insurance Group plc and its subsidiaries ("**Direct Line Group**" or the "**Group**").
Incremental borrowing rate ("IBR")	The rate of interest that a lessee would have to pay to borrow over a similar term and security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.
Incurred but not reported ("IBNR")	Funds set aside to meet the cost of claims for accidents that have occurred but have not yet been reported to the Group. This includes an element of uplift on the value of claims reported.
In-force policies	The number of policies on a given date that are active and against which the Group will pay, following a valid insurance claim.
Insurance liabilities	This comprises insurance claims reserves and claims handling provision, which the Group maintains to meet current and future claims.
International Accounting Standards Board ("IASB")	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.
Investment income yield	The income earned from the investment portfolio, recognised through the income statement during the period divided by the average assets under management ("**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. (See page 225 alternative performance measures.)
Investment return	The investment return earned from the investment portfolio, including unrealised and realised gains and losses, impairments and fair value adjustments.
Investment return yield	The investment return divided by the average AUM. The average AUM derives from the period's opening and closing balances. (See page 225 alternative performance measures.)
Long-Term Incentive Plan ("LTIP")	Awards made as nil-cost options or conditional share awards, which vest to the extent that performance conditions are satisfied after a period of at least three years.
Loss ratio	Net insurance claims divided by net earned premium. (See page 225 alternative performance measures.)
Malus	An arrangement that permits unvested remuneration awards to be forfeited, when the Company considers it appropriate.
Management's best estimate ("MBE")	These reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal ABE.
Net asset value	The difference between the Group's total assets and total liabilities, calculated by subtracting total liabilities (including Tier 1 notes) from total assets.
Net earned premium	The element of gross earned premium less reinsurance premium ceded for the period where insurance cover has already been provided.
Net insurance claims	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.
Net investment income yield	This is calculated in the same way as investment income yield but includes the cost of hedging. (See page 225 alternative performance measures.)
Net promoter score ("NPS")	This is an index that measures the willingness of customers to recommend products or services to others. It is used to gauge customers' overall experience with a product or service, and customers' loyalty to a brand.
Ogden discount rate	The discount rate set by the Lord Chancellor and used by courts to calculate lump sum awards in bodily injury cases.
Operating expenses	These are the expenses relating to business activities excluding restructuring and one-off costs. (See page 225 alternative performance measures.)
Operating profit	The pre-tax profit that the Group's activities generate, including insurance and investment activity, but excluding finance costs, restructuring and one-off costs. **Normalised operating profit** is operating profit adjusted for weather and changes to the Ogden discount rate. (See page 226 alternative performance measures.)
Own Risk and Solvency Assessment ("ORSA")	A forward-looking assessment of the Group's risks and associated capital requirements, over the business planning period.
Periodic payment order ("PPO")	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.

Term	Definition and explanation
Prudential Regulation Authority (“PRA”)	The PRA is a part of the Bank of England. It is responsible for regulating and supervising insurers and financial institutions in the UK.
Reinsurance	Contractual arrangements where the Group transfers part or all of the accepted insurance risk to another insurer.
Reserves	Funds that have been set aside to meet outstanding insurance claims and IBNR.
Restructuring costs	These are costs incurred in respect of the business activities where the Group has a constructive obligation to restructure its activities.
Return on equity	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.
Return on tangible equity (“RoTE”)	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. It is stated after charging tax using the UK standard rate of 19% and for 2018 it is stated after charging tax using the effective income tax rate of 18.7%. (See page 226 alternative performance measures.)
Right-of-use (“ROU”) asset	A lessee's right to use an asset over the life of a lease, calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received.
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.
Solvency capital ratio	The ratio of Solvency II own funds to the solvency capital requirement.
Tangible equity	This shows the equity excluding Tier 1 notes and intangible assets for comparability with companies who have not acquired businesses or capitalised intangible assets. (See page 226 alternative performance measures).
Tangible net assets per share	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. (See page 226 alternative performance measures).
Total Shareholder Return (“TSR”)	Compares share price movement with reinvested dividends as a percentage of the share price.
Underwriting result profit / (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, excluding restructuring and one-off costs.

Appendix A – Alternative performance measures

The Group has identified Alternative Performance Measures ("**APMs**") in accordance with the European Securities and Markets Authority's published Guidelines. The Group uses APMs to improve comparability of information between reporting periods and reporting segments, by adjusting for either uncontrollable or one-off costs which impact the IFRS measures, to aid the user of the Annual Report & Accounts in understanding the activity taking place across the Group. These APMs are contained within the main narrative sections of this document, outside of the financial statements and notes, and may not necessarily have standardised meanings for ease of comparability across peer organisations.

Further information is presented below, defined in the glossary on pages 222 to 224 and reconciled to the most directly reconcilable line items in the financial statements and notes. Note 4 on page 182 of the consolidated financial statements presents a reconciliation of the Group's business activities on a segmental basis to the consolidated income statement. All note references in the table below are to the notes to the consolidated financial statements on pages 158 to 211.

Group APM	Closest equivalent IFRS measure	Definition and / or reconciliation	Rationale for APM
Combined operating ratio	Profit before tax	Combined operating ratio is defined in the glossary on page 222 and reconciled in note 4 on page 182.	This is a measure of underwriting profitability and excludes non-insurance income, whereby a ratio of less than 100% represents an underwriting profit and a ratio of more than 100% represents an underwriting loss.
Commission ratio	Commission expense	Commission ratio is defined in the glossary on page 222 and is reconciled in note 4 on page 182.	Expresses commission expense, in relation to net earned premium.
Current-year attritional loss ratio	Net insurance claims	Current-year attritional loss ratio is defined in the glossary on page 222 and is reconciled to the loss ratio (discussed below) on page 32.	Expresses claims performance in the current accident year in relation to net earned premium.
Current-year combined operating ratio	Profit before tax	Current-year combined operating ratio is defined in the glossary on page 222 and is reconciled on page 32.	This is a measure of underwriting profitability, excluding the effect of prior-year reserve movements.
Current-year normalised operating profit ratio	Profit before tax	Current-year normalised operating profit ratio is defined in the glossary on page 222 and reconciled on page 227.	Expresses a relationship between current-year normalised operating profit and normalised operating profit.
Expense ratio	Total expenses	Expense ratio is defined in the glossary on page 222 and is reconciled in note 4 on page 182.	Expresses underwriting and policy expenses in relation to net earned premium.
Investment income yield	Investment income	Investment income yield is defined in the glossary on page 223 and is reconciled on page 226.	Expresses a relationship between the investment income and the associated opening and closing assets adjusted for portfolio hedging instruments.
Investment return yield	Investment return	Investment return yield is defined in the glossary on page 223 and is reconciled on page 226.	Expresses a relationship between the investment return and the associated opening and closing assets net of any associated liabilities.
Loss ratio	Net insurance claims	Loss ratio is defined in the glossary on page 223 and is reconciled in note 4 on page 182.	Expresses claims performance in relation to net earned premium.
Net investment income yield	Investment income	Net investment income yield is defined in the glossary on page 223 and is reconciled on page 226.	Expresses a relationship between the investment income and the associated opening and closing assets adjusted for portfolio hedging instruments.
Normalised combined operating ratio	Profit before tax	Combined operating ratio is defined in the glossary on page 222 and reconciled on page 227.	This is a measure of underwriting profitability excluding the effects of weather, Ogden discount rate changes and restructuring and one-off costs and excluding non-insurance income, whereby a ratio of less than 100% represents an underwriting profit and a ratio of more than 100% represents an underwriting loss.
Operating expenses	Total expenses	Operating expenses are defined in the glossary on page 223 and reconciled in note 4 on page 182.	This shows the expenses relating to business activities excluding restructuring and one-off costs.

Appendix A – Alternative performance measures continued

Group APM	Closest equivalent IFRS measure	Definition and / or reconciliation	Rationale for APM
Operating profit	Profit before tax	Operating profit is defined in the glossary on page 223 and reconciled in note 4 on page 182.	This shows the underlying performance (before tax and excludes finance costs and restructuring and one-off costs) of the business activities.
Return on tangible equity	Return on equity	Return on tangible equity is defined in the glossary on page 224 and is reconciled on page 228.	This shows performance against a measure of equity that is more easily comparable to that of other companies.
Tangible equity	Equity	Tangible equity is defined in the glossary on page 224 and is reconciled in note 16 on page 190.	This shows the equity excluding Tier 1 notes and intangible assets for comparability with companies who have not acquired businesses or capitalised intangible assets.
Tangible net assets per share	Net assets per share	Tangible net assets per share is defined in the glossary on page 224 and reconciled in note 16 on page 190.	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.
Underwriting profit	Profit before tax	Underwriting profit is defined in the glossary on page 224 and is reconciled in note 4 on page 182.	This shows underwriting performance calculated as net earned premium less net claims and operating expenses, excluding restructuring and one-off costs.

Investment income and return yields[1]

	Notes[2]	2019 £m	2018 £m
Investment income	6	**146.4**	159.2
Hedging to a sterling floating rate basis[3]	6	**(22.1)**	(30.8)
Net investment income		**124.3**	128.4
Net realised and unrealised gains excluding hedging		**10.3**	26.2
Investment return	6	**134.6**	154.6
Opening investment property		**322.1**	309.3
Opening financial investments		**4,737.8**	5,040.4
Opening cash and cash equivalents		**1,154.4**	1,358.6
Opening borrowings		**(62.0)**	(54.1)
Opening derivatives asset[4]		**11.8**	55.1
Opening investment holdings		**6,164.1**	6,709.3
Closing investment property	20	**291.7**	322.1
Closing financial investments	28	**4,673.4**	4,737.8
Closing cash and cash equivalents	29	**948.6**	1,154.4
Closing borrowings	29	**(52.3)**	(62.0)
Closing derivatives asset[4]		**81.8**	11.8
Closing investment holdings		**5,943.2**	6,164.1
Average investment holdings		**6,053.7**	6,436.7
Investment income yield		**2.4%**	2.5%
Net investment income yield[1]		**2.1%**	2.0%
Investment return yield		**2.2%**	2.4%

Notes:
1. See glossary on page 223 for definitions.
2. See notes to the consolidated financial statements.
3. Includes net realised and unrealised gains / (losses) of derivatives in relation to AUM.
4. See footnote 1 on page 41 (Investment holdings).

Normalised combined operating ratio[1]

	Home 2019	Home 2018[2] restated	Commercial 2019	Commercial 2018[2] restated	Total 2019	Total 2018[2] restated
Loss ratio	**46.8%**	61.8%	**52.7%**	51.8%	**61.9%**	61.9%
Commission ratio	**9.7%**	9.4%	**18.5%**	18.9%	**7.1%**	6.5%
Expense ratio	**23.8%**	22.3%	**24.5%**	24.7%	**23.2%**	23.2%
Combined operating ratio	**80.3%**	93.5%	**95.7%**	95.4%	**92.2%**	91.6%
Effect of weather						
Loss ratio	**7.2%**	(2.1%)	**3.7%**	2.3%	**2.0%**	(0.1%)
Commission ratio	**(0.6%)**	0.2%	**–**	–	**(0.1%)**	–
Combined operating ratio normalised for weather	**86.9%**	91.6%	**99.4%**	97.7%	**94.1%**	91.5%
Effect of Ogden discount rate						
Loss ratio	**–**	–	**(0.2%)**	0.8%	**(0.6%)**	1.8%
Combined operating ratio normalised for weather and Ogden discount rate	**86.9%**	91.6%	**99.2%**	98.5%	**93.5%**	93.3%

Notes:
1. See glossary on page 222 for definition.
2. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44 on pages 210 and 211.

Normalised operating profit[1]

	Total 2019 £m	Total 2018[2] £m restated
Operating profit	**546.9**	606.4
Effect of:		
Ogden discount rate	**16.9**	(54.8)
Normalised weather – claims	**(59.0)**	3.3
Normalised weather – profit share	**3.7**	(1.2)
Normalised operating profit	**508.5**	553.7
Prior-year adjustments		
Prior-year reserve movement	**294.5**	404.4
Ogden discount rate	**16.9**	(51.4)
Prior-year normalised operating profit	**311.4**	353.0
Current-year normalised operating profit	**197.1**	200.7
Current-year normalised operating profit ratio	**39%**	36%

Notes:
1. See glossary on page 223 for definition.
2. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44 on pages 210 and 211.

Operating expenses[1]

	Note[2]	2019 £m	2018[3] £m restated
Operating expenses (including restructuring and one-off costs)	10	**704.9**	718.2
Less restructuring and one-off costs	10	**(11.2)**	–
Operating expenses		**693.7**	718.2

Notes:
1. See glossary on page 223 for definition.
2. See notes to the consolidated financial statements.
3. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44 on pages 210 and 211.

Return on tangible equity[1]

	2019 £m	2018[2] £m restated
Profit before tax	**509.7**	580.5
Add back: restructuring and one-off costs	**11.2**	–
Coupon payments in respect of Tier 1 notes	**(16.6)**	(16.6)
Adjusted profit before tax	**504.3**	563.9
Tax charge	**–**	(108.5)
Tax charge (using the 2019 UK standard tax rate of 19%)	**(95.8)**	–
Adjusted profit after tax	**408.5**	455.4
Opening shareholders' equity	**2,558.2**	2,701.9
Opening goodwill and other intangible assets	**(566.8)**	(471.1)
Opening shareholders' tangible equity	**1,991.4**	2,230.8
Closing shareholders' equity	**2,643.6**	2,558.2
Closing goodwill and other intangible assets	**(702.5)**	(566.8)
Closing shareholders' tangible equity	**1,941.1**	1,991.4
Average shareholders' tangible equity[3]	**1,966.3**	2,111.1
Return on tangible equity	**20.8%**	21.6%

Notes:

1. See glossary on page 224 for definition.
2. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44 on pages 210 and 211.
3. Mean average of opening and closing balances.

This Annual Report & Accounts has been prepared for, and only for, the members of the Company as a body, and no other persons. The Company, its Directors, employees, agents or advisers do not accept responsibility to any other person to whom this document is shown, or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

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.

Neither the content of Direct Line Group's website nor the content of any other website accessible from hyperlinks on the Group's website is incorporated into, or forms part of, this document.

Registered office

Direct Line Insurance Group plc
Churchill Court
Westmoreland Road
Bromley
BR1 1DP

Registered in England and Wales No. 02280426
Company Secretary: Roger C Clifton

Telephone: +44 (0)1132 920 667
Website: www.directlinegroup.co.uk

Registrars

Computershare Investor Services Plc
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ

Shareholder helpline: +44 (0)370 873 5880
Shareholder fax: +44 (0)370 703 6101
Telephone number for the hard of hearing:
+44 (0)370 702 0005
Website: www.computershare.com

Investor Centre
To find out more about Investor Centre, go to
www.investorcentre.co.uk/directline

Auditors

Deloitte LLP
Hill House
1 Little New Street
London
EC4A 3TR

Telephone: +44 (0)20 7936 3000
Website: www.deloitte.com

Legal advisers

Allen & Overy LLP
One Bishops Square
London
E1 6AD

Telephone: +44 (0)20 3088 0000
Website: www.allenovery.com

Slaughter and May
One Bunhill Row
London
EC1Y 8YY

Telephone: +44 (0) 20 7600 1200
Website: www.slaughterandmay.com

Principal banker

The Royal Bank of Scotland Group plc
280 Bishopsgate
London
EC2M 4RB

Telephone: +44 (0)131 556 8555
Website: www.rbs.com

Corporate brokers

Goldman Sachs International
Peterborough Court
133 Fleet Street
London
EC4A 2BB

Telephone: +44 (0)20 7774 1000
Website: www.goldmansachs.com

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London
E14 4QA

Telephone: +44 (0)20 7425 8000
Website: www.morganstanley.com

RBC Europe Ltd (trading as 'RBC Capital Markets')
Riverbank House
2 Swan Lane
London
EC4R 3BF

Telephone: +44 (0)20 7489 1188
Website: www.rbccm.com

FSC
www.fsc.org
MIX
Paper from
responsible sources
FSC® C022913

This report is printed on mixed source paper which is FSC® certified (the standards for well-managed forests, considering environmental, social and economic issues).

Designed and produced by **Black Sun Plc**

Printed by **Pureprint Group**

Direct Line Insurance Group plc ©

Registered in England & Wales No. 02280426

Registered Office: Churchill Court, Westmoreland Road, Bromley, BR1 1DP