



2019 Half Year Results



Privilege[®]



Darwin[®]



Today's agenda



CEO Strategic update – Penny James



Financial highlights – Neil Manser



Closing remarks – Penny James

Strategic update

Penny James, CEO

On track to meet our targets and great progress on transformation

We've delivered good results due to diverse business and disciplined underwriting...



Maintained underwriting discipline; delivered a combined operating ratio of 92.5%



Operating expenses reduced to lowest level since H1 2015



Good operating profit of £274m and annualised return on tangible equity of 20.9%



Dividend growth and strong solvency of 180%



Re-iterating our full year targets

...while transforming the business for the future



Made great strides towards IT transformation



Focused on improving efficiency, pace of deployment and flexibility



Priority to evolve to take full advantage of our new systems

Combining our distinctive strengths with new capabilities



Giving customers peace of mind



Building a better business: Technology is a key enabler across all our brands and channels

Better for customers



Improved sales and service
Greater pricing accuracy
Brilliant claims experience



Privilege.

Darwin.

GreenFlag
No Matter What

direct line
for business



DLG PARTNERSHIPS

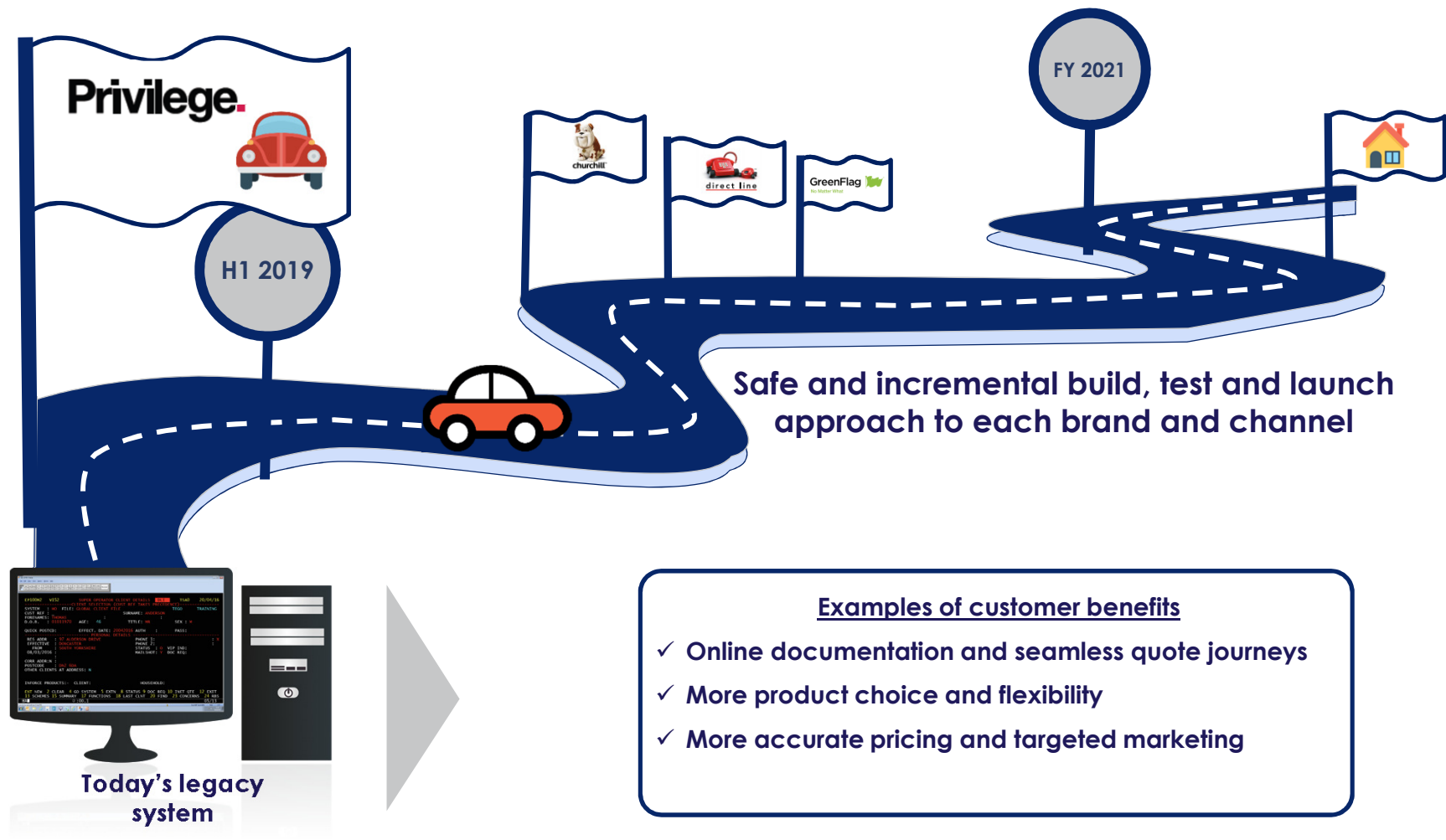
Motor & Home	Motor	Rescue	SME & Micro	Comm'l	Travel
Multi-year roll-out underway	Launched in 2019	Building	Launched and building more products	Launched in 2019 with more products to follow	Launched in 2019
New customer service and back office support tools	New brand, new pricing model, new operating model	New set of customer systems under construction	New platform	New pricing and under-writing tools	New end to end digital platform
New pricing engine					
Finance transformation				Building	
Claims transformation				Building	
Technology transformation				Building	

Benefits

- ✓ More efficient
- ✓ Lower cost
- ✓ Faster, more accurate pricing
- ✓ Faster and cheaper cost of change
- ✓ Better MI and data insight
- ✓ Improved fraud detection

New Motor and Home platform aims to deliver step-change in customer experience

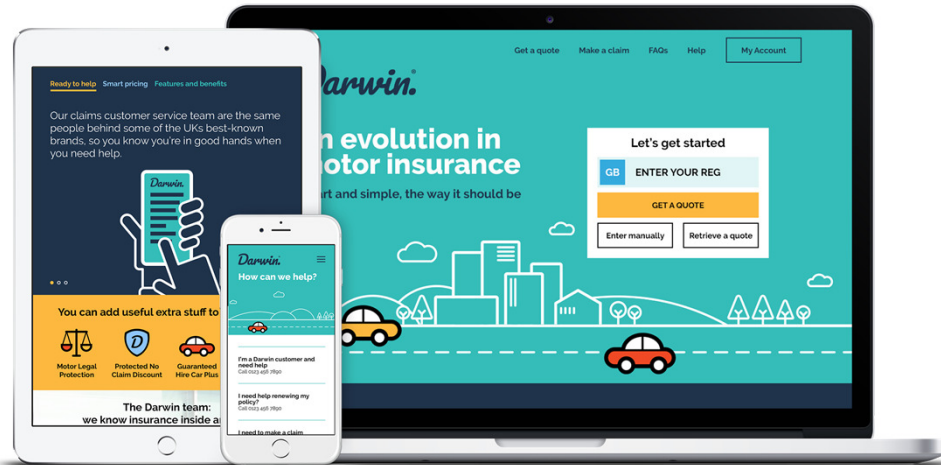
We've launched a set of customer and back office support tools, all integrated with a modern platform and served by cloud based data centres



Darwin. : providing another opportunity to become as strong in PCW as we are in direct

Darwin.[®]

We used our scale, experience and expertise, alongside the latest digital techniques, and pulled together a small team of data scientists and engineers with our traditional functions to build Darwin.



- 1 Machine learning driven pricing
- 2 Engineering assembly line
- 3 Cost-advantaged operating model
- 4 PCW-optimised customer proposition
- 5 Business as a collection of experiments
- 6 New culture and ways of working

Advanced insurance pricing system

Built from scratch to deployment in hours

Efficient operating model with variable cost base

Fully self serve

Velocity as competitive advantage

Self-organising two-pizza team

Technology is helping us evolve our partnership proposition

We've transformed our travel systems



We've rolled out a brand new automated policy and claims Travel insurance platform to RBS NatWest and Ulster bank packaged account holders

1.6 million customers migrated on to new system

Fully automated customer claims being paid

"It was really easy to download and scan through the documents I need to submit. So simple – even I could use it!"

"It is really helpful that I can see the progress of my claim online – saves me having to call into your office"

Our API capabilities are opening new opportunities



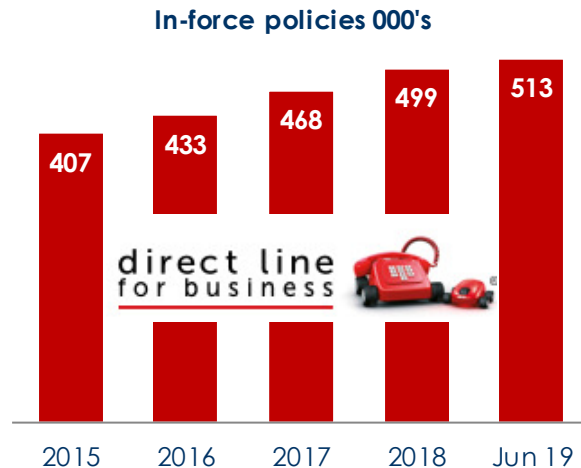
Starling is 100% digital – no branches, it's all done online

Churchill Home Insurance available through the in-app marketplace

API capabilities to pre-populate quotes using customers' banking data

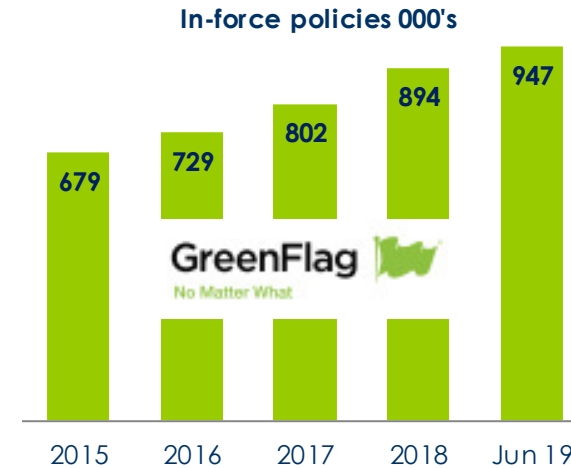
Direct growth through agile transformation: Green Flag and Direct Line for Business

Direct Line for Business: Creating and capturing the SME market



- New state of the art system that gives small and micro business owners the confidence to come direct
- Doubled the number of customers on the new platform in H1
- Continued enhancement of existing products and new releases planned

Green Flag: Mobilising value creation plan



- 2 years into 5 year value creation plan
- Centre of excellence with multi-skilled team
- Multiple operational improvements deployed and new systems in train

Join us at our Doncaster office for our first capital markets day

Doncaster, 21st November 2019



Financial highlights

Neil Manser, Interim CFO

H1 2019 key messages: Good financial results, on track to meet targets



Disciplined underwriting in Motor and Home



Operating expenses reduced to lowest level since H1 2015



Good operating profit of £274m with strong contribution from Home, Rescue and Commercial



Diversification supporting growth in own brand policy count



Dividend growth and strong solvency of 180%

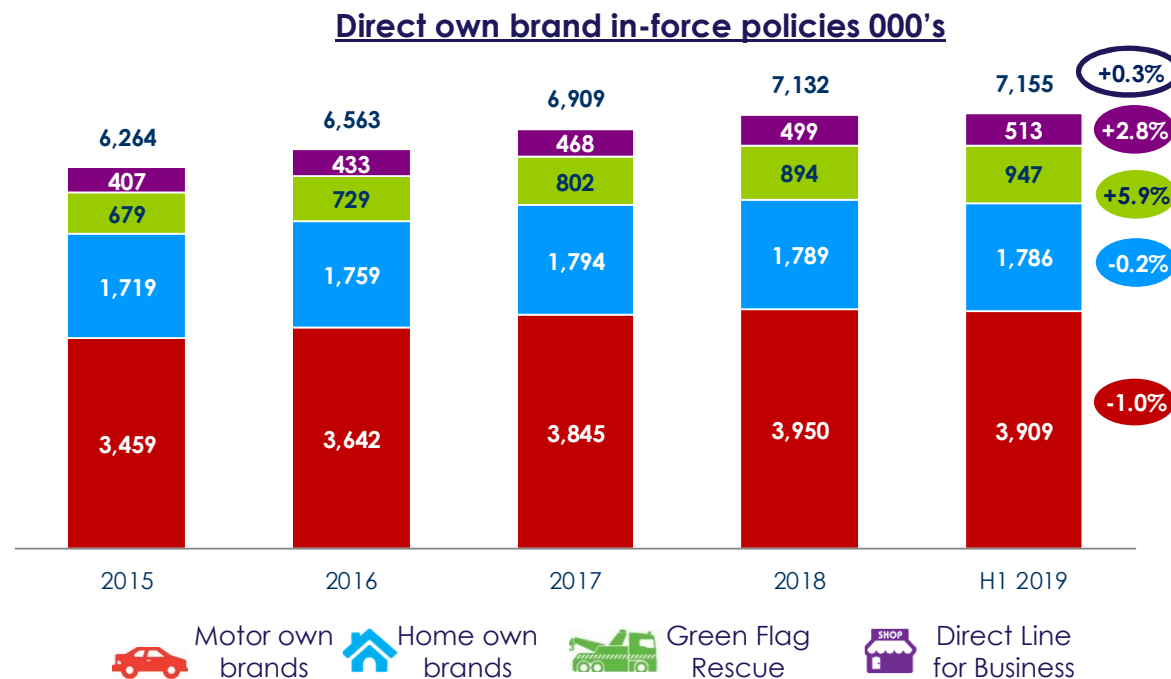
H1 2019 results reflect discipline in highly competitive markets

Group results (£m)	H1 2018	H1 2019	Change
Gross written premium	1,610.3	1,575.1	(2.2%)
<i>Of which direct own brands</i>	<i>1,099.0</i>	<i>1,072.2</i>	<i>(2.4%)</i>
Underwriting profit	111.0	110.6	(0.4%)
Instalment and other income	99.1	88.0	(11.2%)
Investment return	95.4	75.7	(20.6%)
Operating profit	305.5	274.3	(10.2%)
Finance costs	(12.7)	(13.0)	(2.4%)
Profit before tax	292.8	261.3	(10.8%)
Profit after tax	238.0	211.8	(11.0%)
Combined operating ratio	92.9%	92.5%	0.4pts
<i>COR normalised for weather</i>	<i>90.7%</i>	<i>94.6%</i>	<i>(3.9pts)</i>
RoTE (annualised)	21.9%	20.9%	(1.0pts)

- Gross written premiums 2.2% lower; lower premiums in Motor were partially offset by growth in Rescue and Commercial, Home was flat
- Operating profit £31m lower primarily due to reversal of the exceptional motor performance in the prior year and lower investment returns partially offset by lower weather claims and operating expenses
- Combined operating ratio of 92.5%, COR normalised for weather of 94.6%, within the target range
- RoTE of 20.9%, ahead of the long-term target of 15.0%

Significant items (£m)	H1 2018	H1 2019
Major weather claims costs	(75)	-
Bristol office – gain on sale	10	-
Investment gains ex hedging	31	12
Ogden rate change to -0.25%	-	(17)
Total	(34)	(5)

Steady direct own brands policy growth reflects benefits of diversification



- Small reduction in Motor own brands and stable Home own brands reflects disciplined underwriting in competitive markets
- Green Flag grew 5.9% year to date and on track to pass 1million customers by the end of the year
- Direct Line for Business grew to over half a million policies with volumes on new SME platform more than doubling

Group in-force policies

30 June 2019 vs. 31 Dec 2018	
Direct own brands	+0.3%
Motor and Home Partners	-2.9%
Other RoPL	-2.9%
NIG and other	-2.0%
Total Group	-1.3%

- Policy count continued to reduce in Motor and Home following partner exits
- Reduction in Other RoPL due to lower packaged bank account volumes
- NIG and other policy count reflects focus on improving margins



Motor: Trading to target loss ratios in a highly competitive market

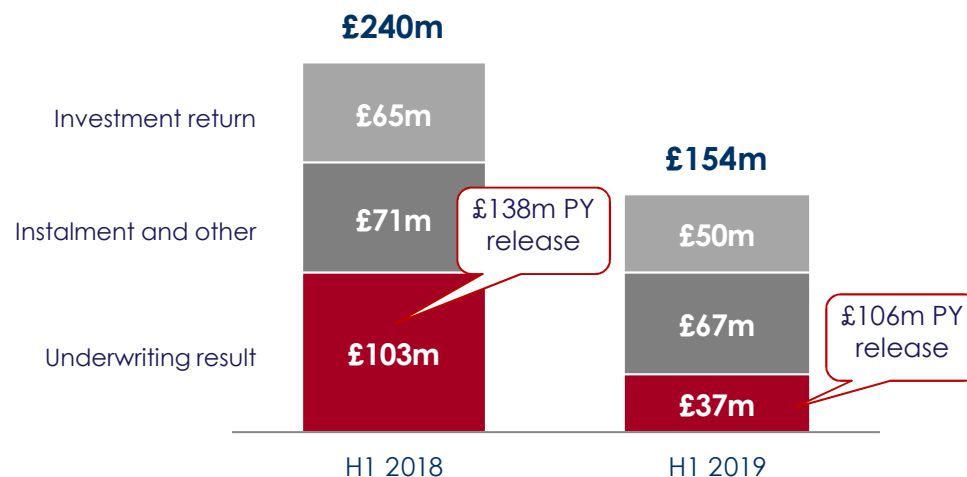
Ratios

Total Motor	H1 2018	H1 2019
Current year loss ratio	78.5%	83.4%
Prior year ratio	(18.0%)	(14.2%)
Loss ratio	60.5%	69.2%
Commission ratio	1.8%	2.5%
Expense ratio	24.2%	23.4%
COR	86.5%	95.1%

Trading metrics

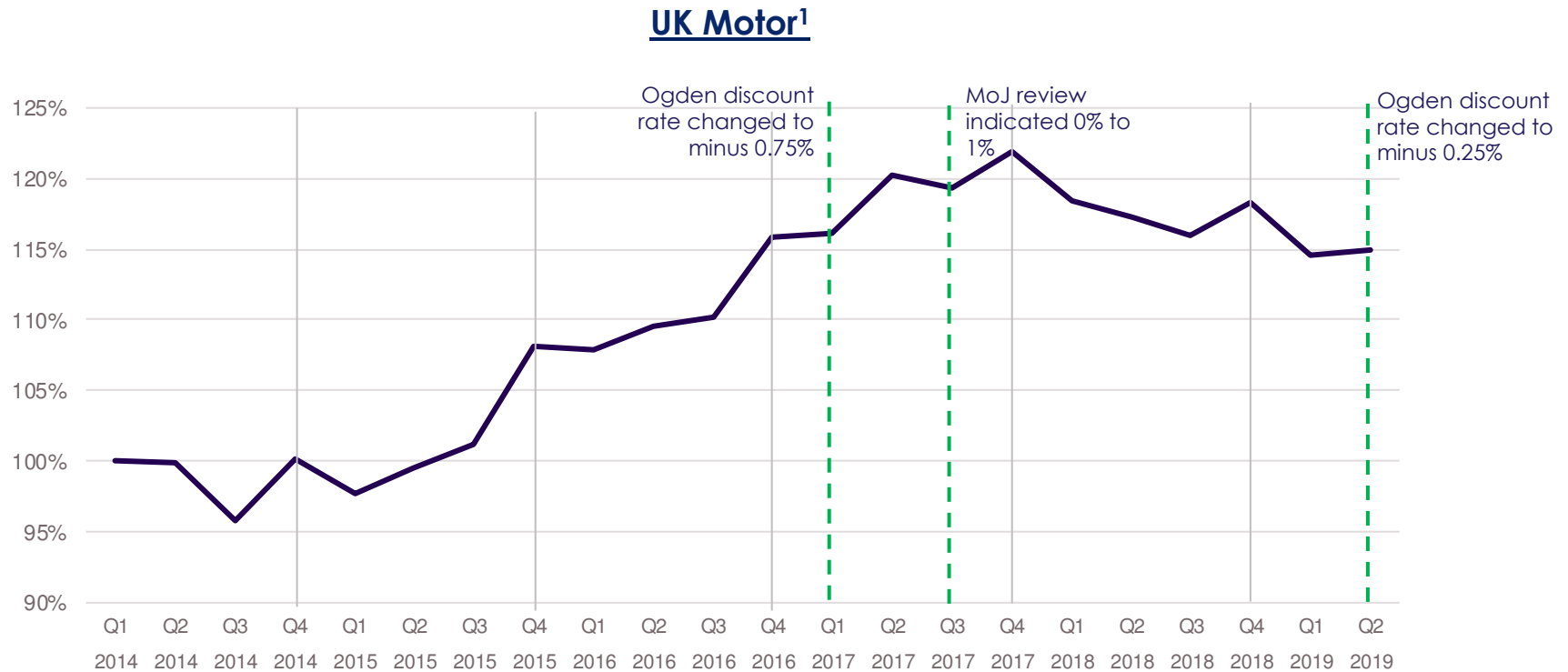
Total Motor	H1 2018	H1 2019
Change in GWP	+1.9%	-4.7%
Change in price	+2.9%	+2.2%
Change in risk mix	-1.8%	-4.2%
Change in IFPs (since FY)	+0.7%	-1.3%

Motor operating profit



- Operating profit of £154m reflects reversal of exceptional performance in H1 2018
- Prior year releases remained significant, the £32m reduction versus H1 2018 includes £16m for the move to minus 0.25% Ogden discount rate
- Written premiums 4.7% lower and IFPs 1.3% lower in highly competitive market. Actions taken to identify pockets of value
- Underlying claims inflation at the top end of the long-term range of 3% to 5%
- Pricing actions including application fraud and proposition changes helped IFP growth at lower average premium

Motor market: Not pricing claims inflation



DLG approach

Prioritise target loss ratio over volume

Invest in the business with the aim of delivering benefits on cost and underwriting

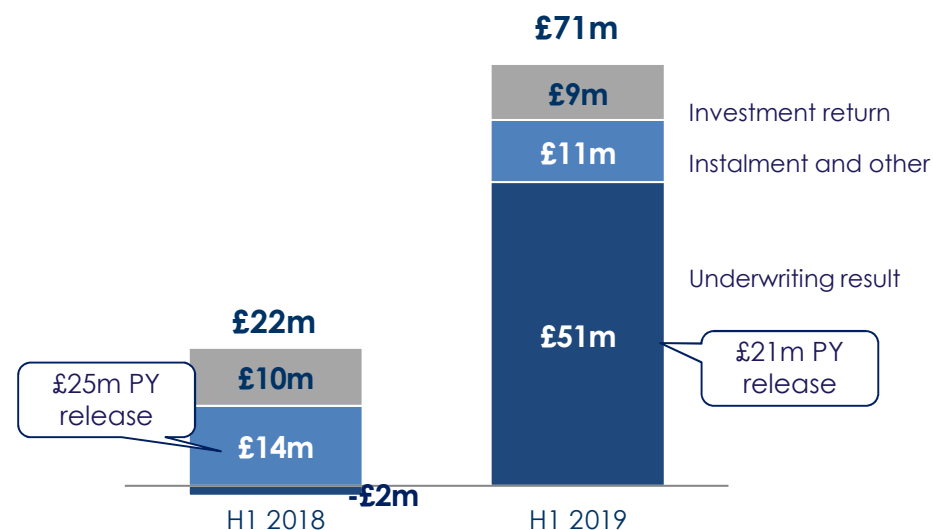


Home: Benign weather conditions, normalised COR improved

Ratios

Total Home	H1 2018	H1 2019
Current year attritional loss ratio	53.3%	55.3%
Major weather	18.4%	n/a
Prior year ratio	(7.0%)	(7.2%)
Loss ratio	64.7%	48.1%
Commission ratio	10.7%	7.6%
Expense ratio	25.0%	26.5%
COR	100.4%	82.2%
COR normalised for weather	c. 91%	c. 89%

Home operating profit



Trading metrics

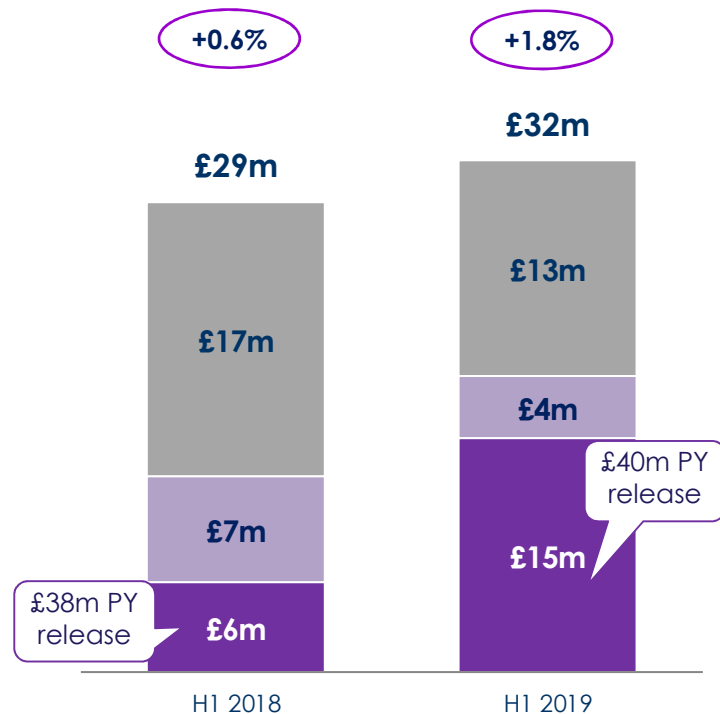
Home own brands	H1 2018	H1 2019
Change in GWP	+0.6%	-0.4%
Change in price	+4.7%	+1.5%
Change in risk mix	-4.7%	-2.4%
Change in IFPs (since FY)	-0.1%	-0.2%

- Operating profit increased due to no major weather claims in H1 2019 (£65m in H1 2018)
- COR normalised for weather improved by c. 2ppts to c. 89%
- Recent claims experience better than long term 3% to 5% range
- Targeted growth in PCW channel and strong retention



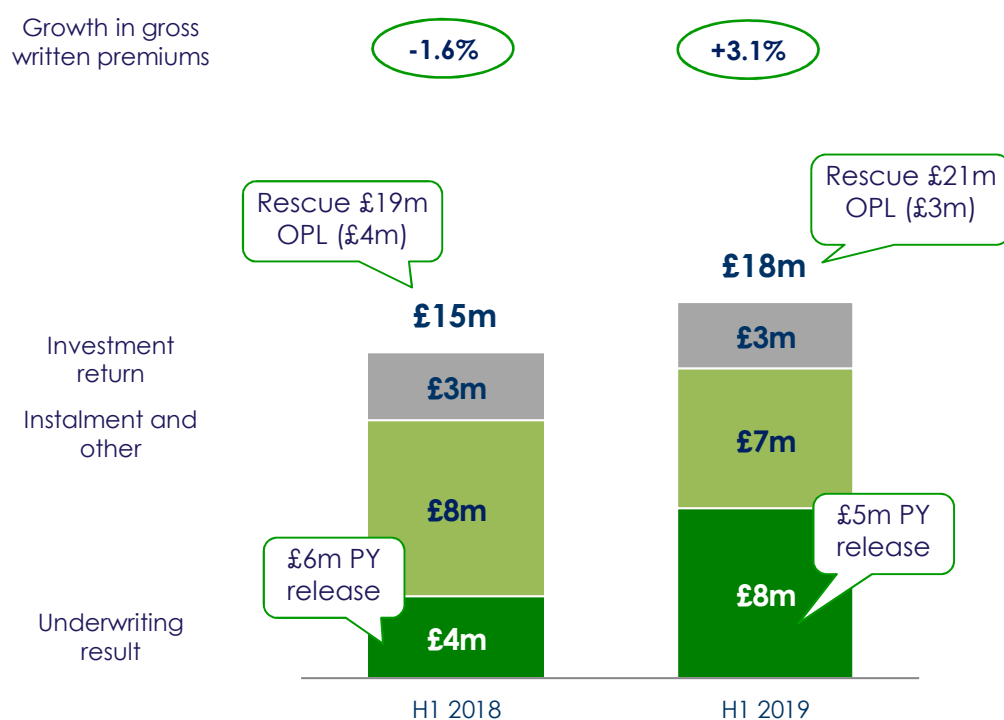
Commercial and RoPL: Growing contribution

Commercial operating profit



- Higher operating profit due to no major weather claims (£10m in H1 2018) offset by lower investment return and other income
- COR of 93.8%, 4ppts better than H1 2018; current year attritional loss ratio 1ppt better reflecting pricing initiatives
- Strong rate carry of 6% in H1 2019

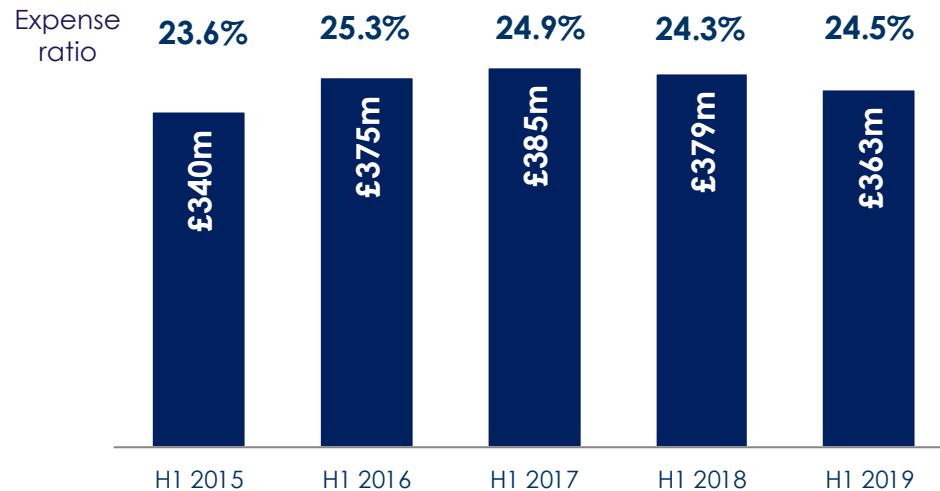
Rescue and other personal lines operating profit



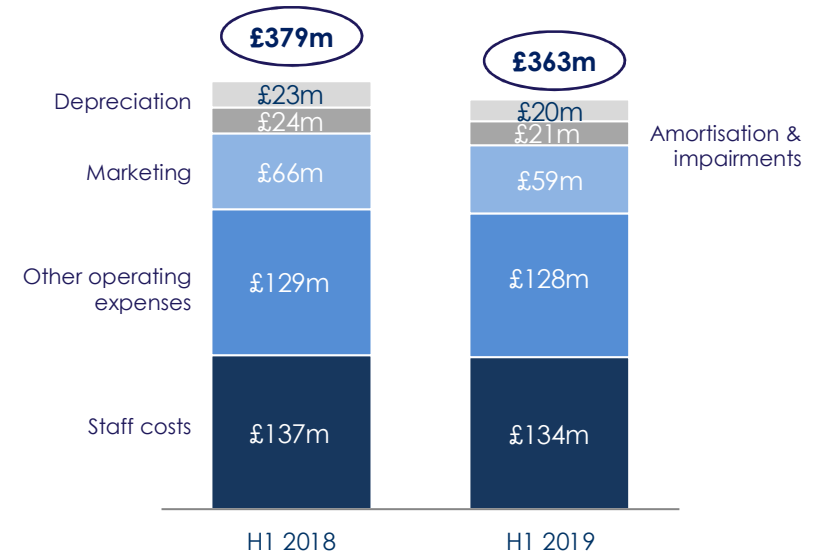
- £3m increase in RoPL operating profit
- Rescue profit improved due to combination of Green Flag growth earning through as well as better weather
- Other personal lines result reflects better claims experience

Group: Lowest operating expenses since H1 2015

Operating expenses

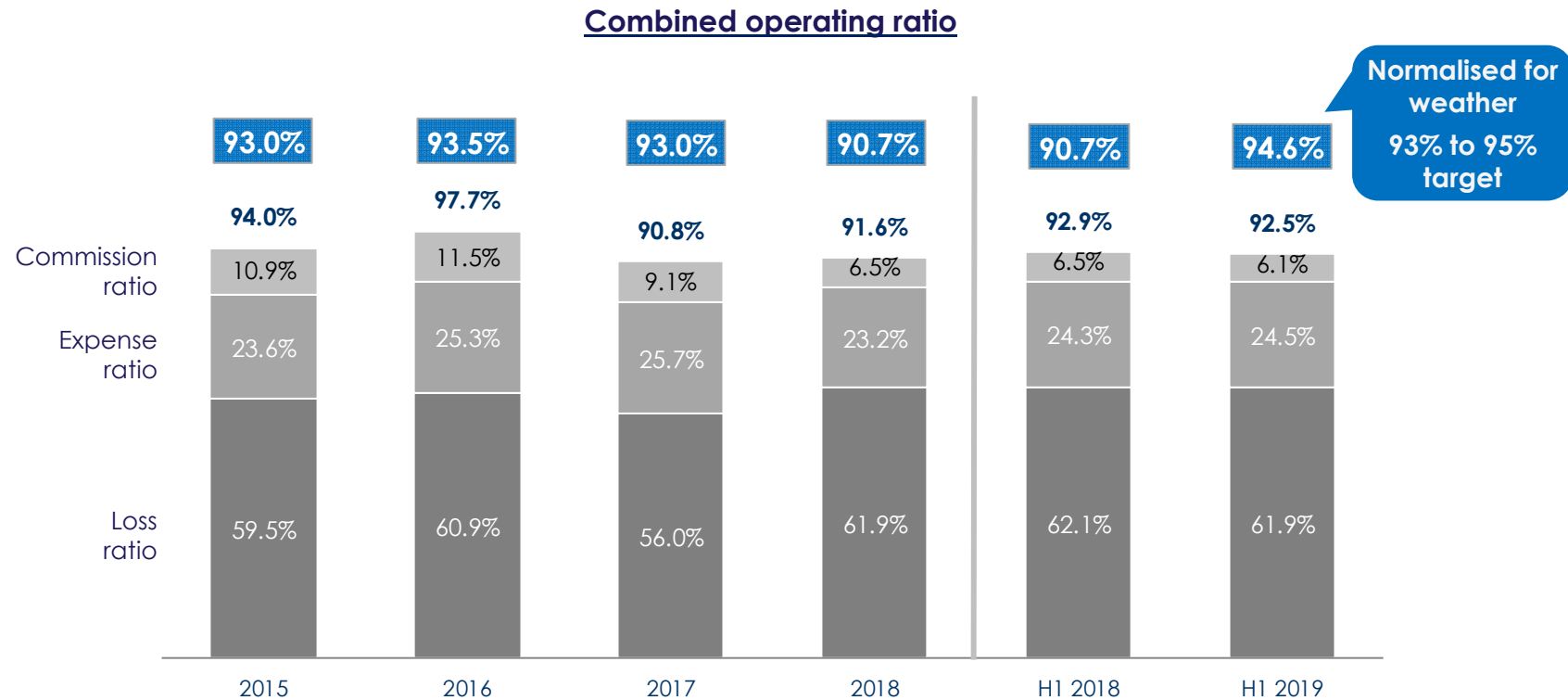


Operating expenses by category



- Operating expenses of £363m were £16m lower than prior year and the lowest since H1 2015
- Over 90 cost initiatives in train
- Expense ratio of 24.5% was broadly flat as lower costs were offset by lower earned premiums
- On track to reduce operating expenses to below £700m in 2019

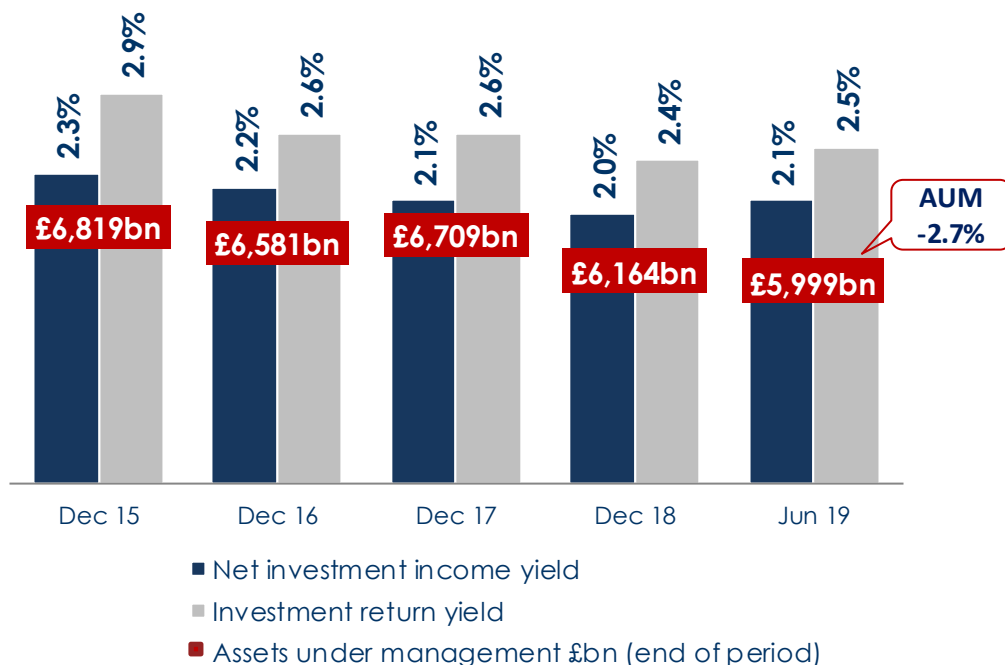
Group: COR within the 93% to 95% target range despite Ogden



- **Headline COR of 92.5% benefits from benign weather to date**
- **Normalised COR of 94.6% includes 1.1ppts in relation to Ogden reserve increase**
- **Maintain medium term target of normalised COR between 93% and 95%**

Group: Investment yield and gains in line with 2019 expectations

Group yields and assets under management

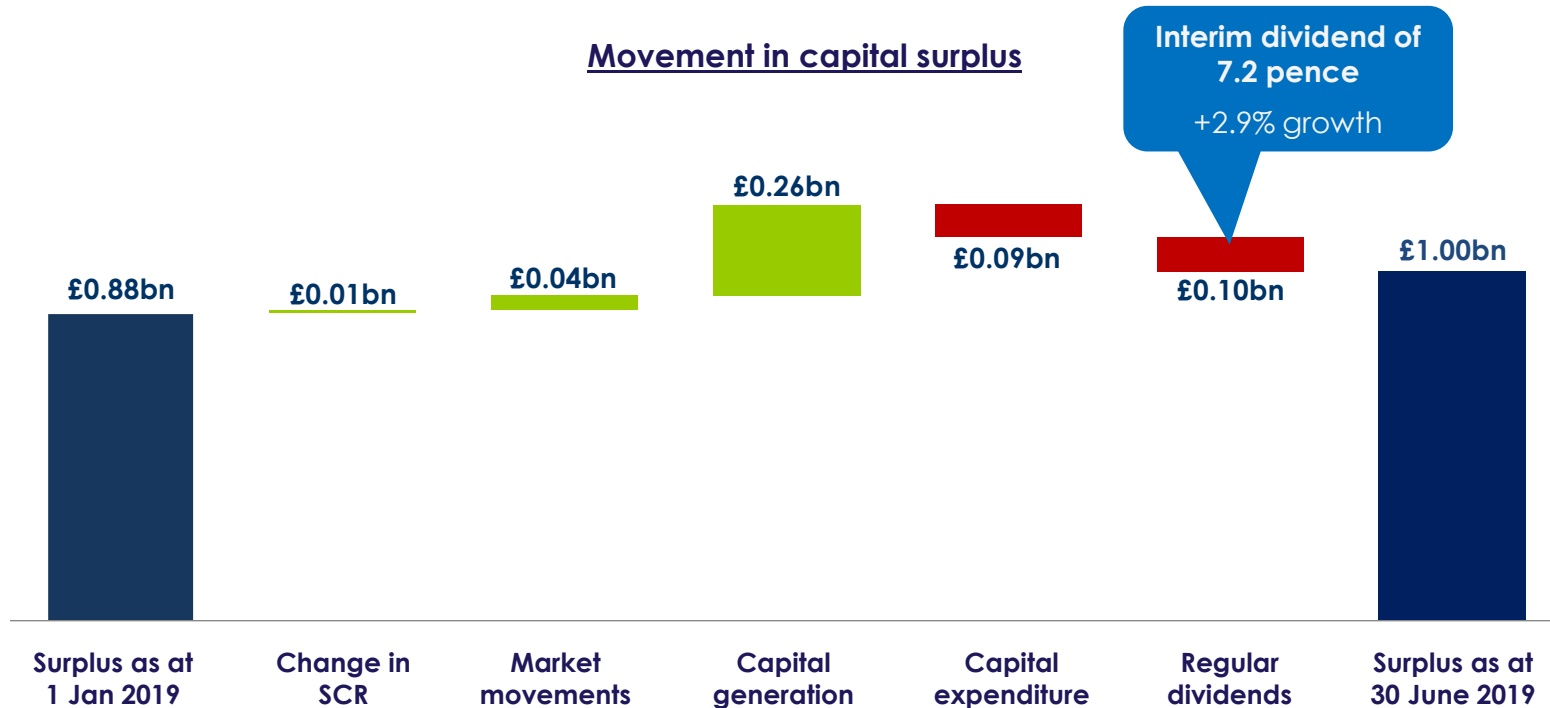


Group investment returns, £m

Profit and Loss	H1 2018	H1 2019
Investment income	79.6	75.4
Hedging to sterling floating rate	(14.7)	(12.1)
Net investment income	64.9	63.3
Net realised and unrealised gains excluding hedging	30.5	12.4
Of which property gains	12.1	0.7
Total investment return	95.4	75.7
Balance sheet	31 Dec 18	30 Jun 19
Available for sale reserve	(36.8)	27.3

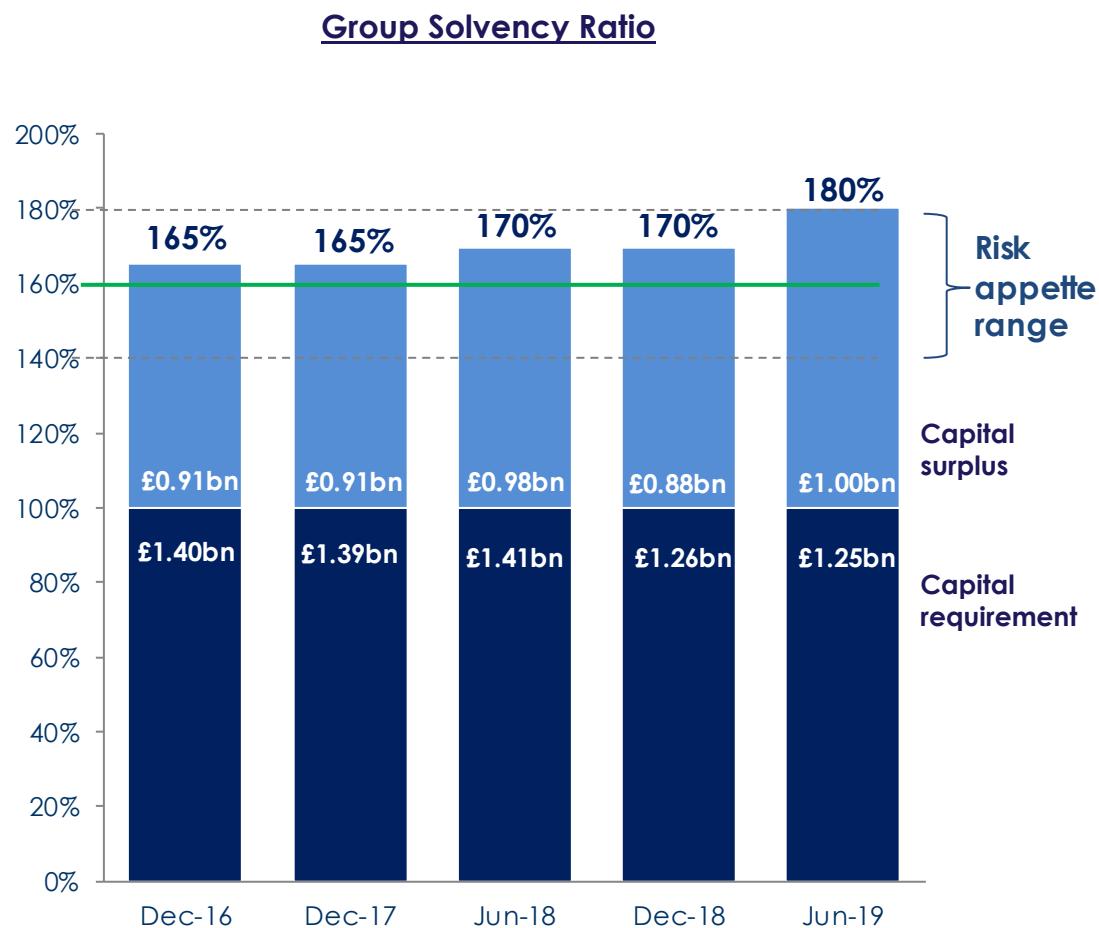
- Total investment return was £19.7m lower than prior year
- Net income yield of 2.1%, a little ahead of management expectations due to lower hedging costs
- Gains of £12m in H1 2019 were largely the result of portfolio restructuring from consolidating mandates
- Strong mark to market on credit portfolio increased unrealised gain on AFS reserve to £27m (31 Dec 18: £37m loss)

Group: Capital generation bolstered by credit markets; capital expenditure in line with target



- Surplus capital increased to £1.00bn
- Reduction in capital requirement from changes to business exposure
- Positive credit market movements from reduction in credit spreads since year end
- Capital generation of £0.26bn, broadly consistent with IFRS profit
- Capital expenditure of £90m; full year guidance of £175m, supporting the Group's transformation programme





Group: Strong solvency coverage at top end of risk appetite range



Capital considerations

- Solvency coverage post dividends improved to 180% from 170% due to strong capital generation and positive market movements in H1
- Continue to hold buffer to reflect heightened political and economic uncertainty
- No change to expectations to operate in middle of risk appetite range in normal conditions
- Use of share buyback to be considered if conditions appropriate

On track to achieve 2019 financial targets

Targets	Combined operating ratio		Between 93% and 95%, normalised for weather
	Operating expenses		Less than £700m
Management expectations	Investment return		Net income yield expected to be stable at 2.0% with no gains in H2 2019
	Capital expenditure		Approximately £175m

Ongoing ambition: Sustainable growth and at least 15% RoTE

Closing remarks

Penny James, CEO

Key messages

1

Long term focus and discipline with the aim of driving sustainable returns

2

Our diverse business model has delivered another good set of results

3

On track with our operational change agenda and moving towards faster and more flexible ways of working

4

Clear management plans to deliver a material change in efficiency through business transformation – more details at the capital markets day

Appendix

Notes to financial disclosures

1. Results for the period ended 30 June 2018 and the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 24 in the condensed consolidated financial statements
2. Results for the period ended 30 June 2019 are based on Total Group operations including restructuring costs and the Run-off segment. 2018 was reported on the same basis and 2017 comparative data has been re-presented accordingly to include restructuring costs and Run-off profits within the Motor segment
3. Direct own brands include in-force policies for Home and Motor under the Direct Line, Churchill and Privilege brands, Rescue policies under the Green Flag brand and Commercial policies under the Direct Line for Business brand
4. The Group's dividend policy includes an expectation 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 the following year
5. Solvency capital is estimated based on the Group's Solvency II partial internal model
6. Ogden discount rate of minus 0.25% was announced on 15 July 2019, with effect from 5 August 2019

Motor

(£m unless stated)		H1 2019	H1 2018
In-force policies (000s)	1	4,042	4,049
Own brand in-force policies (000s)		3,909	3,894
Partnerships in-force policies (000s)		133	155
Gross written premium	2	800.5	839.8
Net earned premium		749.6	765.8
Loss ratio – current year	3	83.4%	78.5%
Loss ratio – prior years		(14.2%)	(18.0%)
Loss ratio		69.2%	60.5%
Commission ratio		2.5%	1.8%
Expense ratio		23.4%	24.2%
Combined operating ratio		95.1%	86.5%
Underwriting profit		36.9	103.3
Of which prior year releases	4	106.1	137.7
Instalment and other income	5	67.0	70.8
Investment return		49.9	65.4
Operating profit		153.8	239.5

- 1 Policy count broadly stable while gross written premium fell 4.7%
- 2 Reduction in gross written premium reflects lower new business volumes and lower average premiums
- 3 Increase in current year loss ratio reflects return to more normal levels after exceptional Motor performance in H1 2018 which benefitted from the earn through of the strong margins achieved in 2017
- 4 Prior year releases were £32m lower, of which £16m was due to the change to the Ogden discount rate to minus 0.25%
- 5 Instalment and other income lower due to non repeat of property sales and lower premiums

Home

(£m unless stated)		H1 2019	H1 2018
In-force policies (000s)	1	2,630	2,943
Own brand in-force policies (000s)		1,786	1,793
Partnerships in-force policies (000s)		795	815
Nationwide and Sainsbury's (000s)		49	335
Gross written premium		283.3	290.7
Net earned premium		288.0	354.6
Loss ratio – current year attritional	2	55.3%	53.3%
Major weather		0.0%	18.4%
Loss ratio – current year incl. weather		55.3%	71.7%
Loss ratio – prior years		(7.2%)	(7.0%)
Loss ratio		48.1%	64.7%
Commission ratio		7.6%	10.7%
Expense ratio		26.5%	25.0%
Combined operating ratio	3	82.2%	100.4%
<i>Normalised for weather</i>	4	c.89%	c.91%
Underwriting profit		51.2	(1.7)
<i>Of which prior year releases</i>		20.7	24.7
Instalment and other income		10.6	13.5
Investment return		9.3	9.7
Operating profit		71.1	21.5

- 1 Own brand policy count broadly stable. Partner volumes were lower mainly due to exits
- 2 Current year attritional loss ratio increased due to distribution mix and was more than offset by a reduction in the commission ratio
- 3 No major weather claims costs in H1 2019 versus £65m in H1 2018. 2019 normal weather assumed to be £45m for the full year
- 4 COR normalised for weather was 2ppts better than prior year

Rescue and other personal lines

Rescue and other personal lines (£m)	H1 2019	H1 2018
In-force policies (000s)	7,394	7,604
Gross written premium	216.5	209.9
Net earned premium	209.5	205.5
Combined operating ratio ¹	96.2%	98.1%
Underwriting profit	7.9	3.8
<i>Of which prior year releases</i>	5.3	5.7
Operating profit	17.5	15.2

- ¹ Other personal lines COR improvement driven by better claims experience in Rescue and in Home mid-to high-net-worth

Rescue (£m unless stated)	H1 2019	H1 2018
In-force policies (000s)	3,427	3,537
Gross written premium ¹	82.9	80.1
Combined operating ratio ²	83.1%	85.8%
Operating profit	20.8	19.2

- ¹ Gross written premium growth driven by Green Flag; higher volumes and levels of cover
- ² Improvement in COR and operating profit reflects benign weather in H1 2019

Commercial

(£m unless stated)		H1 2019	H1 2018
In-force policies (000s)	1	764	730
Direct Line for Business		513	485
NIG and other		251	245
Gross written premium		274.8	269.9
Net earned premium		235.5	233.7
Loss ratio – current year attritional	2	67.5%	68.2%
Major weather	3	0.0%	4.3%
Loss ratio – current year incl weather		67.5%	72.5%
Loss ratio – prior years		(16.8%)	(16.5%)
Loss ratio		50.7%	56.0%
Commission ratio		17.5%	17.5%
Expense ratio		25.6%	24.1%
Combined operating ratio	4	93.8%	97.6%
Underwriting profit		14.6	5.6
<i>Of which prior year releases</i>		39.5	38.4
Instalment and other income		3.9	6.6
Investment return		13.4	17.1
Operating profit		31.9	29.3

- 1 Policy count growth in both DL4B and NIG and other
- 2 Current year attritional loss ratio improvement driven by focus on value in NIG
- 3 No major weather claims costs in H1 2019 versus £10m in H1 2018. 2019 weather assumed to be £20m for the full year
- 4 COR improvement driven by lower loss ratio

Investments

Total Group 30 June 2019	Target allocation	Current holding	Income yield	Interest rate duration (years)
Investment grade (incl private placements)	68.0%	59.4%	2.4%	2.84
High yield	6.0%	7.0%	5.1%	1.51
Credit	74.0%	66.4%	2.7%	2.70
Sovereign	5.0%	2.4%	1.6%	0.79
Total debt securities	79.0%	68.8%	2.6%	2.64
Infrastructure debt	5.0%	4.7%	2.5%	0.19
Commercial real estate loans	4.0%	3.0%	4.0%	-
Investment property	5.0%	5.4%	5.1%	-
Cash and cash equivalents	7.0%	18.1%	0.8%	0.00
Total	100.0%	100.0%	2.5%	1.82

- 3.3% of total debt securities rated as 'AAA'
- 57.6% of total debt securities rated as 'AA' or 'A'

Reinsurance

Motor excess of loss reinsurance

(£m)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Limit	Unlimited									
Deductible	10	3	3	3 ¹	1 ¹	1	1	1	1 ¹	1

- Cover renewed on 1 January 2019 at lower cost following last year's increase due to the move to -0.75% ODR
- Retained £1m deductible (indexed) with 100% placement at lower levels
- Cover is unlimited in size and has an unlimited amount of cover reinstatements
- Placed 100% on a traditional, uncapitalised basis
- Placed with a panel of reinsurers who are at least 'A+' rated

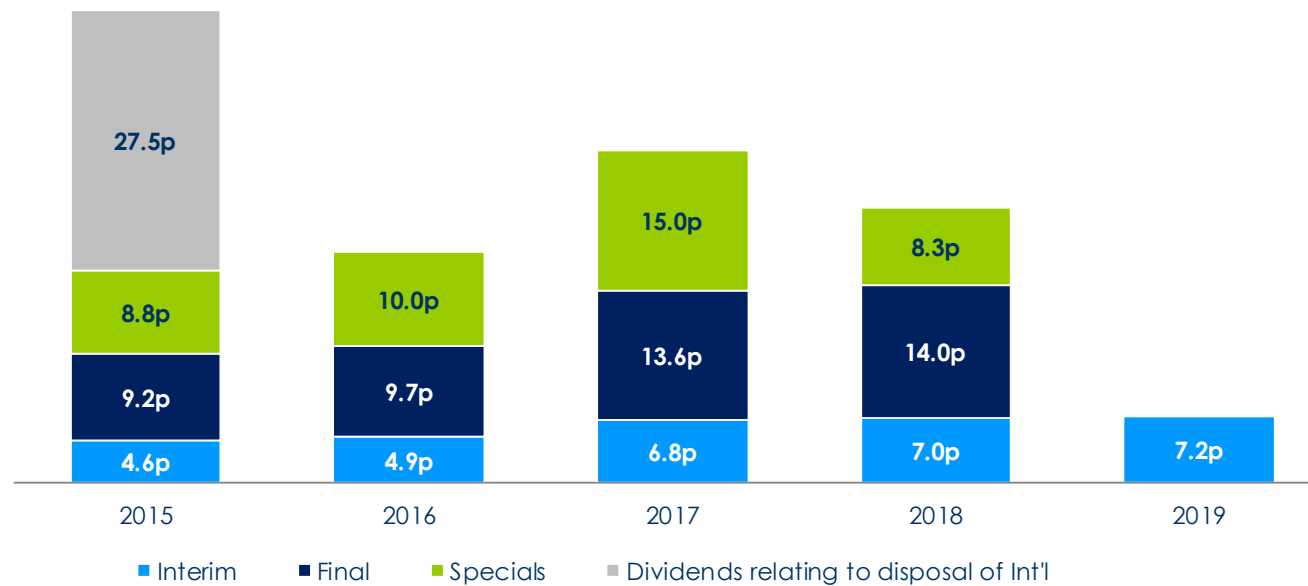
Property catastrophe reinsurance

(£m)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19 ²	2019/20
Limit	1,300	1,400	1,350	1,250	c.1,275	c.1,205	c.1,126
Deductible	150	150	150	150	c.150	c. 139	c.131.70

- Cover renewed on 1 July 2019
- Retained deductible of 15.63% of gross earned premium (c. £131.70m)
- Cover is 133.60% of gross earned premium, (c. £1,126m), equivalent to a modelled 1 in 200 year loss
- Cover has one full reinstatement for all programme and additional reinstatement up to £570m
- Placed with a panel of reinsurers who are all at least 'A-' rated and c.60% placed on 3 year basis (at July 2017) at a fixed price (reinsurance rate online)

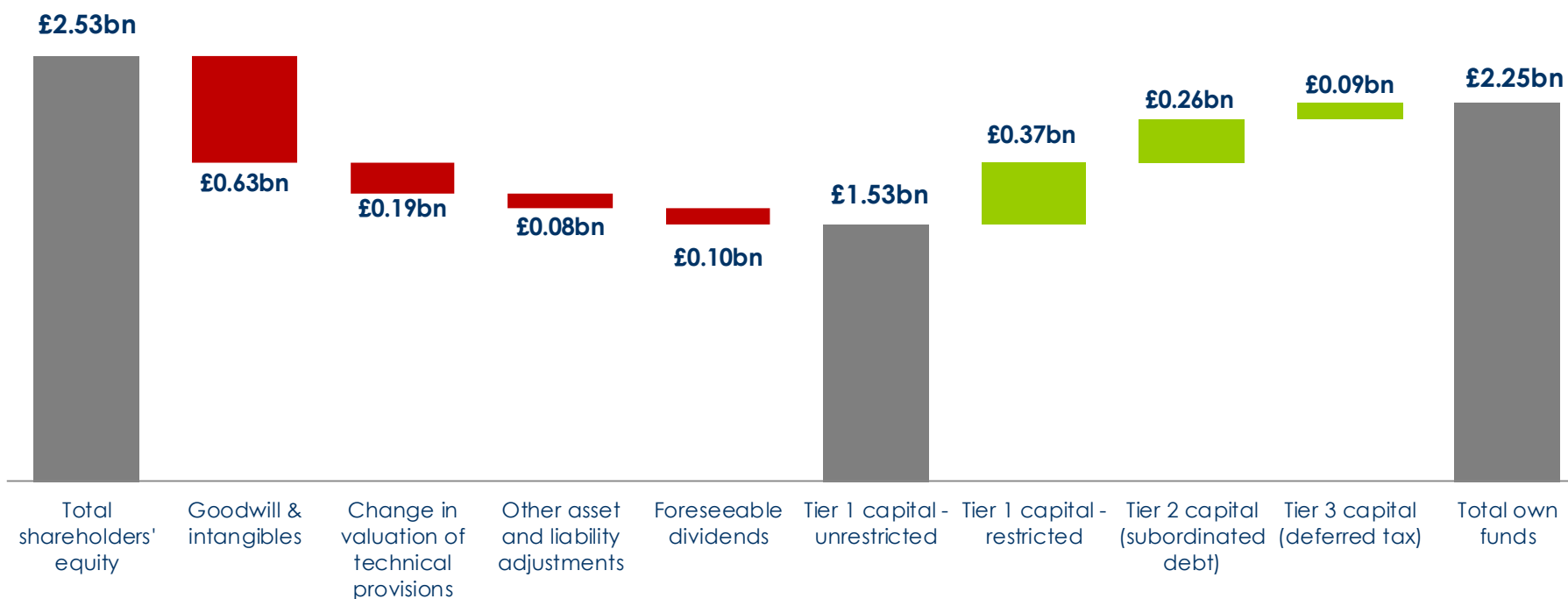
Dividends

Dividends, pence

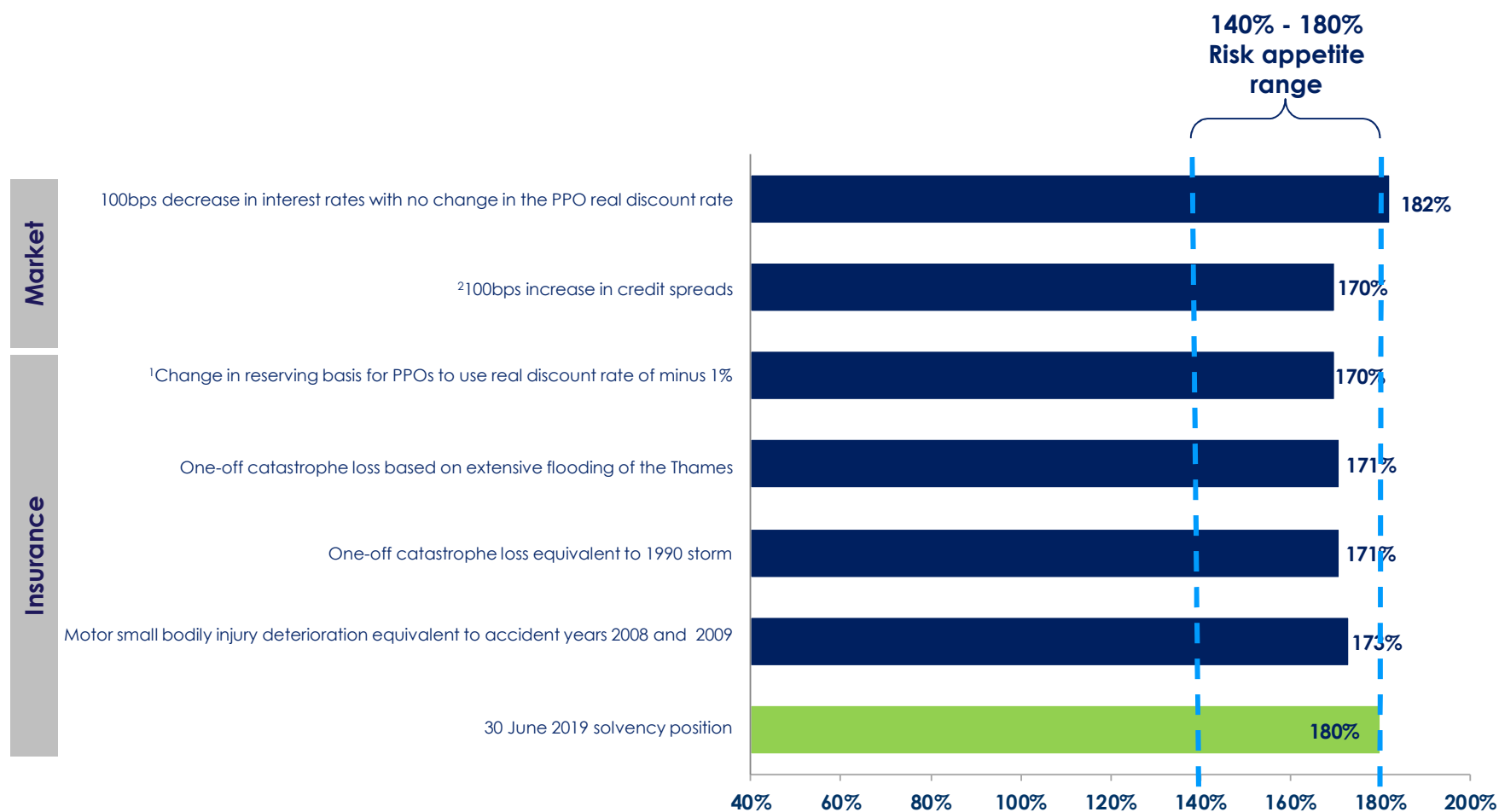


IFRS to Solvency II bridge

Reconciliation of IFRS shareholders' equity to Solvency II own funds

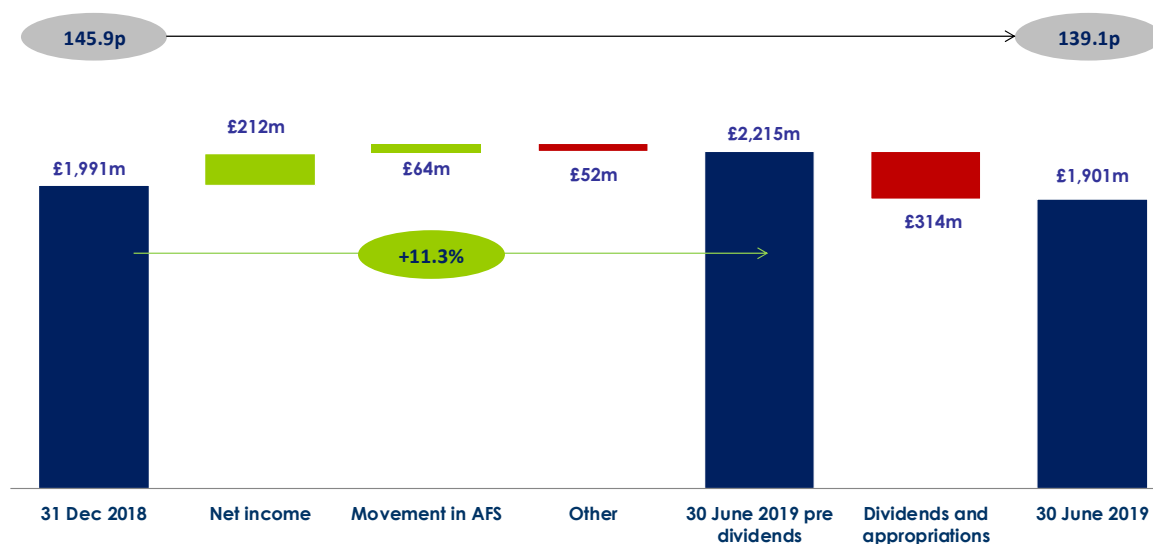


Solvency sensitivity analysis



Book value and TNAV

Movement in tangible net asset value



pence	31 Dec 2018	30 June 2019
Net asset value per share	187.5	185.1
Tangible net asset value per share	145.9	139.1

**Total unrealised AFS reserves of £27.3m
(net of tax) as at 30 June 2019**

RoTE and EPS calculation

RoTE calculation

(£m)	H1 2019	H1 2018
Profit after tax	211.8	238.0
Coupon payments in respect of Tier 1 notes	(8.3)	(8.3)
Adjusted profit after tax (Profit attributable to ordinary shareholders)	203.5	229.7
Tangible equity b/f	1,991.4	2,230.8
Tangible equity c/f	1,901.0	1,968.1
Average tangible equity	1,946.2	2,099.5
Return on tangible equity annualised	20.9%	21.9%

EPS calculation

(£m)	H1 2019	H1 2018
Profit after tax	211.8	238.0
Coupon payments in respect of Tier 1 notes	(8.3)	(8.3)
Profit for calculation of earnings per share (Profit attributable to ordinary shareholders)	203.5	229.7
Weighted average number of ordinary shares	1,366.5	1,366.5
Basic earnings per share (pence)	14.9	16.8
Weighted average number of ordinary shares (diluted)	1,380.9	1,381.0
Diluted earnings per share (pence)	14.7	16.6

Balance sheet summary

(£m unless stated)	31 December 2015	31 December 2016	31 December 2017	31 December 2018 (restated)	30 June 2019 (unaudited)
Goodwill and other intangible assets	524.8	508.9	471.1	566.8	629.3
Financial investments	5,614.6	5,147.0	5,040.4	4,737.8	4,657.6
Cash and cash equivalents	963.7	1,166.1	1,358.6	1,154.4	1,139.6
Assets held for sale	5.1	3.8	4.2	-	-
Reinsurance assets	1,011.4	1,371.8	1,178.5	1,208.7	1,101.2
Other assets	1,837.0	1,924.1	1,895.4	1,867.7	1,902.7
TOTAL ASSETS	9,956.6	10,121.7	9,948.2	9,535.4	9,430.4
Subordinated liabilities	521.1	539.6	264.7	259.5	260.6
Unearned premium reserve	1,476.6	1,547.9	1,600.3	1,505.5	1,490.3
Insurance liabilities	4,524.5	4,666.6	4,225.7	4,005.9	3,784.6
Borrowings	61.3	55.3	54.1	62.0	56.4
Other liabilities	743.1	790.8	741.8	797.8	961.7
TOTAL LIABILITIES	7,326.6	7,600.2	6,886.6	6,630.7	6,553.6
Shareholders' equity	2,630.0	2,521.5	2,715.1	2,558.2	2,530.3
Tier 1 notes	-	-	346.5	346.5	346.5
EQUITY	2,630.0	2,521.5	3,061.6	2,904.7	2876.8
Closing number of Ordinary shares (m)	1,368.7	1,365.1	1,365.1	1,364.6	1,366.9
Net asset value per share (pence)	192.2	184.7	198.9	187.5	185.1
Tangible net asset value per share (pence)	153.8	147.4	164.4	145.9	139.1

Financial summary: H1 2019

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total Group
GWP	800.5	283.3	216.5	274.8	1,575.1
Net earned premium	749.6	288.0	209.5	235.5	1,482.6
Net insurance claims	(518.7)	(138.7)	(141.6)	(119.4)	(918.4)
Commission expenses	(19.0)	(21.9)	(8.5)	(41.2)	(90.6)
Operating expenses	(175.0)	(76.2)	(51.5)	(60.3)	(363.0)
Underwriting profit	36.9	51.2	7.9	14.6	110.6
Investment return	49.9	9.3	3.1	13.4	75.7
Instalment and other operating income	67.0	10.6	6.5	3.9	88.0
Operating profit	153.8	71.1	17.5	31.9	274.3
Finance costs	-	-	-	-	(13.0)
Profit before tax	-	-	-	-	261.3
Tax	-	-	-	-	(49.5)
Profit after tax	-	-	-	-	211.8
Loss ratio – current year	83.4%	55.3%	70.1%	67.5%	73.5%
Loss ratio – prior year	(14.2%)	(7.2%)	(2.5%)	(16.8%)	(11.6%)
Commission ratio	2.5%	7.6%	4.1%	17.5%	6.1%
Expense ratio	23.4%	26.5%	24.5%	25.6%	24.5%
Combined operating ratio	95.1%	82.2%	96.2%	93.8%	92.5%

Financial summary: H1 2018 (restated)

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total Group
GWP	839.8	290.7	209.9	269.9	1,610.3
Net earned premium	765.8	354.6	205.5	233.7	1,559.6
Net insurance claims	(463.3)	(229.4)	(144.7)	(130.9)	(968.3)
Commission expenses	(13.6)	(38.1)	(8.7)	(40.8)	(101.2)
Operating expenses	(185.6)	(88.8)	(48.3)	(56.4)	(379.1)
Underwriting profit / (loss)	103.3	(1.7)	3.8	5.6	111.0
Investment return	65.4	9.7	3.2	17.1	95.4
Instalment and other operating income	70.8	13.5	8.2	6.6	99.1
Operating profit / (loss)	239.5	21.5	15.2	29.3	305.5
Finance costs	-	-	-	-	(12.7)
Profit before tax	-	-	-	-	292.8
Tax	-	-	-	-	(54.8)
Profit after tax	-	-	-	-	238.0
Loss ratio – current year	78.5%	71.7%	73.2%	72.5%	75.3%
Loss ratio – prior year	(18.0%)	(7.0%)	(2.8%)	(16.5%)	(13.2%)
Commission ratio	1.8%	10.7%	4.2%	17.5%	6.5%
Expense ratio	24.2%	25.0%	23.5%	24.1%	24.3%
Combined operating ratio	86.5%	100.4%	98.1%	97.6%	92.9%

Financial summary: FY 2018 (restated)

(£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
Finance costs	-	-	-	-	(25.9)
Profit before tax	-	-	-	-	580.5
Tax	-	-	-	-	(108.5)
Profit after tax	-	-	-	-	472.0
Loss ratio – current year	81.4%	66.8%	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%	22.2%	23.6%	24.7%	23.2%
Combined operating ratio	88.6%	93.5%	95.0%	95.4%	91.6%

Glossary of terms

Term	Definition
Available-for-sale (“AFS”) investment	Financial assets that are classified as available-for-sale. Please refer to the accounting policy note 1.12 on page 139 of the Annual Report & Accounts 2018.
Capital	The funds invested in the Group, including funds invested by shareholders and retained profits.
Combined operating ratio (“COR”)	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 a normal level of expected major weather events in the period.
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.
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.
Direct own brands	Direct own brands include Home and Motor under the Direct Line, Churchill and Privilege brands, Rescue under the Green Flag brand and Commercial under the Direct Line for Business brand.
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.
Financial Conduct Authority (“FCA”)	The independent body that regulates firms and financial advisers.

Glossary of terms

Term	Definition
Gross written premium	The total premiums from contracts that began during the period.
Group	Direct Line Insurance Group plc and its subsidiaries ("Direct Line Group" or the "Group").
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.
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.
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 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.
Net asset value	The net asset value of the Group is calculated by subtracting total liabilities (including Tier 1 notes) from total assets.
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.

Glossary of terms

Term	Definition
Net earned premium	The element of gross earned premium less reinsurance premium ceded for the period where insurance cover has already been provided.
Net investment income yield	The net investment income yield is calculated in the same way as investment income yield but includes the cost of hedging. (See page 49 alternative performance measures.)
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 profit	The pre-tax profit that the Group's activities generate, including insurance and investment activity but excluding finance costs.
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.
Return on tangible equity ("RoTE")	Return on tangible equity 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 include the Tier 1 coupon payments dividend.
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.
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.

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General 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, 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 discussions within the UK parliament and discussions between the UK and the European Union ("EU") regarding 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 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, 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.

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