Direct Line Group

Insurance that is personal, inclusive and a force for good

2020 Preliminary results presentation
8 March 2021

Today's speakers

Penny James
CEO

Neil Manser
Acting CFO

2020 highlights

1. Delivered policy count growth across direct own brand portfolio
2. Progress made on sustainability of earnings
3. Continued to deliver our strategic agenda
4. Growth in final regular dividend of 2.1% and commencing £100m share buyback
5. Launched a range of 'Force for Good' initiatives supporting our customers, our people and wider society

Direct Line Group

Financials

Delivering our ambition

Neil Manser
Acting CFO

Direct Line Group

2020 financial highlights

Operating profit	Direct own brands portfolio growth	Progress on underlying cost base	Delivered growth in current year contribution[2]	Strong shareholder returns
£522m	+2.2%	£690m[1]	65%	14.7p Final regular dividend
After £93m 'Force for Good' investment	+4.2% own brand portfolio excluding Motor	£724m including 'Force for Good' initiatives	Underlying improvement in Motor and Commercial current year attritional loss ratios	£100m Commencing a share buyback SCR coverage of 191%[3]

1. Operating expenses less £34m investment in 'Force for Good' initiatives
2. Group operating profit normalised for weather, and Ogden rate changes, excludes restructuring and one-off costs
3. Solvency capital ratio including Tier 2 debt callable in 2022 and after 2020 final dividend and buyback. Figure estimated and based on partial internal model (PIM) output as at 31 December 2020

See notes on slide 30 and glossary of terms on slides 50 to 53

2020 results summary: Good financial performance

Financials £m	2019	2020	Change
Gross written premium	3,203	3,180	(0.7%)
Underwriting profit	**232**	**268**	**15.4%**
Instalment and other income	180	159	(11.7%)
Investment return	135	95	(29.3%)
Operating profit	**547**	**522**	**(4.5%)**
Restructuring and one-off costs	(11)	(39)	n/a
Finance costs	(26)	(31)	(20.4%)
Profit before tax	**510**	**451**	**(11.4%)**
Profit after tax	**420**	**367**	**(12.6%)**
Key metrics	**2019**	**2020**	**Change**
Current year contribution	39%	**65%**	26pts
Combined operating ratio (COR)	92.2%	**91.0%**	1.2pts
Return on tangible equity (RoTE)	20.8%	**19.9%**	(0.9pts)

Observations

The impact of Covid-19 can be seen across all the main lines within the P&L

- Underwriting profit of £268m driven by;
  - The impact of Covid-19 - reduced claims frequency, partially offset by higher operating expenses and Travel and Business Interruption claims
  - Improvements in the Group's underlying current year profitability
  - Partially offset by higher weather claims of £43m (2019: £6m) and lower prior year releases
- Instalment and other income was impacted by lower premiums and lower claims volumes in Motor
- Investment return reduced to £95m due to lower yield environment
- Restructuring costs below £60m expectation for 2019 and 2020
- Combined operating ratio of 91.0% and normalised for weather was 91.7%, below the Group's 93-95% target
- RoTE was 19.9%, ahead of the Group's 15% target

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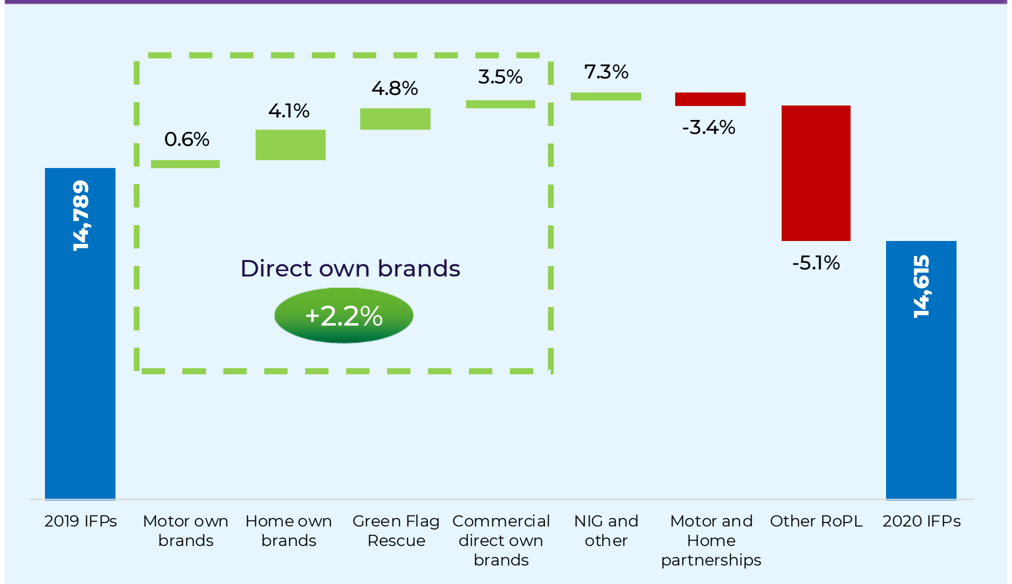
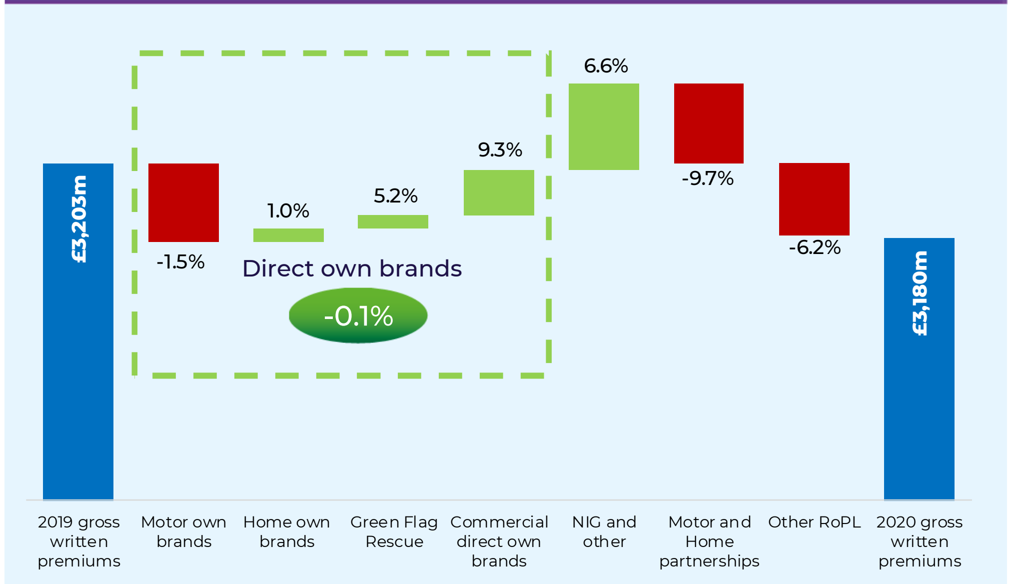
See notes on slide 30 and glossary of terms on slides 50 to 53

In-force policies and premiums: Own brands policy growth across all segments

In-force policies (000's)

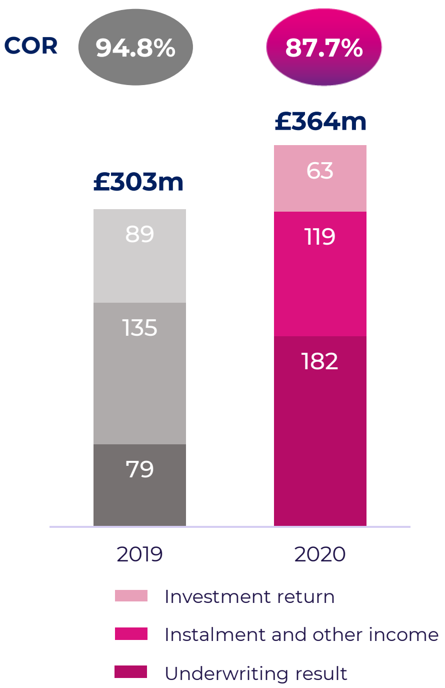


Gross written premiums (£m)



Motor: Underlying loss ratio improvement

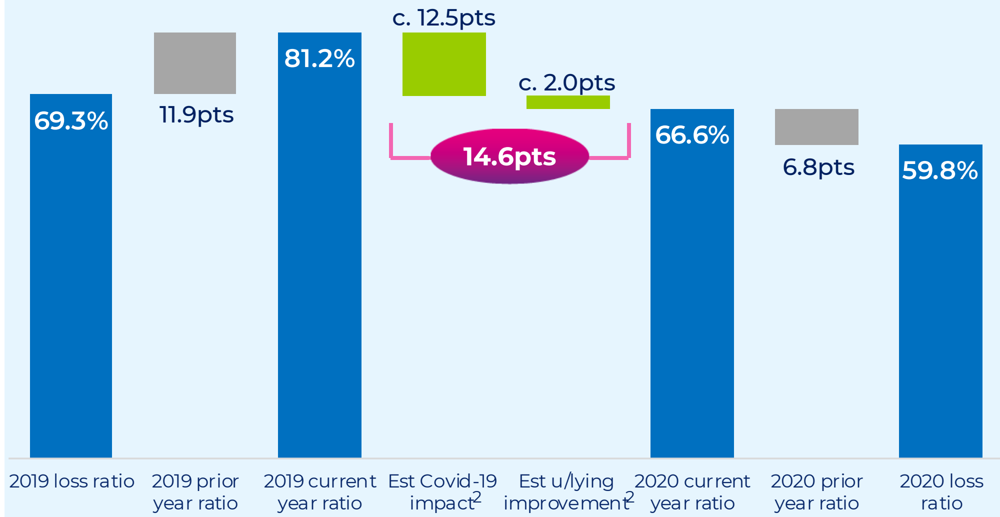
Operating result



Observations

- Own brand policies grew by 0.6%, with premiums down 1.5%
- Own brand average premium[1] was -2.0% lower: Price +1.8%, risk mix -4.0%
- Claims frequency remained below normal levels from Q2
- Claims severity inflation was above 3%-5% medium term expected range
- Excluding Covid-19 impact, underlying current year loss ratio improved by c. 2pts to 79%[2]
- Reinsurance renewed as at 1 Jan 2021; retaining 25% of layers below £10m

Loss ratio progression

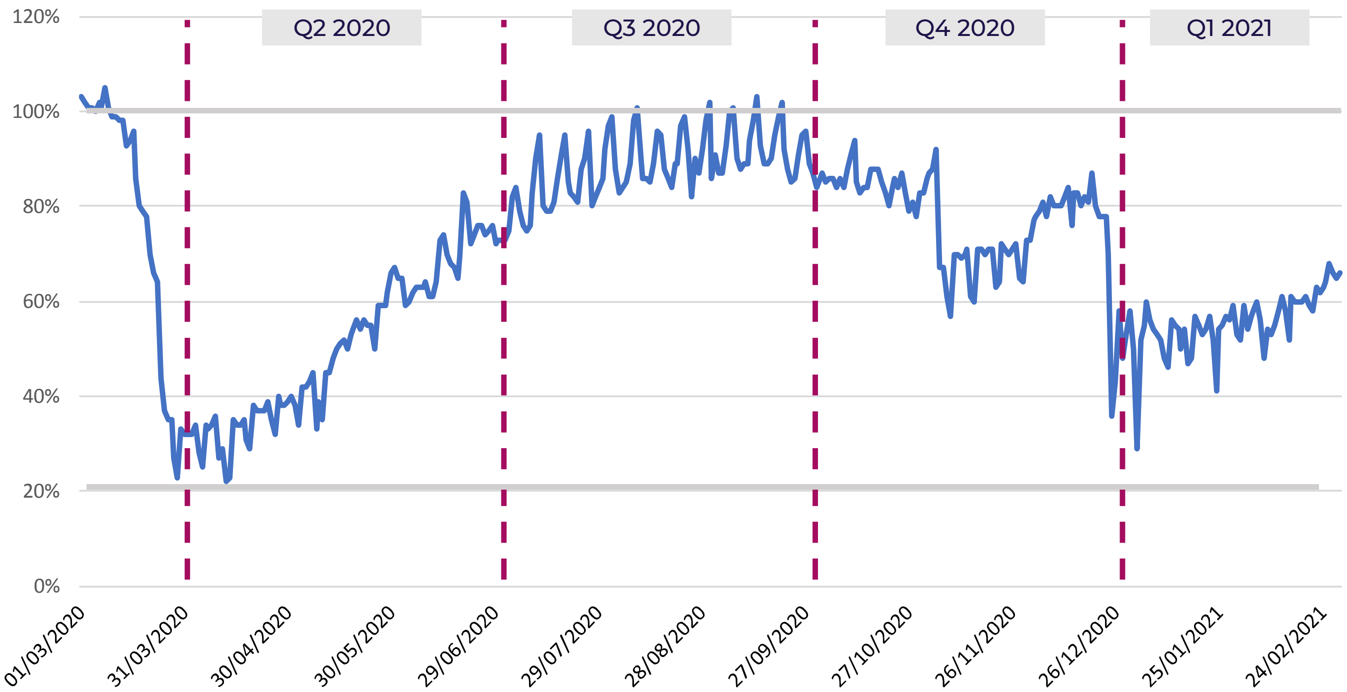


1. Average incepted written premium excluding IPT (covering 96.5% of Motor)
2. Management estimate

See notes on slide 30 and glossary of terms on slides 50 to 53

Motor market: 2021 outlook

Department of transport car usage[1]



Factors affecting pricing

- Car usage has remained below normal levels in 2021
- Whiplash reform – May 2021
- Increases in claims severity
- Reinsurance rates, higher levies and lower investment yields

Well positioned

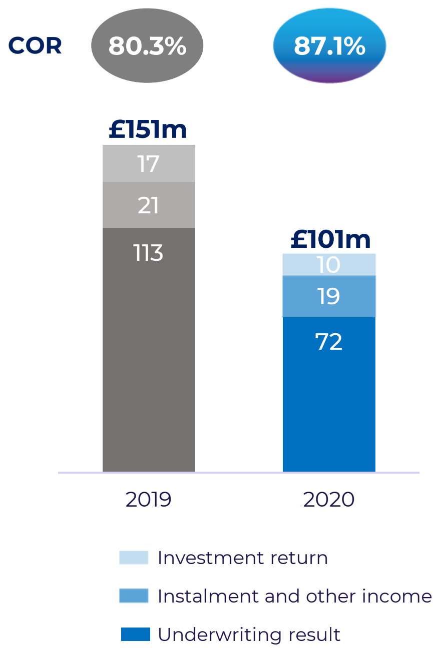
Largest insurer owned repair network

Remain disciplined by prioritising value

1. Use of transport mode since 1 March 2020, figures are percentages of an equivalent day or week

Home and Other personal lines: Higher weather costs in Home, OPL impacted by elevated Travel claims

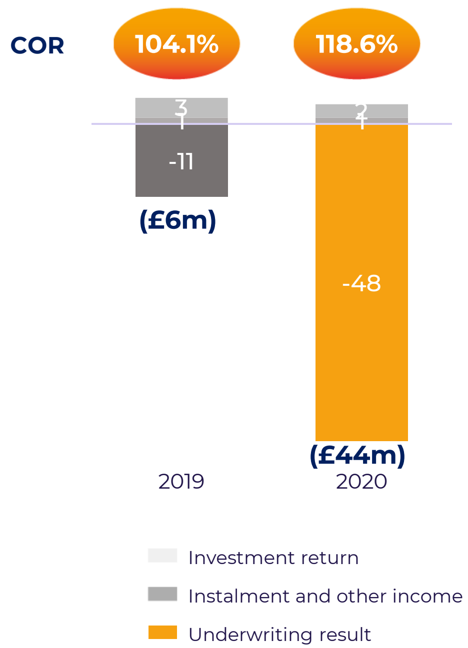
Home



- Own brand policy growth of 4.1%, premium growth of 1.0%
- Own brand average premium[1] reduced by -3.8%: Price -1.2% and risk mix -2.6%
- Higher weather event claims and lower prior year releases
- Current year attritional loss ratio improved by 0.8pts to 52.7%
- COR normalised for weather of 90.3%

Significant items	2019	**2020**
Event weather[2]	(£3m)	**(£27m)**
Prior year releases	£41m	**£11m**

Other personal lines[3]



- COR increased to 118.6%
- Higher Travel claims handling costs
- Cautiously reserved for Travel claims

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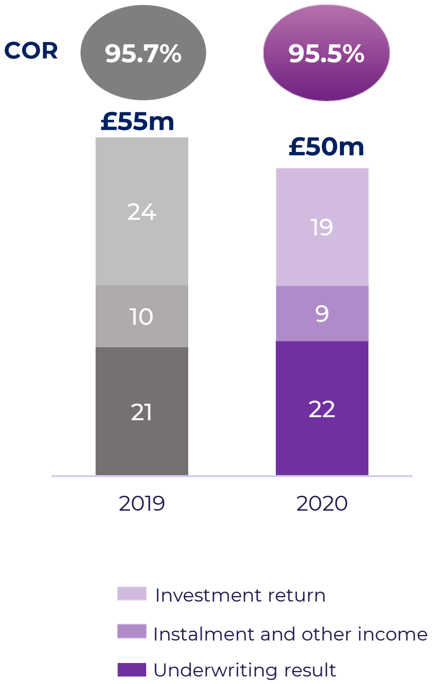
1. Average incepted written premium excluding IPT
2. Home weather was expected to be £45m in 2019 and £46m in 2020. 2021 expectation is £49m
3. Comprises Pet, Travel, Creditor and mid-to high-net worth business, UK Select

See notes on slide 30 and glossary of terms on slides 50 to 53

Commercial and Rescue: Improved current year profitability; well placed for 2021

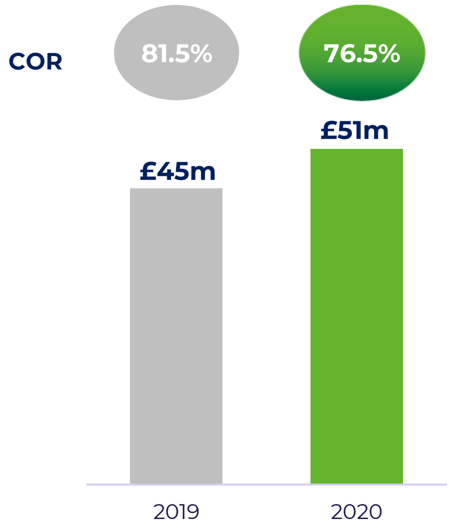
Commercial



- Strong top line growth across own brands and NIG
- Normalised operating profit grew by £10m
- Current year attritional loss ratio improved by 6pts to 59.6%
- Covid-19 related business interruption claims estimated at £6m
- COR normalised for weather improved to 95.9% (2019 99.4%)

Significant items	2019	**2020**
Event weather[1]	(£3m)	**(£16m)**
Prior year releases	£65m	**£57m**

Rescue



- Green Flag delivered strong top line growth
- Growth in operating profit reflects lower claims costs and a change in mix towards Green Flag direct
- COR improvement; around half due to Covid-19

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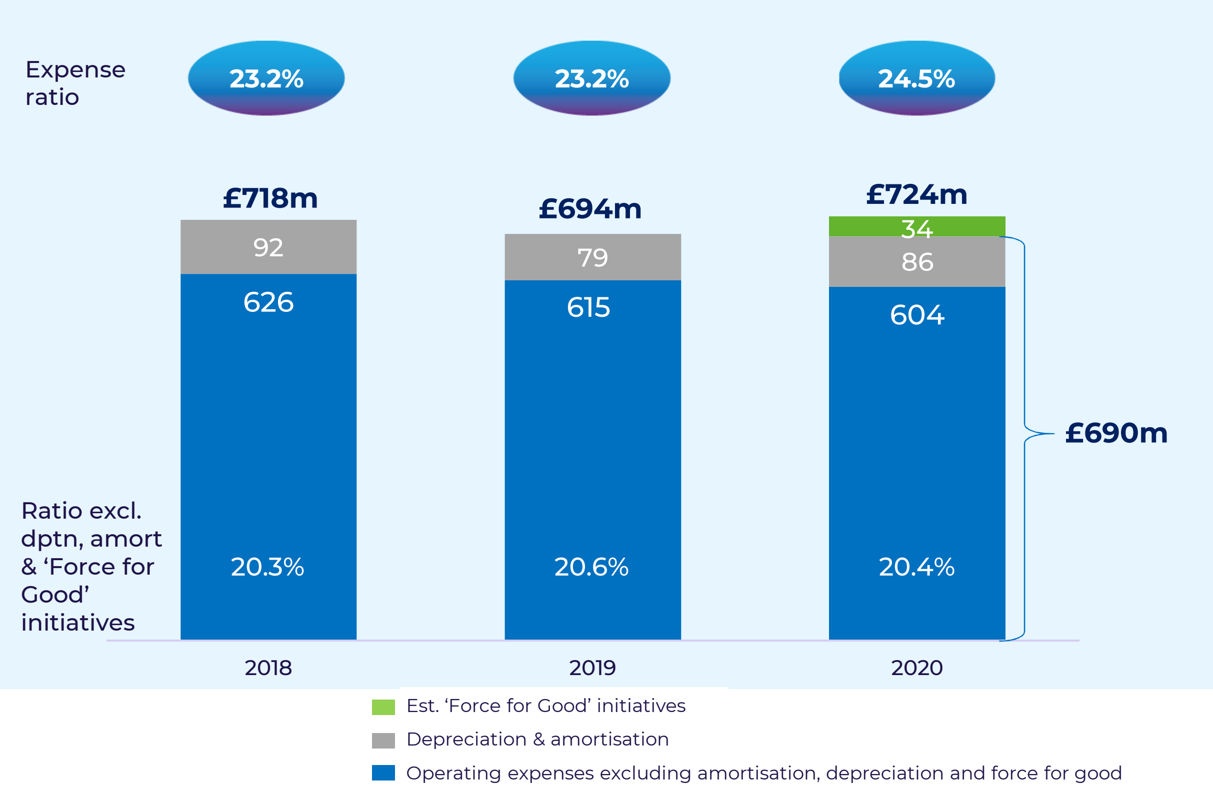
1. Commercial weather was expected to be £20m in 2019 and £18m in 2020. 2021 expectation is £20m
See notes on slide 30 and glossary of terms on slides 50 to 53

Operating expenses: Progress on underlying cost base

Operating expenses before restructuring costs[1]



Observations

- £34m of investment in 'Force for Good' initiatives to support our customers, our people and local communities during Covid-19
- Underlying operating expenses of £690m demonstrating progress on our transformation agenda
- Elements of restructuring paused in 2020 due to Covid-19; £9m of restructuring costs delayed until 2021
- Aim to get back to expected cost run rate by end of 2021

1. IFRS16 adopted in 2019 and 2018 was re-stated together with the removal of restructuring and one-off costs

See notes on slide 30 and glossary of terms on slides 50 to 53

Expense ratio: Path to 20% expense ratio in 2023

Total cost base and key drivers / initiatives

Operating expenses £724m

2020	Cost category	Key drivers / initiatives
£208m	Claims handling	• Increasing digitisation across sales, service, and claims • 95% of Home claims can now be registered digitally (0% in 2019) • Market leading digital straight through processing for simple home claims
£255m	Staff costs	• Lower servicing costs following new Motor system rollout • Staff costs reduced by £14m since 2018 (excl. restructuring costs) • Simplifying the organisation and embedded agile ways of working
£196m	IT and other costs	• Improved cost of change through business transformation • Technology transformation reducing IT run costs • Reduced property footprint and run costs
£107m	Marketing / acquisition	• Further efficiency in direct marketing
£86m	Depreciation & amortisation	• Non cash and reflects progress on roll-out of technology transformation
£80m	Insurance levies	• Non controllable cost, expected to increase over time

Ambition

Reduce customer cost to serve by 20%

Reduce IT run costs to <3% of GWP

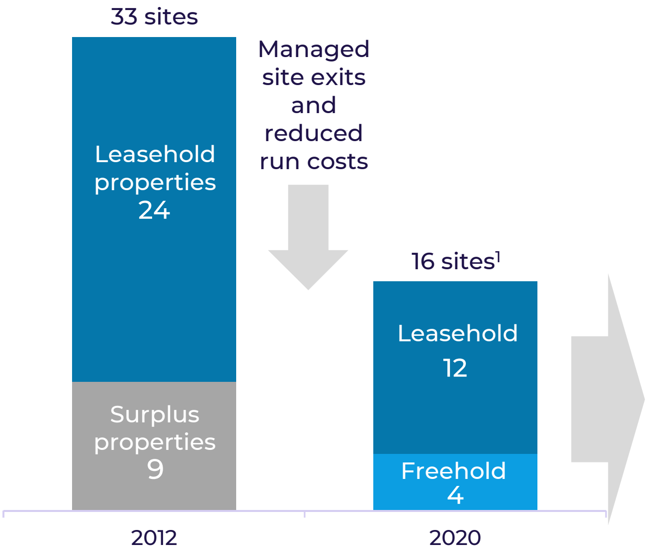
Property costs: Further opportunity

See notes on slide 30 and glossary of terms on slides 50 to 53

Property strategy: Reducing our footprint and unlocking incremental cost savings

Background

- Reduced the number of sites by over 50% since IPO



Future state

- Mixed model of home and office working
- Future office environments will support more collaborative, agile ways of working
- Significant reduction in office space

76%
of colleagues want to work from home[2]

Mixed model

Benefits

Financial:

- Bromley lease acquired incurring £85m restructuring cost in 2021
- Transaction delivers incremental savings in excess of £10m p.a. from 2022

Non-financial:

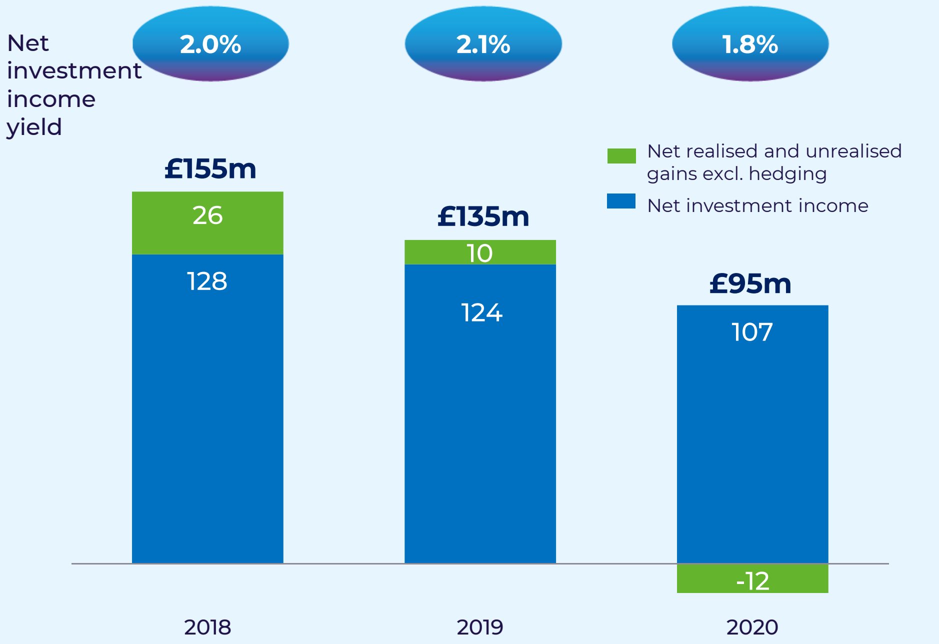
- Freedom to create the environment the business needs
- Reduce our impact on the planet through lower emissions and waste
- Improve diversity and social mobility

Direct Line Group

1. Excludes 21 accident repair centres. Three core freehold sites include Bristol, Birmingham and Leeds Headrow. Four core leasehold sites include Bromley, Doncaster, Glasgow, and Leeds Wharf. Two core sites already identified for exit (Manchester and Ipswich). In addition there are seven smaller sites . The four core leasehold assets are held by a single landlord with 30 year leases due to expire in 2037.
2. Of colleagues who responded to the staff survey in November 2020; 24% prefer to work entirely from home, 52% prefer to work from home most of the time

Investment return: Resilient high quality portfolio

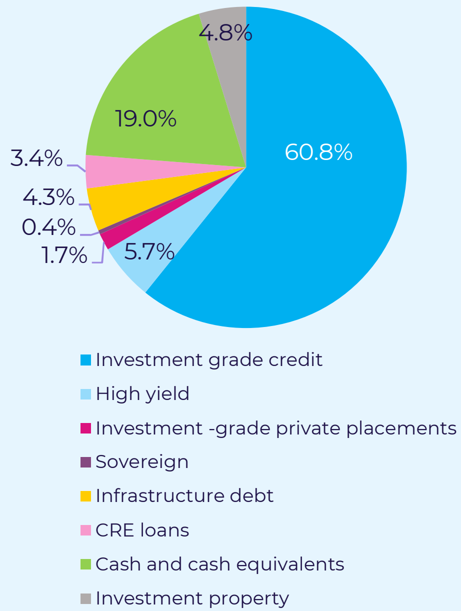
Investment return



Observations

- Net investment income yield of 1.8% in line with management guidance
- Net realised and unrealised losses of £12m due to lower property valuations
- AFS reserve net of tax £83.9m as at 31 December 2020
- 2021 outlook: 1.5% net investment income yield and minimal gains

Group holdings[1] £6,146m



1. Excludes equity investment

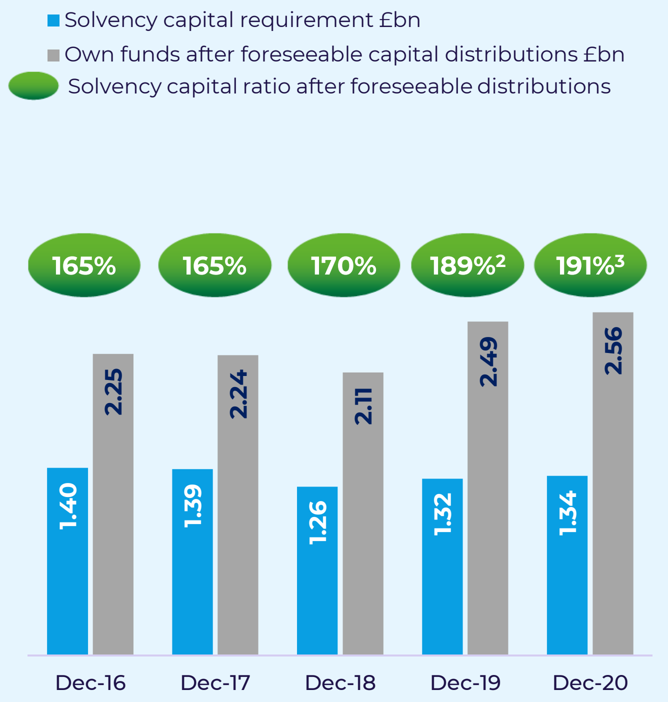
See notes on slide 30 and glossary of terms on slides 50 to 53

Capital and balance sheet management: Commencing share buyback of £100m

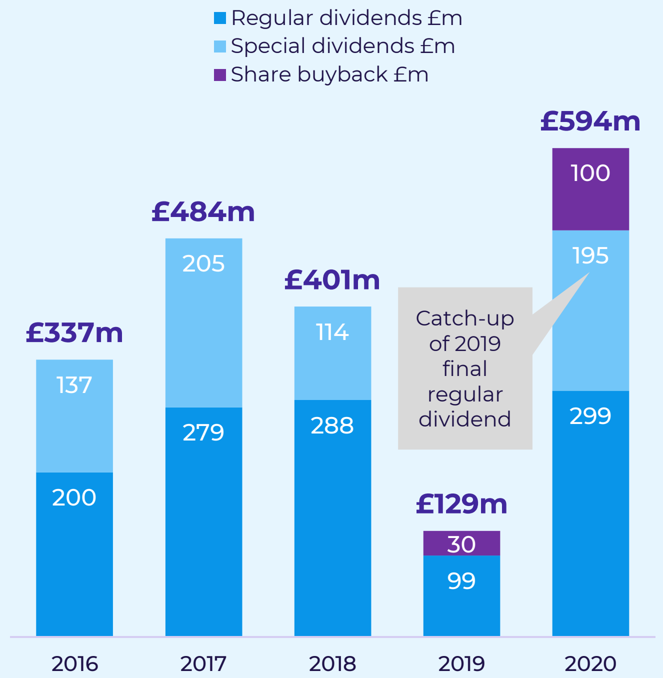
Comments

- Final regular dividend of 14.7p per share[1]; 2.1% growth
- Commencing a £100m share buyback
- Solvency capital ratio after dividend and buyback of 191% and 172% excluding Tier 2 debt (callable in 2022)
- Proforma solvency ratio after Bromley site acquisition c.166%
- Moving towards the middle of 140% - 180% risk appetite range
- Capital expenditure expected to be £120m in 2021

Capital evolution



Capital distributions



1. Dividend due to be paid 20 May 2021
2. The impact of the cancellation of the dividend and buyback was 24 percentage points to give a solvency ratio of 189% as at 31 December 2019. The solvency capital ratio as reported as at 31 December 2019 after taking account of the then expected 14.4p final dividend and £150m share buyback was 165%
3. Solvency ratio including Tier 2 debt callable in 2022 and after 2020 final dividend and £100m buyback. Figures estimated and based on partial internal model (PIM) output as at 31 December 2020

See notes on slide 30 and glossary of terms on slides 50 to 53

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Reiterating our targets

1. Current year operating profit: At least 50% by 2021[1]
2. Operating expenses: Expense ratio of 20% in 2023
3. Combined operating ratio: 93% - 95% throughout the medium term[2]
4. Return on tangible equity (RoTE): At least 15% per annum over the long term

1. Normalised for weather and Ogden rate changes, excluding restructuring and one-off costs
2. Normalised for weather

See notes on slide 30 and glossary of terms on slides 50 to 53

Strategy

Leveraging our customer focus
with new technology

Penny James
CEO

Direct Line Group

Our strategy has enabled us to stay focused and deliver our vision and purpose

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

Sustainability pillars

- Customers
- People
- Society
- Planet
- Governance

Values

- Do the right thing
- Aim higher
- Take ownership
- Say it like it is
- Work together
- Bring all of yourself to work

Our vision: Creating a world where insurance is personal, inclusive and a force for good; £93m invested in 2020

Vision

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

Supporting our people

Supported remote working

Offered our people the flexibility to balance work and home

Provided support through mental health first aiders and a range of other wellbeing initiatives

Rewarding our people with a £350 share award and £400 cash for those who don't receive a bonus[1]

Supporting our customers

Over **900** Travel customers repatriated from abroad and refunded over **26,000** customers

Supported over **450,000** customers through a range of measures including payment deferrals and waiving of cancellation fees

Free Green Flag, fast track motor claims and free home emergency for NHS employees

Helping society and protecting the planet

Over **£7m** donated to good causes in 2020, Community Fund back in 2021

New diversity and inclusion strategy launched

Achieved 2020 climate targets and committed to going further by setting Science Based Targets (SBTs)

1. All eligible employees who do not receive a bonus or variable pay

What have we learned from 2020?: Our strategy is the right one, but we need to move faster in some areas

Consumers' willingness to interact digitally has transformed

Our digitalisation journey is well underway

WhatsApp channel available to customers

FNOL[1] available for multi-vehicle claims and Home claims

52%

Of our customer servicing is through digital channels[2]

Agility is a must

DLG Reimagined

New agile operating model embedded across our digital, data and pricing experts

New technology is a key enabler to improving speed of ideas from conception to market

1,000+

People working in an agile way[3]

The working model has changed forever

Setting our future footprint for where and how we work

Increasing black and female representation target in leadership roles

76%

Of colleagues want to work from home[4]

Car technology continues to evolve rapidly

Largest insurer owned repair network provides insight in to car tech

In-house technology training centre enables us to further develop car tech repair capabilities

21

Owned repair centres across the UK

The challenges ahead require co-operation across sectors

Climate change, social mobility and diversity: co-operation across sectors will be needed

Working with government and fellow leaders in other sectors

'Build back better'

1. First notification of loss
2. In December 2020, up from 26% in December 2018
3. Agile embedded across pricing, trading, marketing and change functions
4. Of colleagues who responded to the staff survey in November 2020; 24% prefer to work entirely from home, 52% prefer to work from home most of the time

FCA Pricing Practices Review (PPR): Confident we are well placed to win

FCA timeline

Q1 2022
Value Measures report to the FCA

New pricing rules become effective

4 months

Q2 2021
FCA due to issue final policy statement

Jan 2021
Feedback to the FCA on package of remedies

Sept 2020
FCA publishes final report on GI Pricing Practices which set out a package of remedies

Actively engaging with the FCA

Supportive of the FCA's objective to create a fairer market for consumers while ensuring effective competition remains within the market through differentiation between channels, brands and products

Awaiting clarity on some elements of the proposals

Working closely with the FCA to shape the correct outcome for customers and shareholders

Our strengths

Confident we are well placed to win

Pricing actions already taken across the business

Prepared for a range of outcomes

Strong brands, great customer service and tailored propositions

Diversified business model provides options

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Building a better business: Good progress on transformation

Improved sales and service
Greater pricing accuracy
Brilliant claims experience

	Motor	Home	Motor	Rescue	Micro & SME	Commercial	Travel
	Direct Line, Churchill	Privilege	Darwin	GreenFlag	Direct Line for Business	NIG	
2019	Privilege new business live on new platform	PCW hub launched	New brand launched on 2 PCWs	Claims system built	Multiple product launches	Digital platform launched	Digital platform launched
2020	Privilege renewals and migration	API & PCW capability	Live on all four main PCWs	Claims system live, policy system built	All products live, migration underway	Three products live	Migration complete
2021 - 2022	Churchill and Direct Line	Build new platform	Continue to enhance and grow	Launch policy platform	Complete migration	Final product launches	
	New pricing engine, customer service and back office tools	New pricing engine, customer service and back office tools	New brand, new pricing, new operating model	New set of customer systems	New digital platform	New pricing and underwriting tools	New end to end digital platform for Travel partners

Finance transformation	New general ledger and claims payment system rolled out	IFRS17 go live 2022
Claims transformation	New Counter-fraud operating system	Further digitalisation
Technology transformation	Telephony and mainframe migration	End user computing migration

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Commercial: Change agenda delivered at pace and driving higher margin business growth

	Summary	2020 Progress		Focus for 2021
Broker	NIG FarmWeb ***Re-platforming complex products to enable better pricing and risk selection***	• New platform deployed across complex products, enabling sophisticated pricing and improved customer documentation • Step-change in quality of pricing models • Only insurer to be awarded 5-stars for its eTrade platform for two consecutive years • Market leading free online risk management portal available to every NIG policyholder	**54% growth in Commercial vehicle policies**	• Continue rolling out more products on new platform • Develop new survey and risk management process and platform • Launch 'Lead Line' proposition; co-insuring large risks with other insurers
Direct	direct line for business ***Established modularised product offering built in fully agile methodology***	• SME Insurer offering modularised products for tailored insurance: 14 different insurance covers available and capability for self-sufficient releases • Automated, in-house customer marketing technology, delivering highly personalised and engaging customer experiences at scale • Fully agile operating model of 85 people. Team of 19 enabling product improvements every 8 weeks	**9% growth in Van policies**	• Rationalise legacy platforms from 5 down to 2 • Policy documents written in plain English • In-house testing of releases
Affinity & PCW	UKI Business Solutions churchill ***UKIBS utilising multi-partner capability. Churchill SME growing fast via PCWs***	• UKIBS: Won new contracts, including open banking partnership with ANNA Money and digital 'on demand' mobility insurance providers - Drover and Trov • UKIBS: New partnership with Metro Bank • Churchill: Expanded PCW distribution	**62% GWP growth across Churchill products**	• UKIBS onboarding of Metro Bank and developing of further on-demand partnerships • Churchill continue to iterate / optimise marketing, pricing and renewals

Green Flag Rescue: Building a fully digital, multi-channel ecosystem

Summary	2020 Progress		Focus for 2021
GREEN FLAG COMMON SENSE TO THE RESCUE ***End to end agile operating model*** ***Well progressed through digital transformation towards a leading motorist brand***	• Cloud-based microservices claims system launched; over 125k claims recorded • Improvements to the Green Flag 'Rescue Me' App journey led to an increase in claims journeys completed digitally • Cloud-based policy and pricing engine built; a platform for future growth beyond breakdown services • Exceptional customer service (NPS >74) and the only Rescue provider to be awarded 'Superbrand status[1]'	**358k new customers acquired in 2020** **Green Flag 'RescueMe' 40% increase in digital claims journeys** **Double digit profit growth**	• Launch cloud-based policy and pricing system • Enhance product offering; growth beyond breakdown services • Launch 'MyAccount' portal for customers

1. Participation in Superbrands is by invitation only, and offered to the most outstanding brands in their field

Home: Expanding our reach whilst making our customer interactions even easier

	Summary	2020 Progress		Focus for 2021
Direct	Direct Line ***Enhanced digital experiences and evolving value propositions***	• Streamlined quote and buy experience leveraging existing data to pre-populate property information • Improved tailored product capability through Brolly acquisition; new products being tested • Expanded online claims registration; available for 95% of claims and launched end to end digital claims experience for some simple claims[1]	**26% of simple[1] claims serviced digitally end-to-end**	• Preparation for Pricing Practices Regulation • Tailored product development • Further digitalisation of end to end services
Direct & PCW	churchill Privilege ***PCW focus delivers step change in trading capability***	• Created cross functional agile squads with focus on PCW products • Increased pricing agility and data enrichment capabilities • Focus on underperforming segments	**30% growth in PCW new business sales**	• Further data enrichment and pricing opportunities • Frictionless sales journeys
Partners	DLG PARTNERSHIPS ***Partner of choice with leading API capabilities leveraging joint strengths of DLG and partners***	• Created a 'Sandbox' API environment • Launched Affinity partnerships proposition • Agreed a 2 year extension with NatWest Group	**Launched web environment for sandbox testing**	• Establish stable of partners with test and learn approach • Use of partner data to deliver advanced risk pricing capabilities

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1. Available for simple claims only e.g. jewellery or electrical goods

Motor: Final stages of technology transformation

	Summary	2020 Progress		Focus for 2021
Direct	Direct Line *Increasingly differentiated product offering, underpinned by new pricing and underwriting system*	• Expanded use of online claims notification and enhanced the use of technology in repair process • Launched new counter fraud platform and decision engine	**Direct Line: New mileage proposition launched**	• New platform: Launch Direct Line and realise benefits through agile operating model • Develop wider range of products and services
Direct & PCW	churchill Privilege *PCW focused brands offering great value on new pricing and underwriting system*	• New platform: Privilege live for new business and renewals; improved pricing sophistication, greater automation and digitalisation, facilitates customer self service and product changes • Step change in PCW trading capability; channel focused agile team, and greater collaboration across brands	**Churchill: 9% growth in policies**	• New platform: Continue Churchill roll-out and realise benefits through agile operating model
PCW	Darwin. *A digital insurer using machine learning to deliver incremental change*	• Live on all 4 main PCWs • Continued improvement in renewal rates as portfolio quality and pricing sophistication improving • Improved fraud capabilities through enhanced data integration	**Darwin: 50,000+ policies**	• Continue to grow at pace and enhance pricing and underwriting • Positioned well for Pricing Practices Review

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Summary: A group with real momentum

Today

Vision

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

1. Strong brands, rich data and leading claims skills
2. A range of products and channels that give us diversification and scale
3. A people business with a passion to serve our customers

Our ambition

Fully digital enabled, cost effective customer service

Offering unique products and propositions

Leveraging more data to drive better risk selection

An agile, lower cost business that can increase the sustainability of earnings and grow

Direct Line Group

APPENDIX

Notes to financial disclosures

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

2. Direct own brands include in-force policies for Home and Motor under the Direct Line, Churchill, Darwin and Privilege brands, Rescue policies under the Green Flag brand and Commercial policies under the Direct Line for Business and Churchill brands.

3. The Group’s dividend policy includes an expectation that generally one-third of the regular annual dividend will be paid in the third quarter as an interim dividend and two-thirds will be paid as a final dividend in the second quarter of the following year.

4. See glossary of terms on pages 50 to 53

Motor

	2019	2020
In-force policies (000s)	**4,043**	**4,061**
Own brand in-force policies (000s)	3,921	3,943
Partnerships in-force policies (000s)	122	118
Gross written premium £m	**1,652**	**1,617**
Net earned premium £m	1,508	1,485
Loss ratio – current year	81.2%	66.6%
Loss ratio – prior years	(11.9%)	(6.8%)
Loss ratio	69.3%	59.8%
Commission ratio	2.6%	3.2%
Expense ratio	22.9%	24.7%
Combined operating ratio	**94.8%**	**87.7%**
Underwriting profit £m	**79**	**182**
Of which prior year releases £m	181	101
Instalment and other income £m	135	119
Investment return £m	89	63
Operating profit £m	**303**	**364**

See notes on slide 30 and glossary of terms on slides 50 to 53

Home

	2019	2020
In-force policies (000s)	**2,594**	**2,638**
Own brand in-force policies (000s)	1,765	1,837
Partnerships in-force policies (000s)	829	801
Gross written premium £m	**587**	**578**
Net earned premium £m	574	556
Loss ratio – current year attritional	53.5%	52.7%
Loss ratio – prior years	(7.2%)	(1.9%)
Loss ratio – major weather events	0.5%	4.8%
Loss ratio	46.8%	55.6%
Commission ratio	9.7%	8.1%
Expense ratio	23.8%	23.4%
Combined operating ratio	**80.3%**	**87.1%**
COR Normalised for weather	***86.9%***	***90.3%***
Underwriting profit £m	**113**	**72**
Of which prior year releases £m	*41*	*11*
Instalment and other income £m	21	19
Investment return £m	17	10
Operating profit £m	**151**	**101**

Normal weather assumed to be £49m in 2021 (2020: £46m)

Rescue and other personal lines

Rescue and other personal lines	2019	2020
In-force policies (000s)	**7,377**	**7,105**
Rescue (000s)	3,450	3,400
Travel (000s)	3,648	3,499
Pet (000s)	157	145
Other personal lines (000s)	122	61
Gross written premium £m	**436**	**418**
Net earned premium £m	425	423
Loss ratio – current year	68.7%	63.0%
Loss ratio – prior years	(1.8%)	(1.3%)
Loss ratio	66.9%	61.7%
Commission ratio	6.4%	16.4%
Expense ratio	22.1%	23.9%
Combined operating ratio	**95.4%**	**102.0%**
Underwriting profit / (loss) £m	**20**	**(9)**
Of which prior year releases £m	*8*	*6*
Operating profit £m	**39**	**7**

Rescue	2019	2020
In-force policies (000s)	3,450	3,400
Of which Green Flag (000s)	1,063	1,114
Gross written premium £m	**168**	**167**
Combined operating ratio	**81.5%**	**76.5%**
Operating profit £m	**45**	**51**

Direct Line Group

See notes on slide 30 and glossary of terms on slides 50 to 53

Commercial

	2019	2020
In-force policies (000s)	**775**	**811**
Own brands (000s)	541	560
NIG and other (000s)	234	251
Gross written premium £m	**529**	**568**
Net earned premium £m	478	497
Loss ratio – current year attritional	65.6%	59.6%
Loss ratio – prior years	(13.6%)	(11.4%)
Loss ratio – major weather events	0.7%	3.2%
Loss ratio	52.7%	51.4%
Commission ratio	18.5%	18.7%
Expense ratio	24.5%	25.4%
Combined operating ratio	**95.7%**	**95.5%**
COR Normalised for weather	***99.4%***	***95.9%***
Underwriting profit £m	**21**	**22**
Of which prior year releases £m	*65*	*57*
Instalment and other income £m	10	9
Investment return £m	24	19
Operating profit £m	**55**	**50**

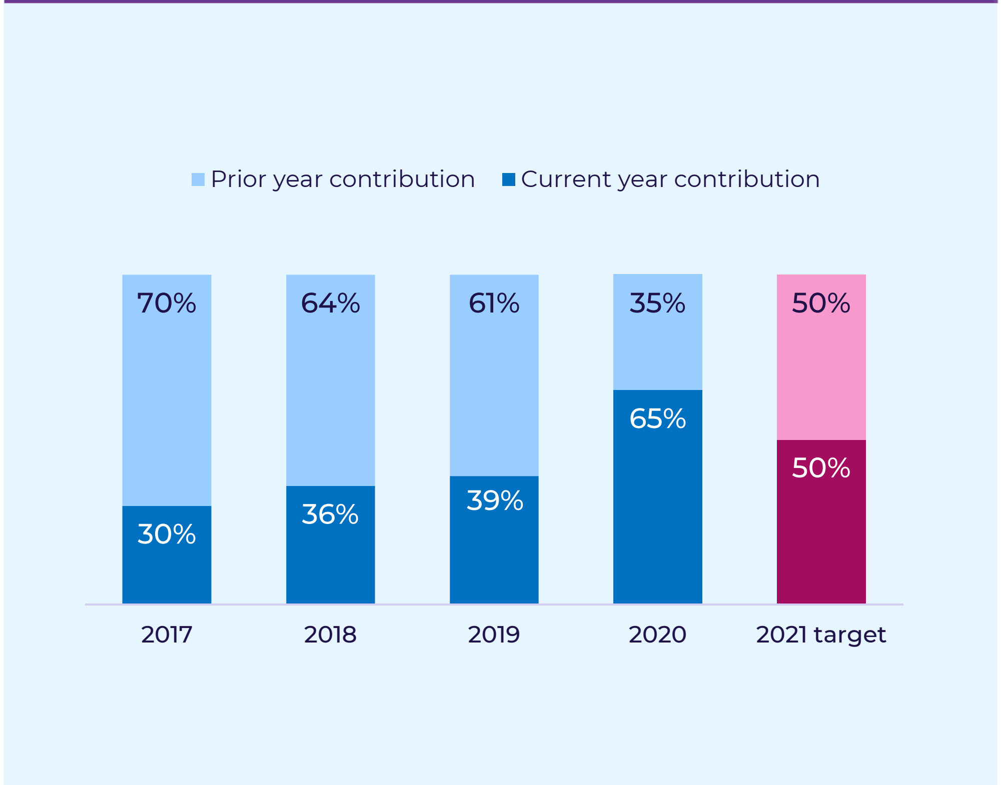
Normal weather assumed to be £20m in 2021 (2020: £18m)

Direct Line Group

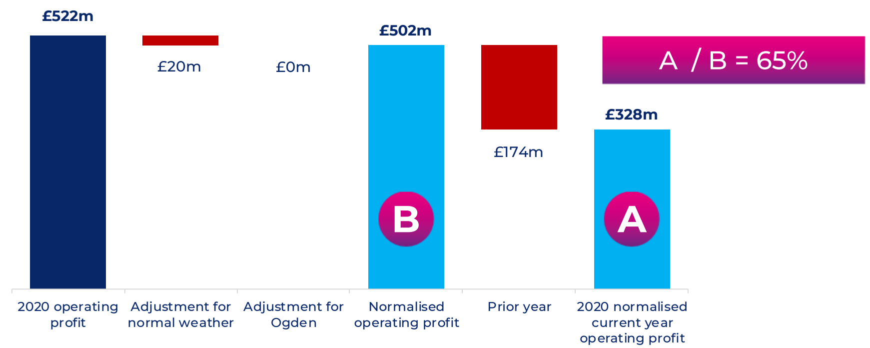
See notes on slide 30 and glossary of terms on slides 50 to 53

Current year contribution to operating profit

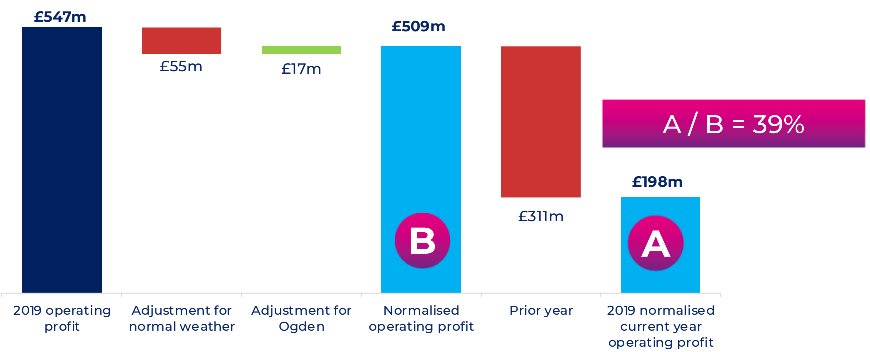
Normalised operating profit[1]



2020 normalised operating profit[1]



2019 normalised operating profit[1]



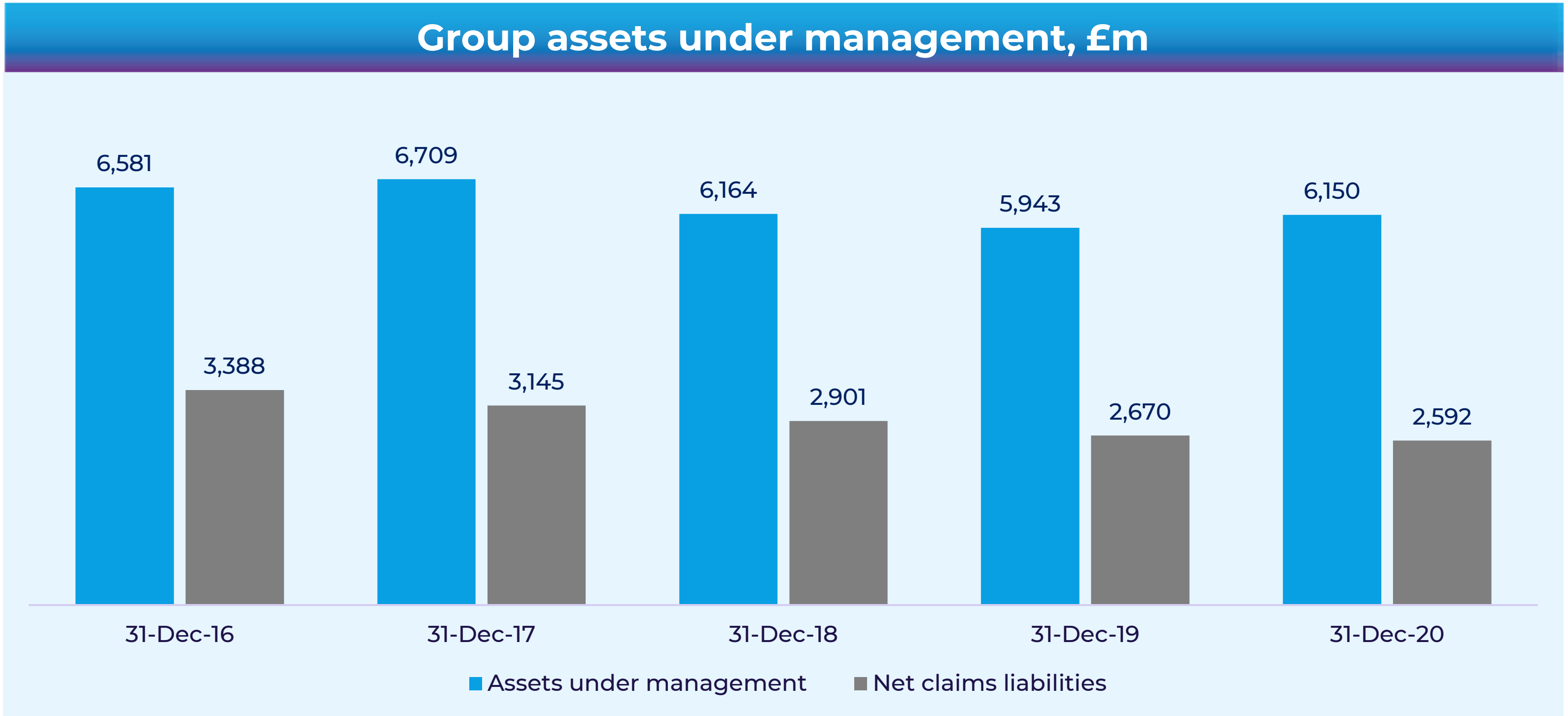
Direct Line Group

1. Group operating profit normalised for weather, and Ogden rate changes, excludes restructuring and one-off costs
See notes on slide 30 and glossary of terms on slides 50 to 53

Balance sheet

Group balance sheet £m	Dec-18	Dec-19	Dec-20
Goodwill and other intangible assets	567	703	**787**
Financial investments and cash	6,214	5,914	**6,194**
Reinsurance assets	1,209	1,251	**1,129**
Other assets	1,545	1,566	**1,512**
Total Assets	**9,535**	**9,434**	**9,622**
Unearned premium reserve	1,506	1,506	**1,497**
Insurance liabilities	4,006	3,820	**3,617**
Other liabilities	1,119	1,118	**1,462**
Total Liabilities	**6,631**	**6,444**	**6,576**
Shareholders' equity	2,558	2,644	**2,700**
Tier 1 notes	346	346	**346**
Total Equity	**2,904**	**2,990**	**3,046**

Assets under management



See notes on slide 30 and glossary of terms on slides 50 to 53

Investment portfolio

As at 31 December 2020	U K Insurance target allocation	U K Insurance current holding	Total Group income yield[1]	Total Group interest rate duration (years)
Investment grade (incl private placements)	69.0%	65.6%	2.1%	2.9
High yield	6.0%	6.0%	5.1%	1.8
Credit	**75.0%**	**71.6%**	**2.3%**	**2.8**
Sovereign	3.0%	0.4%	1.1%	-
Total debt securities	**78.0%**	**72.0%**	**2.3%**	**2.8**
Infrastructure debt	4.0%	4.5%	2.1%	0.2
Commercial real estate loans	6.5%	3.5%	3.3%	0.2
Investment property	5.5%	5.0%	4.7%	-
Cash and cash equivalents	6.0%	15.0%	0.2%	-
Total	**100.0%**	**100.0%**	**2.1%**	**2.0**

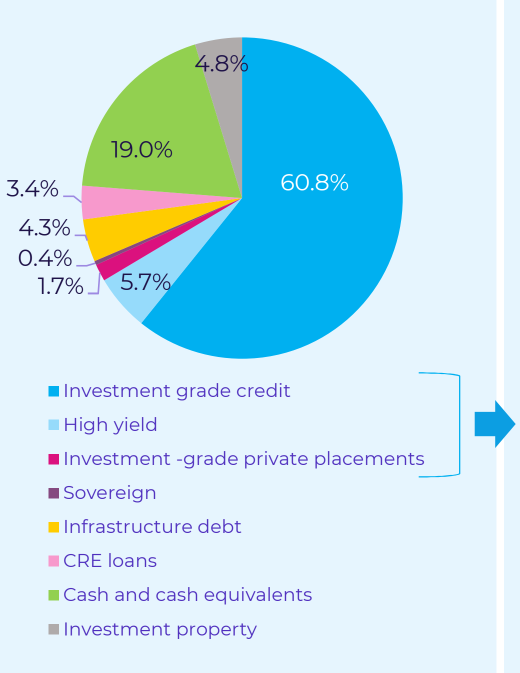
2.6% of total debt securities rated as 'AAA' and 54.4% rated as 'AA' or 'A'

Direct Line Group

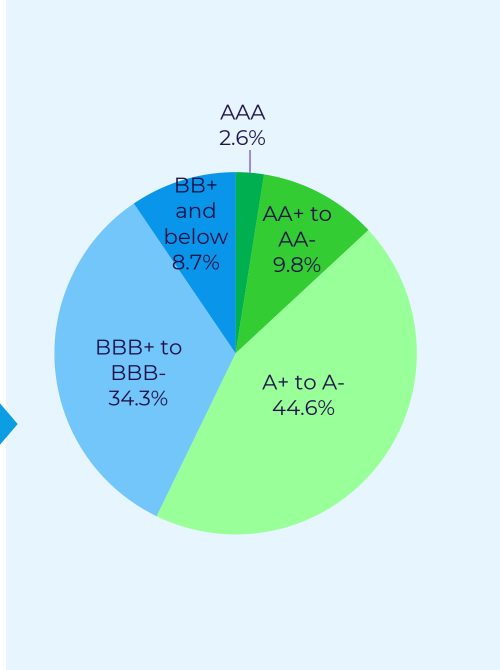
1. Gross investment income yield
See notes on slide 30 and glossary of terms on slides 50 to 53

Investment portfolio

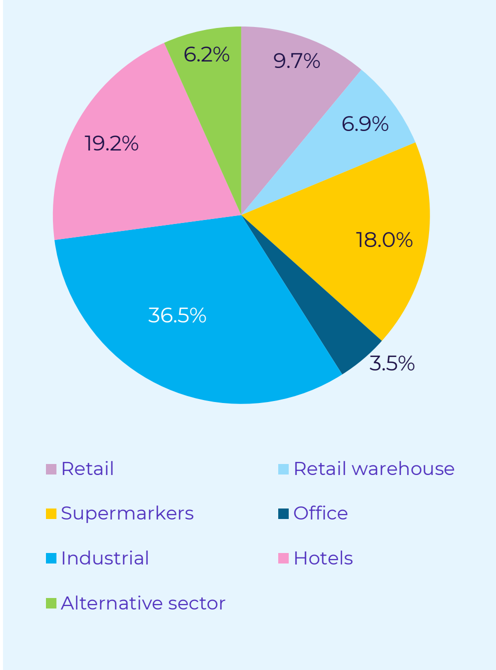
Group holdings[1] £6,146m



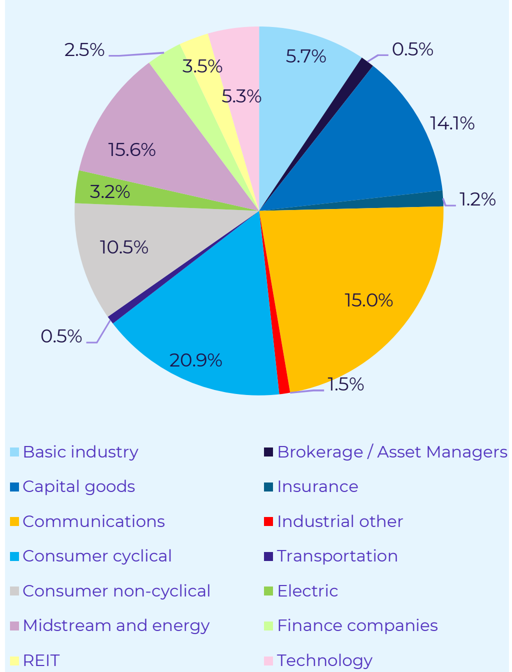
Debt securities credit quality



Property by sector[2] £289m



High yield by sector £349m



1. Excludes equity investment
2. Investment property by sector based on capital cost (excludes in-house properties owned by Direct Line Group Insurance Services)

See notes on slide 30 and glossary of terms on slides 50 to 53

Reinsurance

Motor Excess of Loss (unlimited)

Accident year	Deductible £m
2021	1[1]
2020	1
2019	1
2018	1[2]
2017	1
2016	1
2015	1
2014	1
2013	3
2012	3
2011	3
2010	10

- Cover renewed on 1 January 2021
- Retained £1m deductible (indexed) with partial placement:
  - Additional 25% retained in each layer up to £10m
  - £37.5m aggregate deductible for layers above £10m
- Cover is unlimited in size and has an unlimited amount of cover reinstatements
- Placed on an uncapitalised basis
- Placed with a panel of reinsurers who are at least 'A+' rated

Property catastrophe

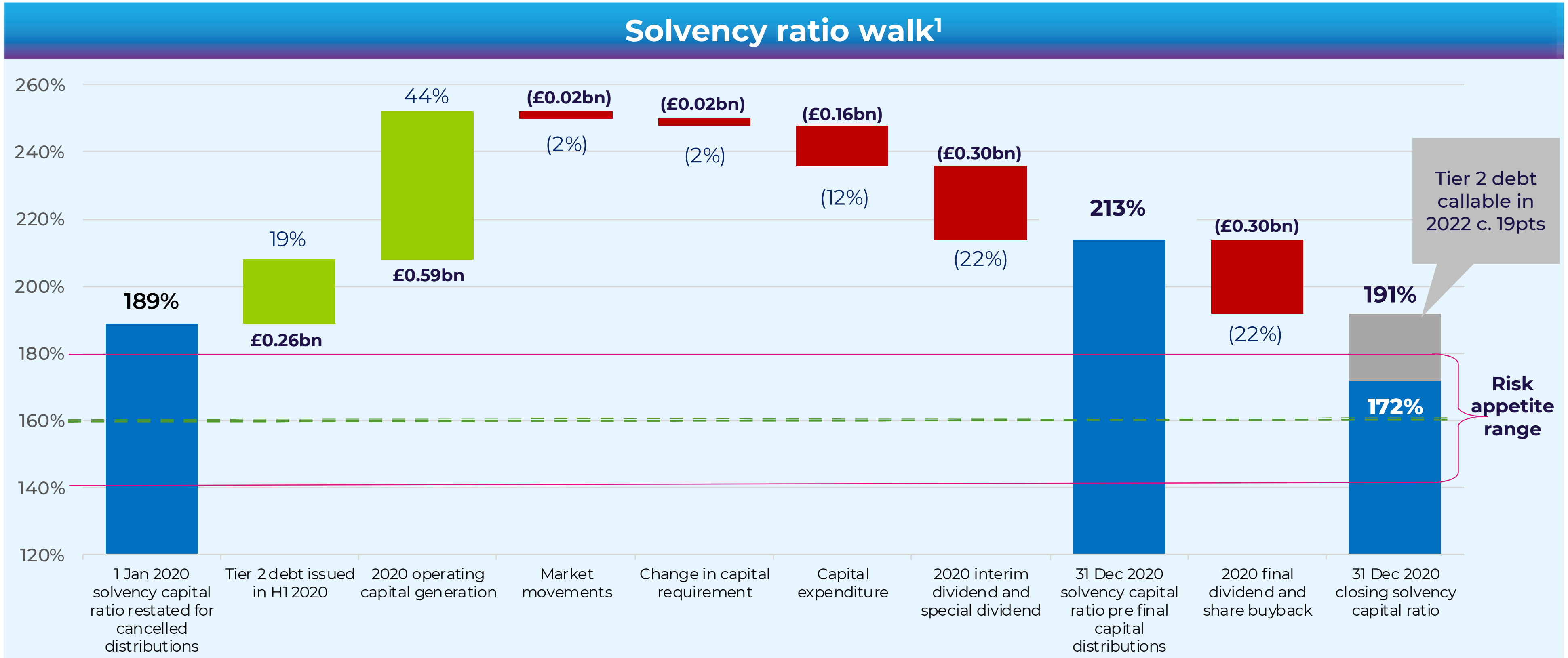
Accident year	Limit £m	Deductible £m
2020/21	**c. 1,125**	**c. 130**
2019/20	c. 1,132	c. 132
2018/19	c. 1,205	c. 139
2017/18	c. 1,275	c. 150
2016/18	1,250	c. 150
2015/16	1,350	c. 150
2014/15	1,400	c. 150
2013/14	1,300	c. 150

- Cover renewed on 1 July 2020
- Cover has one full reinstatement for all programme and one additional reinstatement up to £545m
- Placed with a panel of reinsurers who are all at least 'A-' rated

Direct Line Group

1. Partial placement on all layers up to £10m. 25% retained in layers <£10m and layers >£10m have an additional £37.5m aggregate deductible
2. Partial placement on lower layers. For 2018 90% of the first layer (£2m excess £1m) was placed with 10% retained

Solvency capital ratio walk

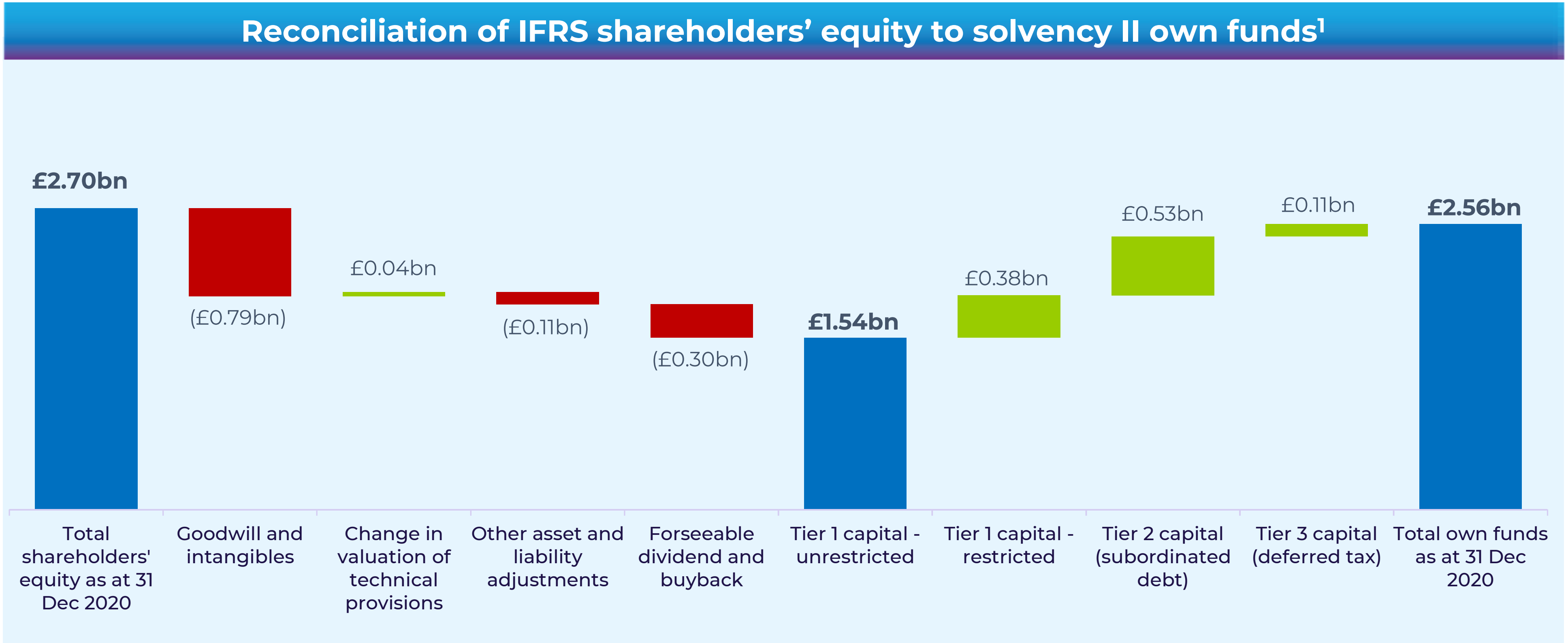


Capital expenditure expected to be £120m in 2021

1. Figures estimated and based on partial internal model (PIM) output as at 31 December 2020

See notes on slide 30 and glossary of terms on slides 50 to 53

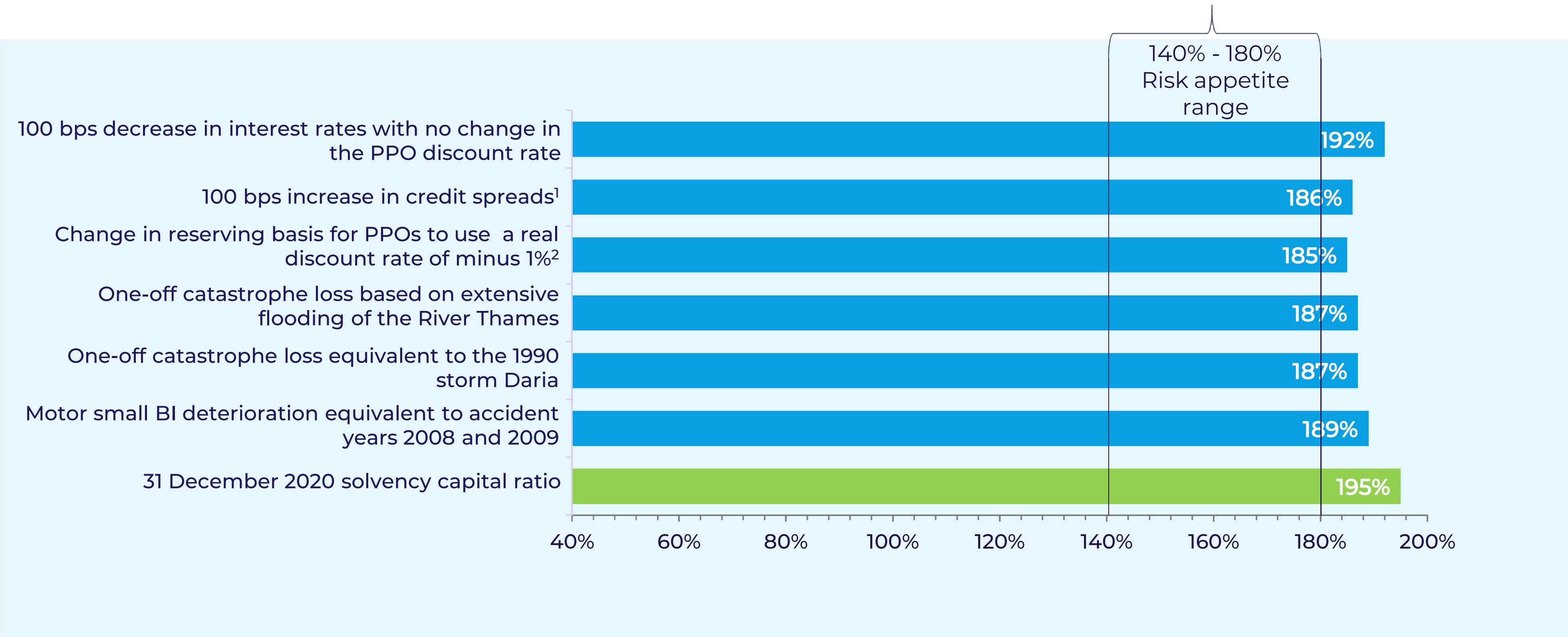
IFRS to Solvency II bridge



1. Figures estimated and based on partial internal model (PIM) output as at 31 December 2020

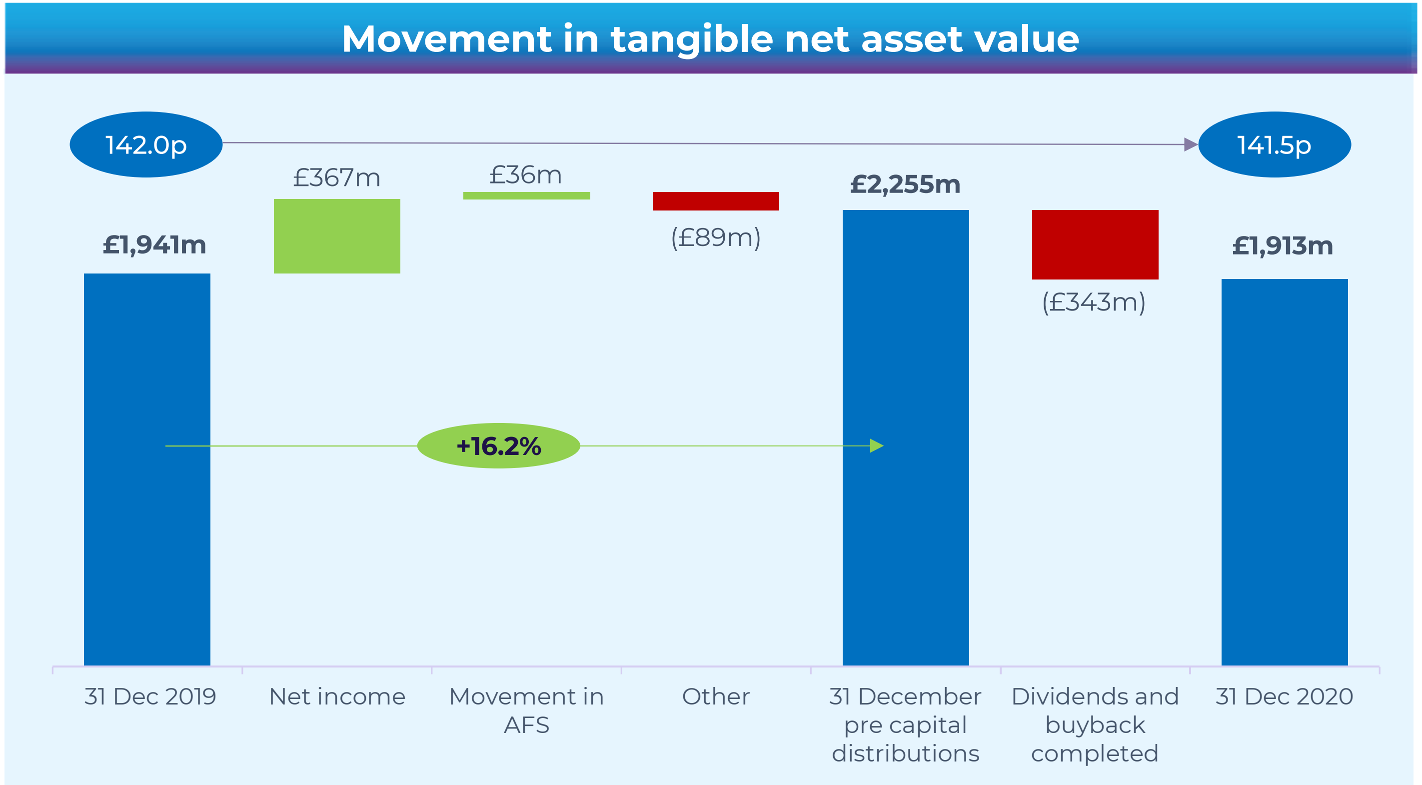
See notes on slide 30 and glossary of terms on slides 50 to 53

Solvency sensitivity analysis



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

Book value and TNAV



	31 Dec 2019	31 Dec 2020
Net asset value per share (pence)	193.4	**199.7**
Tangible net asset value per share (pence)	142.0	**141.5**

Total unrealised AFS reserves of £83.9m (net of tax) as at 31 December 2020

See notes on slide 34 and glossary of terms on slides 50 to 53

Solvency capital requirements by risk type

£m	31 Dec 2019	31 Dec 2020[1]
Non-Life underwriting risk	1,029	**947**
- *Premium risk*	*445*	***420***
- *Reserve risk*	*319*	***253***
- *Catastrophe risk*	*258*	***264***
- *Other underwriting*	*8*	***9***
Default risk	24	**16**
Market risk	135	**244**
Operational risk	97	**92**
U K Insurance solvency capital requirement	**1,284**	**1,300**
Other entity Solvency capital requirement	32	**40**
Group solvency capital requirement	**1,316**	**1,340**

2020 SCR by risk type[2]
(post diversification)

1. Figures estimated and based on partial internal model (PIM) output as at 31 December 2020
2. U K Insurance

Return on tangible equity and earnings per share calculations

Return on tangible equity (RoTE)

	2019 £m	2020 £m
Profit before tax	509.7	451.4
Add back: Restructuring and one-off costs	11.2	39.4
Coupon payments in respect of Tier 1 notes	(16.6)	(16.6)
Adjusted profit before tax	**504.3**	**474.2**
Tax charge (using 2019 and 2020 UK standard tax rate of 19%)	(95.8)	(90.1)
Adjusted profit after tax	**408.5**	**384.1**
Opening shareholders tangible equity	1,991.4	1,941.1
Closing shareholders' tangible equity	1,941.1	1,912.9
Average shareholders' tangible equity	**1,966.3**	**1,927.0**
RoTE	**20.8%**	**19.9%**

Basic earnings per share (EPS)

	2019 £m	2020 £m
Profit after tax	419.9	367.2
Coupon payments in respect of Tier 1 notes	(16.6)	(16.6)
Profit for the calculation of EPS	**403.3**	**350.6**
Weighted average number of shares (millions)	1,367.2	1,356.5
Basic earnings per share (pence)	**29.5**	**25.8**

Direct Line Group

See notes on slide 30 and glossary of terms on slides 50 to 53

2020 segmental results

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total Group
GWP	1,616.9	577.9	417.8	567.8	**3,180.4**
Net earned premium	1,484.8	555.8	422.9	497.0	**2,960.5**
Net insurance claims	(888.1)	(309.1)	(261.1)	(255.3)	**(1,713.6)**
Commission expenses	(47.4)	(45.0)	(69.4)	(92.9)	**(254.7)**
Operating expenses	(367.1)	(130.0)	(100.9)	(126.4)	**(724.4)**
Underwriting profit / (loss)	**182.2**	**71.7**	**(8.5)**	**22.4**	**267.8**
Investment return	62.8	10.3	3.4	18.6	**95.1**
Instalment and other operating income	118.5	19.4	11.9	9.4	**159.2**
Operating profit / (loss)	**363.5**	**101.4**	**6.8**	**50.4**	**522.1**
Restructuring and one-off costs	-	-	-	-	**(39.4)**
Finance costs	-	-	-	-	**(31.3)**
Profit before tax	-	-	-	-	**451.4**
Tax	-	-	-	-	**(84.2)**
Profit after tax	**-**	**-**	**-**	**-**	**367.2**
Loss ratio – current year	66.6%	57.5%	63.1%	63.0%	**63.8%**
Loss ratio – prior year	(6.8%)	(1.9%)	(1.3%)	(11.4%)	**(5.9%)**
Commission ratio	3.2%	8.1%	16.4%	18.7%	**8.6%**
Expense ratio	24.7%	23.4%	23.9%	25.4%	**24.5%**
Combined operating ratio	**87.7%**	**87.1%**	**102.0%**	**95.5%**	**91.0%**

See notes on slide 30 and glossary of terms on slides 50 to 53

2019 segmental results

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

See notes on slide 30 and glossary of terms on slides 50 to 53

2018 (restated) segmental results

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total Group
GWP	1,671.2	606.9	422.8	511.0	**3,211.9**
Net earned premium	1,541.8	667.8	414.7	465.2	**3,089.5**
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	(356.9)	(148.5)	(98.0)	(114.8)	**(718.2)**
Underwriting profit / (loss)	**174.7**	**43.4**	**20.5**	**21.2**	**259.8**
Investment return	105.9	15.9	5.2	27.6	**154.6**
Instalment and other operating income	137.5	24.6	18.3	11.6	**192.0**
Operating profit / (loss)	**418.1**	**83.9**	**44.0**	**60.4**	**606.4**
Restructuring and one-off costs	-	-	-	-	**-**
Finance costs	-	-	-	-	**(25.9)**
Profit before tax	-	-	-	-	**580.5**
Tax	-	-	-	-	**(108.5)**
Profit after tax	**-**	**-**	**-**	**-**	**472.0**
Loss ratio – current year	81.4%	66.7%	70.7%	68.9%	**75.0%**
Loss ratio – prior year	(17.9%)	(4.9%)	(3.9%)	(17.1%)	**(13.1%)**
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%**

Direct Line Group

See notes on slide 30 and glossary of terms on slides 50 to 53

Glossary of terms

Term	Definition
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.
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.
Available-for-sale ("AFS") Investment	Available-for-sale investments are non-derivative financial assets that designated as such, or are not classified as loans and receivables, held to maturity, or financial assets at fair value through profit or loss.
Average written premium	The total written premium at inception divided by the number of policies.
Capital	The funds invested in the Group, including funds invested by shareholders and Tier 1 notes. In addition, subordinated loan capital in the Group's balance sheet is classified as Tier 2 capital for Solvency II purposes.
Claims frequency	The number of claims divided by the number of policies per year.
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.
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.
Company	Direct Line Insurance Group plc.
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.
Current-year combined operating ratio	This is calculated using the combined operating ratio less movement in prior-year reserves.

Direct Line Group

Glossary of terms

Term	Definition
Current-year operating profit	This is calculated by total operating profit less movement in prior-year reserves.
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.
Expense ratio	The ratio of operating expenses divided by net earned premium.
Finance costs	The cost of servicing the Group's external borrowings and includes the interest on ROU assets.
Financial Conduct Authority ("FCA")	An independent body responsible for regulating the UK's financial services industry.
Financial leverage ratio	Tier 1 notes and financial debt (subordinated Tier 2 notes) as a percentage of total capital employed.
Gross written premium	The total premiums from contracts that were incepted during the period.
Group	Direct Line Insurance Group plc and its subsidiaries.
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 (excluding unrealised and realised gains and losses, impairments and fair value adjustments) divided by the average assets under management ("**AUM**"). The average AUM derives from the period's opening and closing balances for the total Group.
Investment return	The investment return earned from the investment portfolio, including unrealised and realised gains and losses, impairments and fair value adjustments.

Glossary of terms

Term	Definition
Investment return yield	The return divided by the average AUM. The average AUM derives from the period's opening and closing balances.
Loss ratio	Net insurance claims divided by net earned premium.
Management's best estimate	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.
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.
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.
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.
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.

Glossary of terms

Term	Definition
Reserves	Funds that have been set aside to meet outstanding insurance claims and IBNR claims.
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 dividend. It is stated after charging tax using the UK standard rate of 19%.
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).
Tangible net assets per share	This shows the amount of tangible equity allocated to each ordinary share (for comparability with companies who have not acquired businesses or capitalised intangible assets).
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 other one-off costs.

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Direct Line Group

Disclaimer

Forward-looking statements

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

The Group's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this document, for example directly or indirectly as a result of, but not limited to:

- United Kingdom ("UK") domestic and global economic business conditions;
- the direct and indirect impacts and implications of the coronavirus Covid-19 pandemic on the economy, nationally and internationally, on the Group, its operations and prospects and on the Group's customers and their behaviours and expectations;
- the trade and co-operation agreement between the UK and the European Union ("EU") regarding the terms, following the end of the Brexit transition period, of the trading relationships between the UK and the EU and its implementation, and any subsequent trading and other relationship arrangements between the UK and the EU and their implementation;
- the terms of 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 and bodies (including changes related to capital and solvency requirements or to the Ogden discount rate or rates or in response to the Covid-19 pandemic and its impact on the economy and customers) and changes to law and/or understandings of law and/or legal interpretation following the decisions and judgements of courts;
- regulations and requirements arising out of the FCA pricing practices review and changes in customer and market behaviours and practices arising out of that review and such regulations and requirements;
- 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 and of regulator expectations, interventions and requirements and of court, arbitration, regulatory or ombudsman decisions and judgements (including in any of the foregoing in connection with the Covid-19 pandemic) in the jurisdictions in which the Group and its affiliates operate.

In addition, even if the Group's actual results of operations, financial condition and the development of the business sector in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

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

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