

## Strategic report

For the year ended 31 December 2019

### Solvency capital ratio<sup>1</sup> (%)

<i>Definition</i> - 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.	<b>2019:</b>	<b>145%</b>
<i>Aim</i> - The Company seeks to hold capital resources such that in the normal course of business, the Solvency II capital coverage ratio is maintained at a minimum threshold of 125% of its SCR.	<b>2018:</b>	<b>165%</b>

Note:

1. Estimates based on the Company's Solvency II partial internal model.

### Customer complaints (%)

<i>Definition</i> - The number of complaints received during the year as a proportion of the average number of in-force policies.	<b>2019:</b>	<b>0.63%</b>
<i>Aim</i> - This measure indicates the level of customer service we provide. The Company aims to improve this over time.	<b>2018:</b>	<b>0.77%</b>

### Net promoter score<sup>1</sup> (points)

<i>Definition</i> - 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.	<b>2019:</b>	<b>155.0</b>
<i>Aim</i> - The launch of the Company's customer experience strategy, along with a new transactional feedback tool and improved propositions have increased the Company's overall brand score.	<b>2018:</b>	<b>145.6</b>

Note:

1. On an aggregated 12-month rolling basis.

### Financial performance

The Company's financial performance is presented in the profit and loss account on page 16 and statement of comprehensive income on page 17.

Gross premiums written of £3,203.1 million (2018: £3,212.0 million) decreased by 0.3% as modest reductions in Motor and Home were offset by growth in Rescue and other personal lines and Commercial.

Prior-year reserve releases decreased this year but continued to be significant at £294.0 million (2018: £404.0 million) and were equivalent to 9.8% 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 reduce further in future years, although they are expected to remain a significant contribution to profits.

The Company's combined operating ratio increased by one percentage point to 95% (2018: 94%), with the loss ratio remaining constant whilst the expense and commission ratios increased.

The Company's technical result reduced by £50.0 million to £141.8 million (2018 restated: £191.8 million), mainly due to lower prior-year reserve releases of £110.0 million offset by decreased major weather-related claims of £6 million, as the the major freeze event in Q1 2018 was not repeated (2018: £75 million major weather-related claims).

Profit on ordinary activities before taxation reduced by £53.4 million to £369.5 million (2018 restated: £422.9 million) mainly as a result of reductions in the technical result.

Investment income decreased by £13.6 million to £143.3 million (2018: £156.9 million). This was due, primarily as a result of lower assets under management. Other income decreased by £4.7 million to £134.8 million (2018: £139.5 million) as a result of lower instalment income.

At the end of the year, the balance sheet reflected total assets of £8,224.7 million (2018 restated: £8,374.7 million) and total equity was £1,945.1 million (2018 restated: £1,659.6 million).

### Dividends

Dividends of £98.0 million were paid during the year (2018: £405.0 million). The Directors have declared a second interim dividend of £300.0 million (2018: £nil).

### Debt repurchase

On 7 March 2019 the Company repaid £250 million of its subordinated debt to its parent, Direct Line Insurance Group plc.