



Financials

Delivering our ambition

TIM HARRIS

CFO

Today's key financial messages

Costs:
Reduce our spend and
improve the expense
ratio



**The changing
shape and quality
of our earnings:**
Continue to grow
current year profit
contribution

**Growth
potential:**
Innovation and
improved
competitiveness

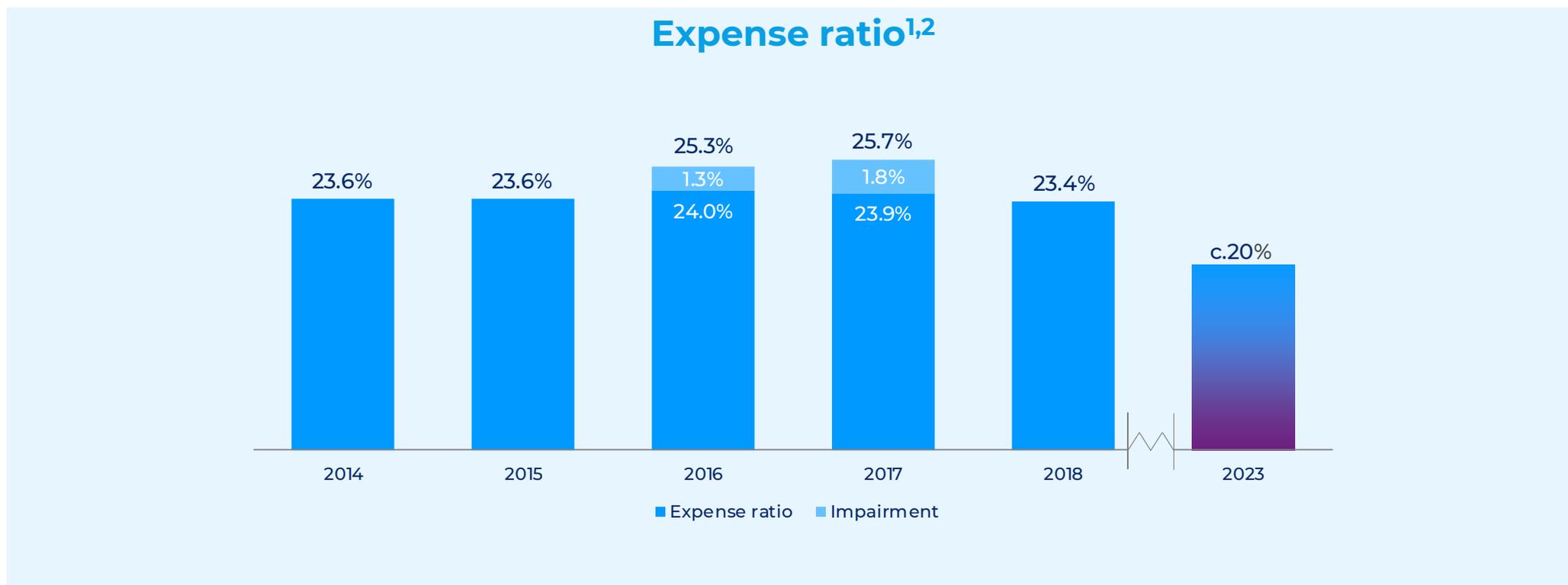


**Capital and balance sheet
management:**
Strong position and
multiple levers



Costs:

Ambition to deliver an expense ratio¹ of 20% by 2023

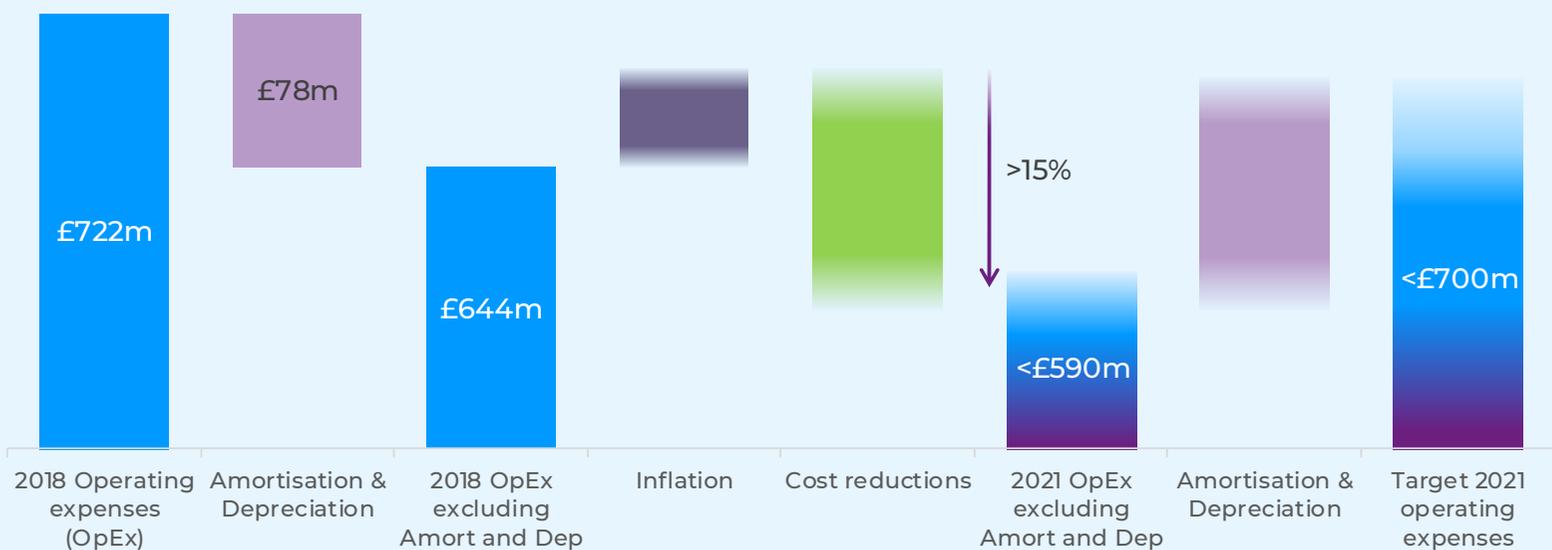




Costs:

Reducing operating expenses before amortisation & depreciation

Expected operating expense walk from 2018 to 2021



Restructuring and other one-off costs:
Approx. £60m
across 2019 and 2020



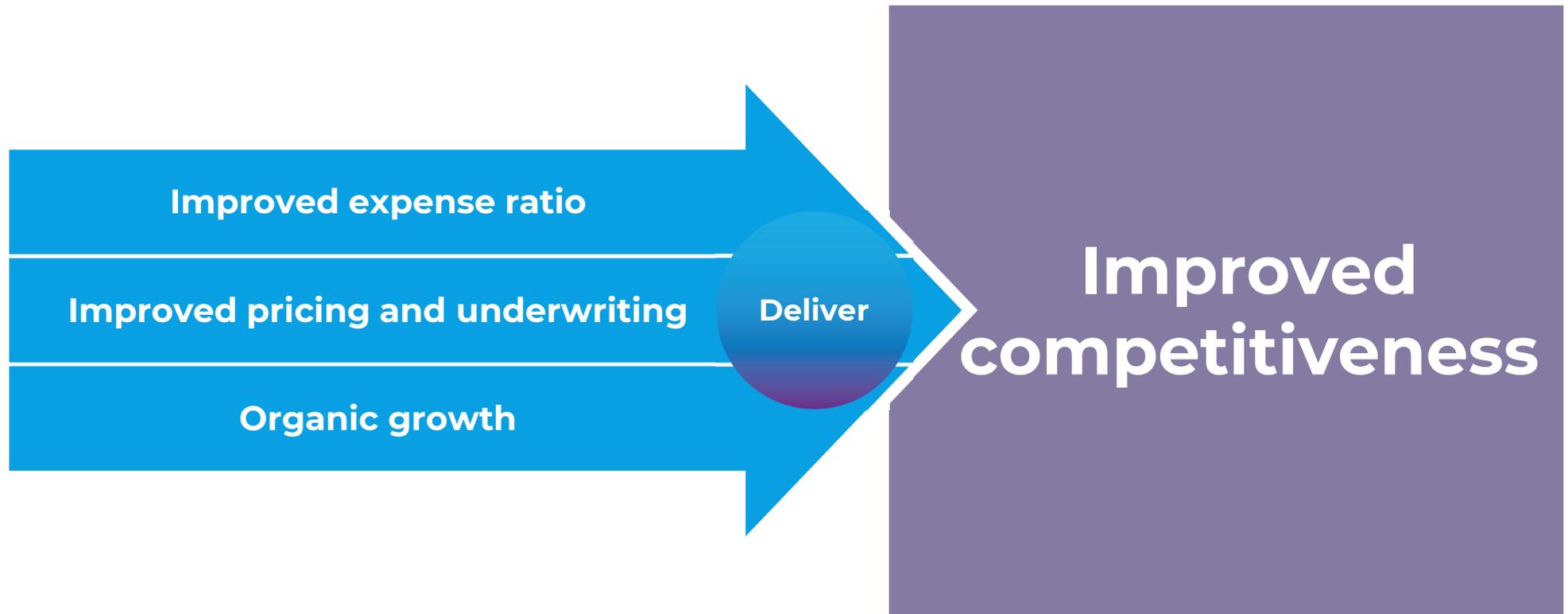
The changing shape and quality of our earnings: We're on a journey to improve the quality

Operating profit split between current year and prior year contribution¹





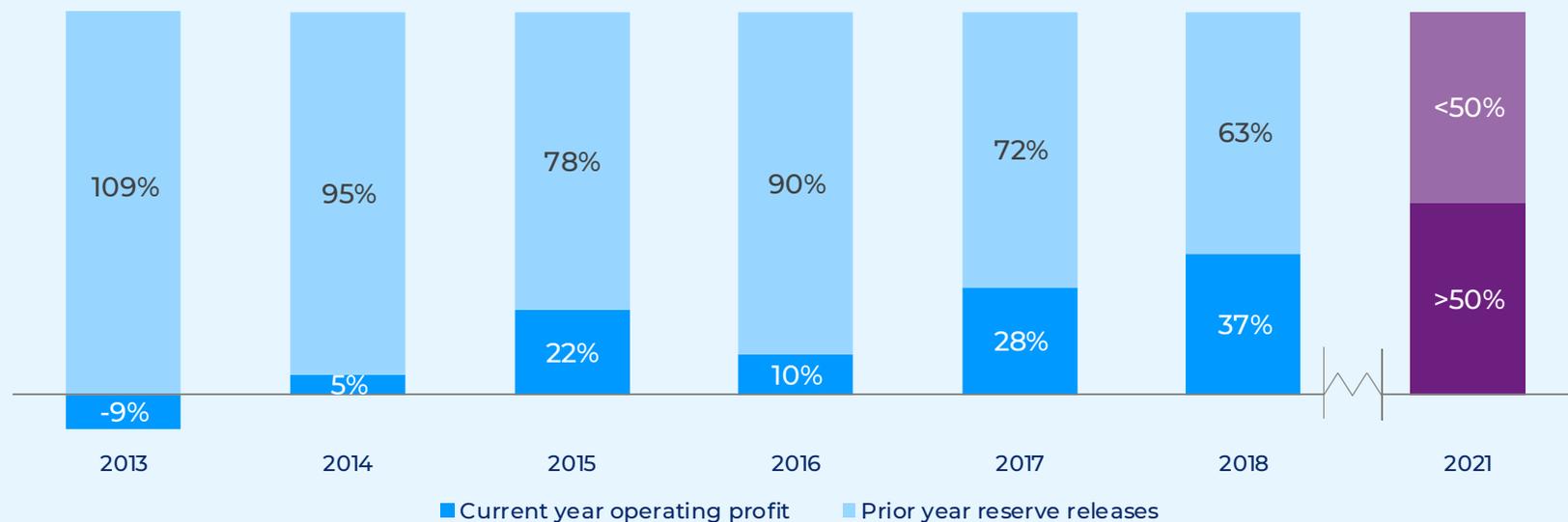
The changing shape and quality of our earnings: Taking actions to grow contribution of current year profits





The changing shape and quality of our earnings: Targeting >50% of operating profit from current year by 2021

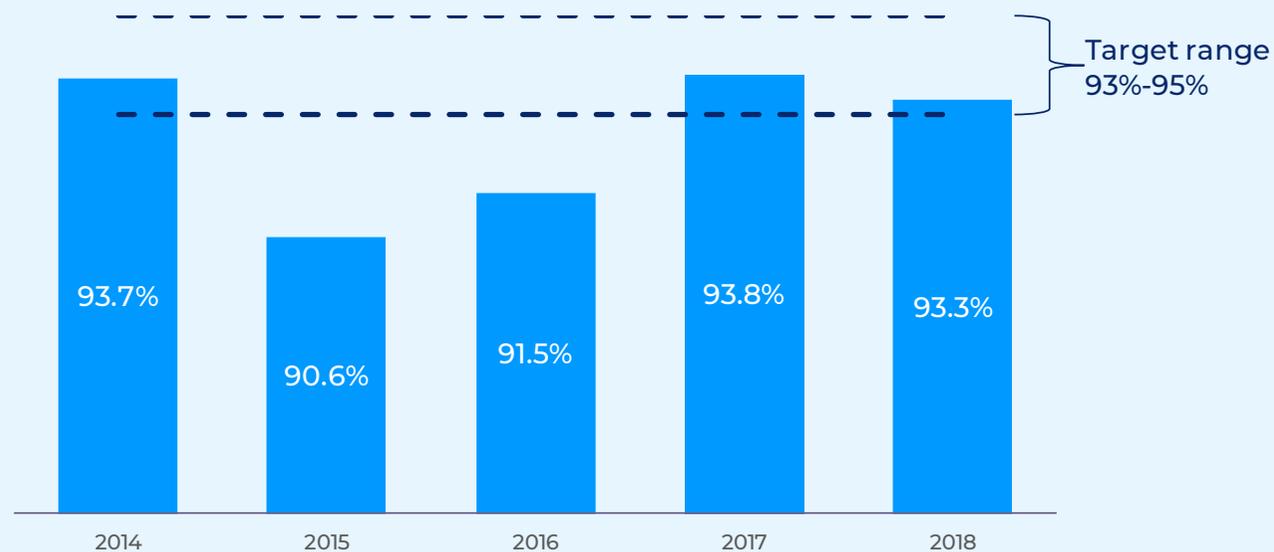
Operating profit split between current year and prior year contribution¹





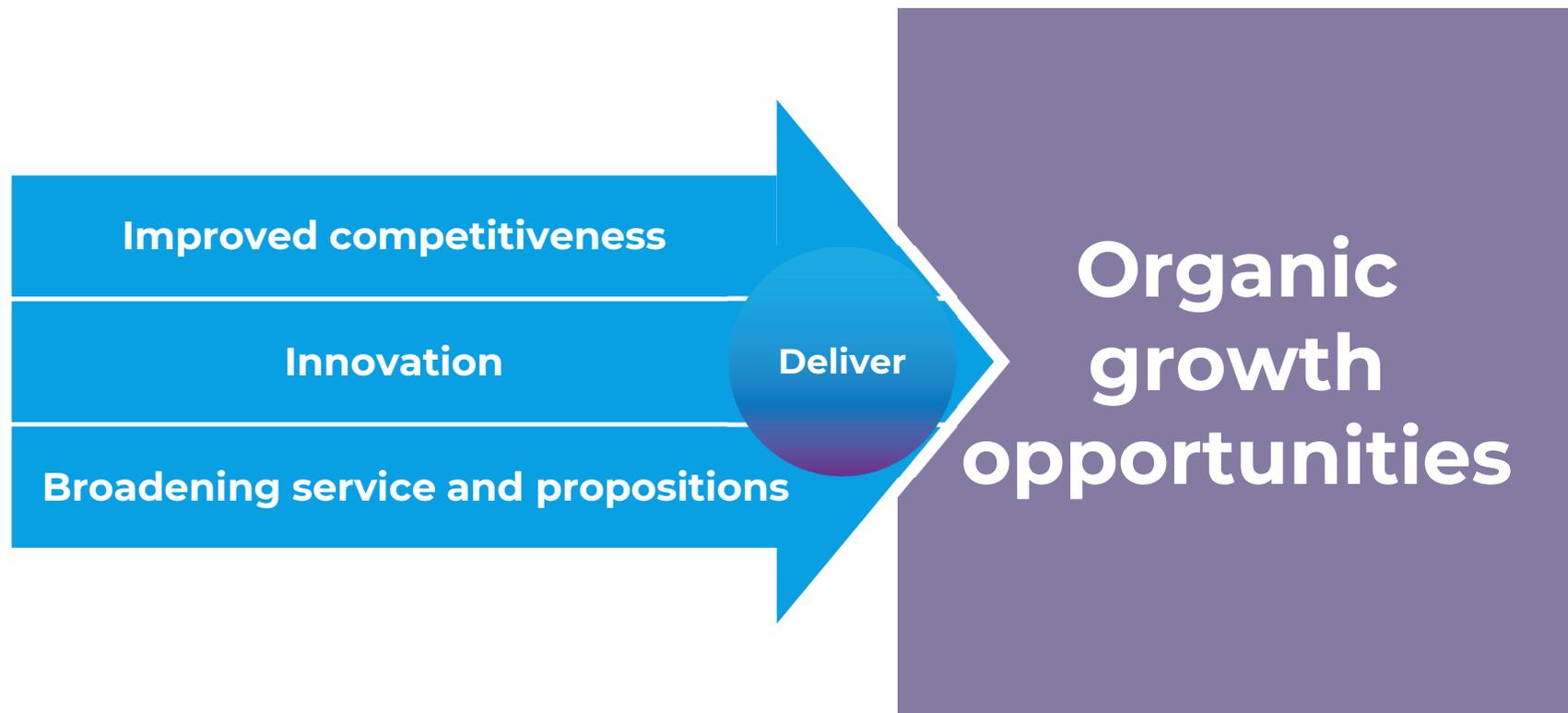
The changing shape and quality of our earnings: Reiterating 93%-95% combined operating ratio target¹

Combined operating ratio performance vs target range



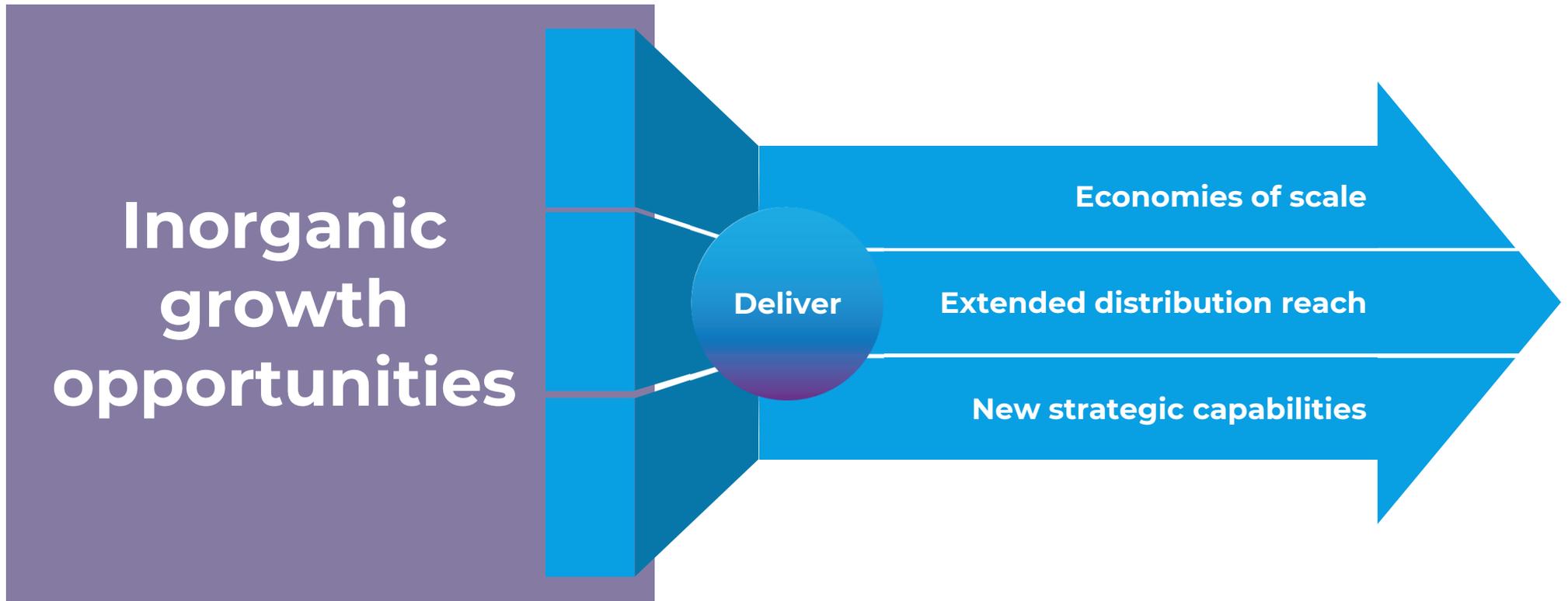


Growth potential:
Organic growth – supporting innovation



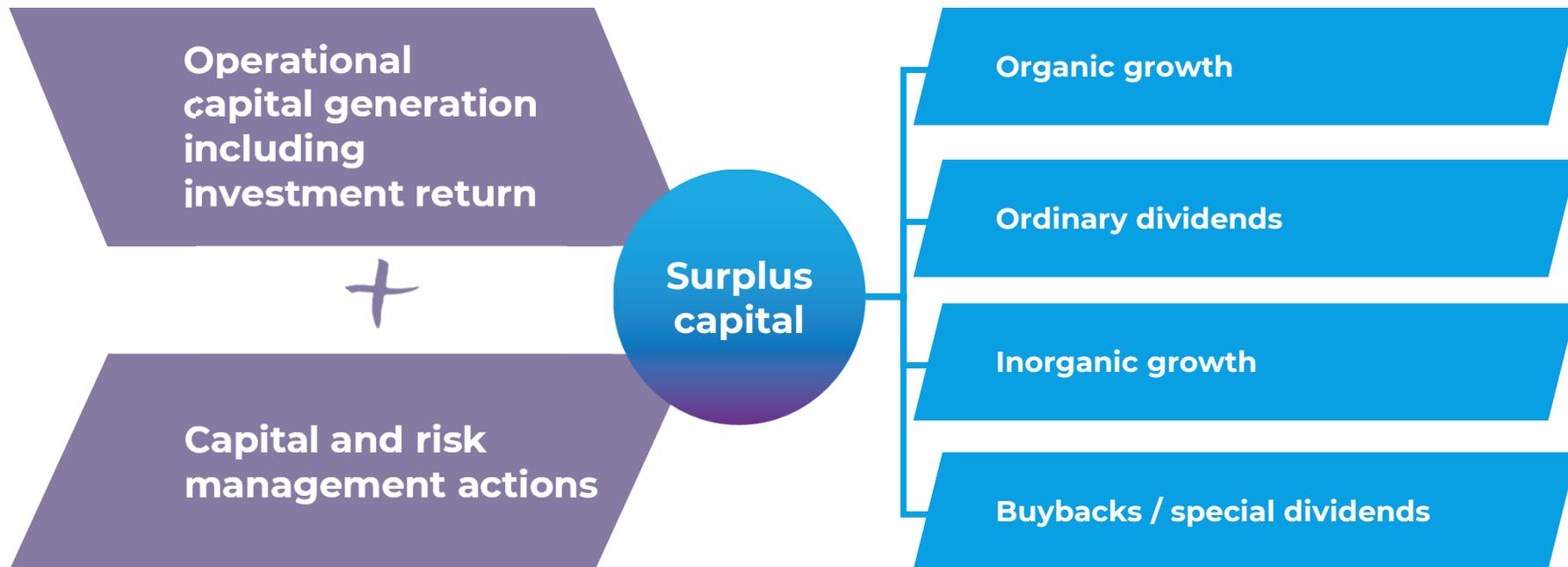


Growth potential: Inorganic growth – extending our reach





Capital and balance sheet management: Simple and clear approach





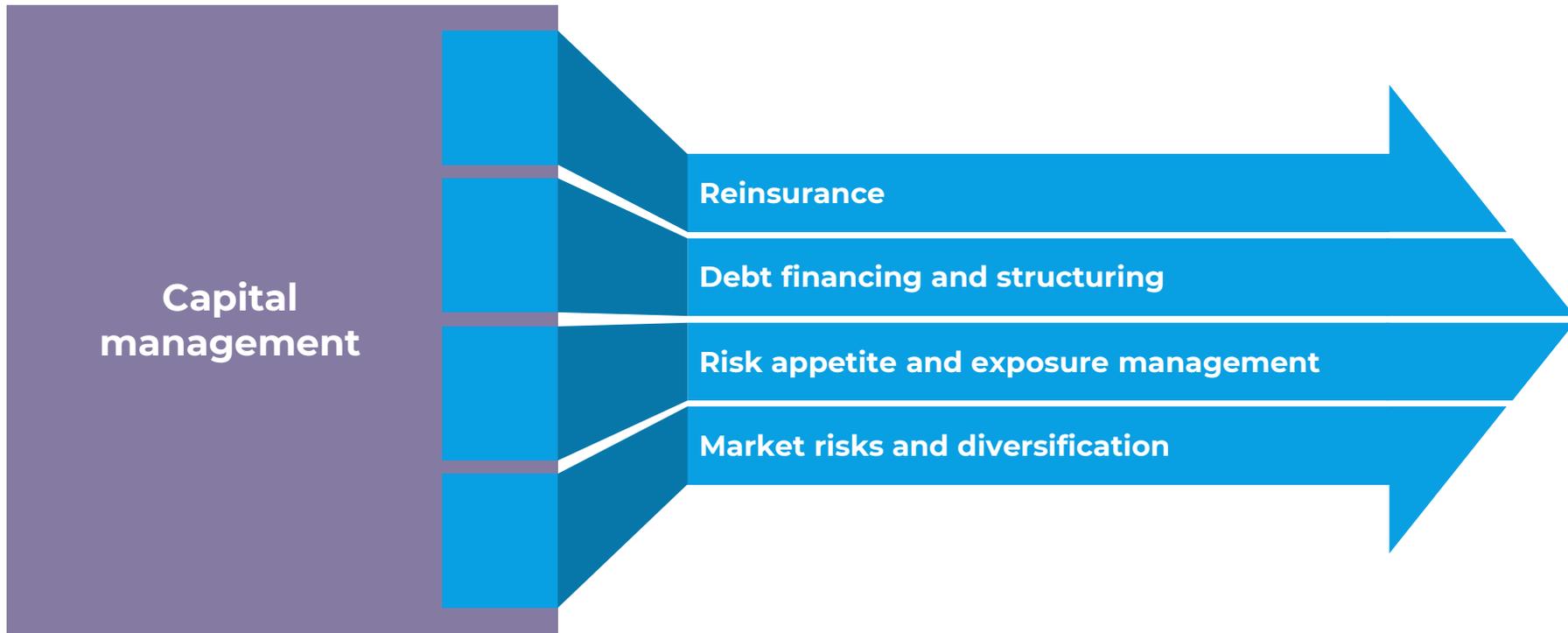
Capital and balance sheet management:

Target solvency¹ is middle of risk appetite range of 140%-180%



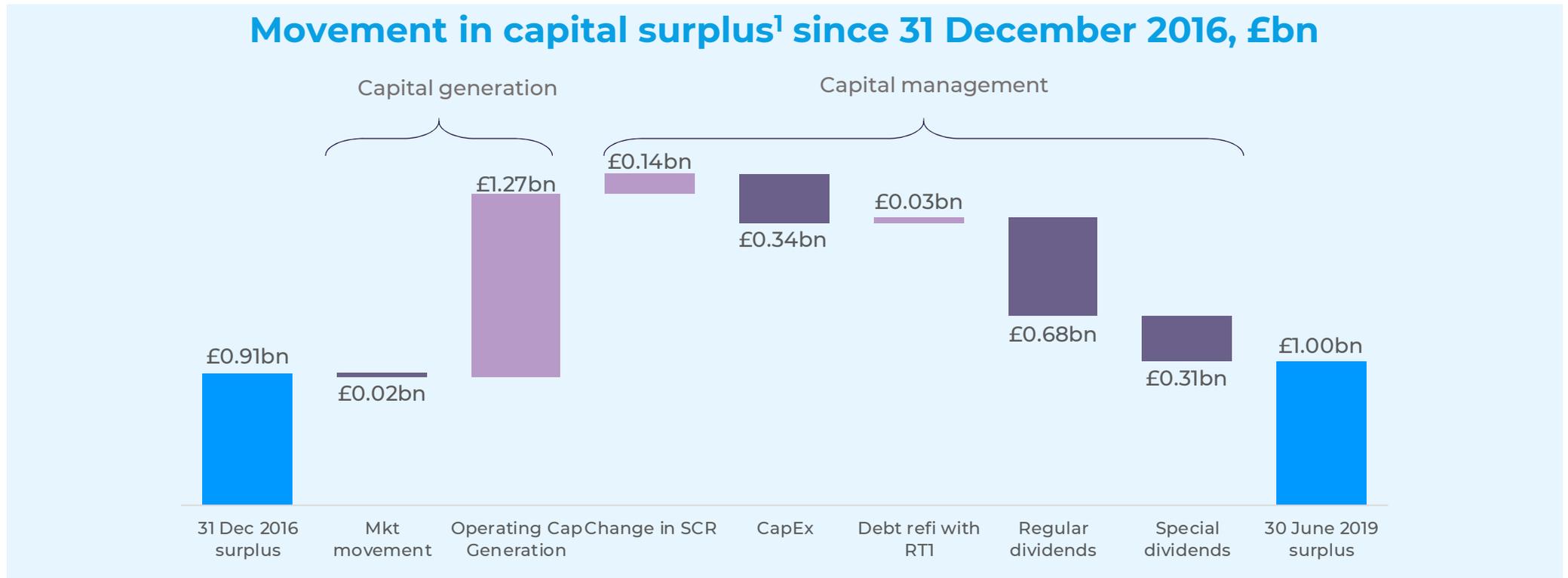


Capital and balance sheet management: We have options to manage the Group's risk profile





Capital and balance sheet management: Strong conversion of earnings to distributable capital





Capital and balance sheet management: Our approach

Capital Management policy

Objective: to ensure appropriate level of capitalisation and solvency with respect to operating, regulatory and rating agency requirements

Regulatory: Solvency risk appetite range is between 140%-180% of Solvency Capital Requirements and under normal circumstances the Group targets the middle of the range

Rating agency: Capital risk appetite consistent with maintaining credit rating within the 'A' range

Ordinary dividends

Aim to grow the ordinary dividend in line with business growth and aim to be paid one third at interim and two thirds at final

Surplus capital

The Board will consider both special dividends and share buy backs in the event the Group was likely to hold surplus capital for a prolonged period of time

Today

At the Group's current valuation, the Board's preference is to return any surplus capital after ordinary dividends by way of a buyback programme

Financial outlook and targets: Delivering our ambition

1

Costs:
Expense ratio
of 20% in 2023
£50m
reduction by
2021¹

2

**Current year
operating
profit:**
At least 50% by
2021²

3

**Combined
operating ratio:**
Between
93% - 95%
throughout the
medium term³

4

**Return on
tangible equity
(ROTE):**
At least 15% per
annum over the
long term

Outlook

Investment income⁴ yield close to 2.0%, minimal gains in 2020
Capital expenditure to reduce to below £100m by 2021

Disclaimer

Forward-looking statements

Certain information contained in this document, including any information as to the Group's strategy, plans or future financial or operating performance, constitutes "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "aims", "ambition", "anticipates", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "over the medium term", "plans", "predicts", "projects", "propositions", "seeks", "should", "strategy", "targets" or "will" or, in each case, their negative or other variations or comparable terminology, or by discussions of or references to strategy, plans, objectives, goals, future years, 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, prior-year reserve releases, cost reduction, reductions in expense and commission ratios, investment income yield, net realised and unrealised gains and risk appetite range. By their nature, all forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Group's control.

Forward-looking statements are not 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 the UK general election on 12 December 2019 and the views and policies of any government following such election, the outcome of discussions within the UK parliament and discussions between the UK and the European Union ("EU") regarding a withdrawal agreement and/or the manner and terms on which, if any, the UK leaves the EU (usually called "Brexit") and the terms in due course of any future trading relationship between the UK and the EU, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of and changes to the approaches by regulatory authorities (including (without limitation) changes arising out of the FCA market study on general insurance pricing practices and/or 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, joint ventures or combinations within relevant industries, as well as the impact of tax and other legislation and other regulation in the jurisdictions in which the Group and its affiliates operate. In addition, even if the Group's actual results of operations, financial condition and the development of the business sector in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

The forward-looking statements contained in this document reflect knowledge and information available as of the date of preparation of this document. The Group and the Directors expressly disclaim any obligations or undertaking to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise, unless required to do so by applicable law or regulation. Nothing in this document should be construed as a profit forecast.

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.

