Direct Line Group

peace of mind

now and in the future

2019 Preliminary results presentation

3 March 2020

Today's speakers

Penny James
CEO

Tim Harris
CFO

DirectLine Group

2019 highlights

1

Good financial performance in 2019

2

Great delivery of our transformation agenda

3

Clear and focused plans for 2020

Operating profit
£547m

Return on tangible equity
20.8%

Regular dividend growth
2.9%

Launching share buyback
£150m

Direct Line Group

See notes on slide 34 and glossary of terms on slides 54 to 57

We have clear vision, purpose and strategic objectives

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

Direct Line Group

Financials

Delivering our ambition

Tim Harris
CFO

Direct Line Group

2019 financial highlights

1

Direct own brands growth

1.4%

To 7.3m in–force policies

2

Beat £700m expense target

£694m

Operating expenses

3

Delivered our COR target

93.5%[1]

Reported COR 92.2%

4

Grew current year contribution[2]

39%

Of normalised operating profit from current year[2]

5

Strong shareholder returns

£447m

£297m regular dividend
£150m share buy-back
SCR coverage 165%[3]

Direct Line Group

1. Normalised for weather, excluding impact from change to Ogden discount rate
2. Group operating profit normalised for weather, and Ogden rate changes, excludes restructuring and one-off costs
3. Solvency capital ratio after capital distribution, figures estimated and based on partial internal model (PIM) output as at 31 December 2019

See notes on slide 34 and glossary of terms on slides 54 to 57

2019 results summary
Delivering our ambition

Group results £m	2019	2018 restated	Change
Gross written premiums	3,203	3,212	(0.3%)
Of which direct own brands	*2,228*	*2,229*	*0.0%*
Net earned premiums	2,985	3,090	(3.4%)
Operating expenses	(694)	(718)	3.3%
Underwriting result	**232**	**260**	**(10.7%)**
Of which prior year releases	*295*	*404*	*(27.2%)*
Instalment and other income	180	192	(6.1%)
Investment return	135	155	(12.9%)
Operating profit	**547**	**606**	**(9.8%)**
Restructuring and one –off costs	(11)	-	-
Combined operating ratio (COR)	**92.2%**	**91.6%**	**(0.6pt)**
COR adjusted for normal weather and Ogden rate changes	***93.5%***	***93.3%***	***(0.2pts)***
RoTE	**20.8%**	**21.6%**	**(0.8pts)**

- Gross written premiums broadly stable
- Underwriting result lower than 2018 due to lower prior year releases, in part due to Ogden
- Combined operating ratio (normalised) was towards the lower end of our 93%-95% target range
- RoTE of 20.8%, ahead of the 15% target

Significant items £m	2019	2018
Ogden discount rate change	(17)	55
Bristol office sale	-	10
Investment gains	10	26
Total	**(7)**	**91**
Event weather	**(6)**	**(75)**

Direct Line Group

See notes on slide 34 and glossary of terms on slides 54 to 57

2019 group ratios
Improved current year loss ratio

Group ratios	2019	2018 restated
Current year attritional loss ratio	**71.6%**	72.6%
Major weather events	**0.2%**	2.4%
Prior year releases	**(9.9%)**	(13.1%)
Loss ratio	**61.9%**	**61.9%**
Expense ratio	**23.2%**	23.2%
Commission ratio	**7.1%**	6.5%
Combined operating ratio	**92.2%**	**91.6%**
Combined operating ratio adjusted for normal weather and Ogden	***93.5%***	***93.3%***

- Current year attritional loss improved by 1.0 percentage point primarily driven by escape of water in Home with small improvements in Motor, RoPL and Commercial
- Major weather events totalled £6m in 2019 compared with £75m in 2018
- Prior year releases reduced by £110m but continued to be significant at £295m. £17m increase in reserves in 2019 due to change in Ogden discount rate (£51m release in 2018)
- Expense ratio flat as lower costs were offset by lower earned premiums
- Commission ratio increases driven by higher profit share payments and higher PCW volumes

See notes on slide 34 and glossary of terms on slides 54 to 57

In-force policies
Motor returned to growth in H2 2019

In-force policies	Dec '19 000's	Change %
Motor own brands	3,921	(0.7%)
Home own brands	1,765	(1.3%)
Green Flag	1,063	13.7%
Commercial own brands	541	5.3%
Direct own brands	**7,290**	**1.4%**
Motor and Home partners	951	(5.5%)
Other rescue and personal lines	6,314	(4.9%)
NIG and other	234	(2.9%)
Total Group	**14,789**	**(1.9%)**

- Motor own brands in-force policies stabilised in Q3 and returned to growth in Q4
- Home own brand in-force policies were stable in Q4
- Green Flag delivered strong growth throughout the year, passing the 1 million milestone in Q3
- Commercial own brands includes Direct Line for Business and products sold under the Churchill brand. Direct Line for Business continued to grow following further product launches on its new digital trading platform

See notes on slide 34 and glossary of terms on slides 54 to 57

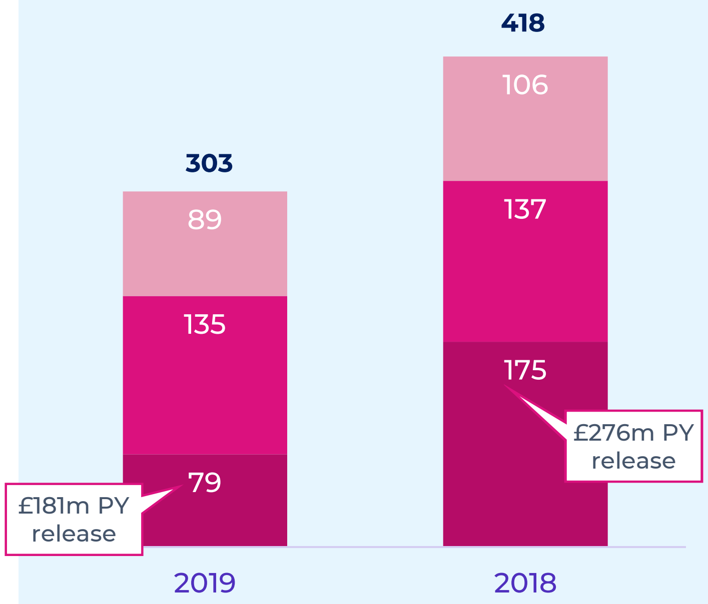
Motor

Strong result reflects underwriting discipline

Trading metrics	2019	2018
Change in GWP	**(1.2%)**	0.0%
Change in price	**3.1%**	0.6%
Change in risk mix	**(3.7%)**	(1.5%)
Change in IFPs	**(1.2%)**	1.9%

- Pricing actions reflect underwriting discipline and initiatives supporting new business competitiveness
- Reduction in risk mix partly reflects actions taken on application fraud
- Underlying claims severity inflation remained towards the top of the 3%-5% range
- Claims frequency was below expectations

Motor operating profit £m

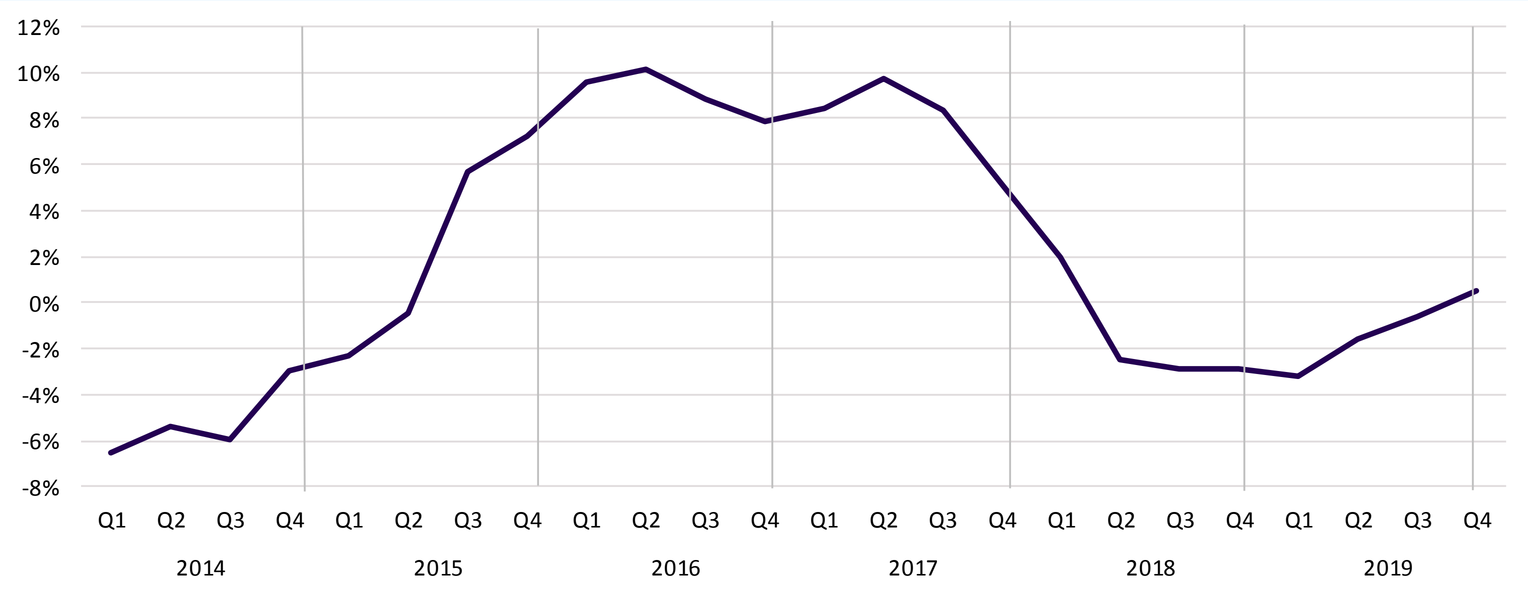


Key ratios	2019	2018 restated
Current year loss ratio	**81.2%**	81.4%
Prior year ratio	**(11.9%)**	(17.9%)
Loss ratio	**69.3%**	63.5%
Commission ratio	**2.6%**	2.0%
Expense ratio	**22.9%**	23.1%
COR	**94.8%**	**88.6%**

- Current year loss ratio broadly stable due to lower frequency and actions taken on application fraud
- Prior year releases were £96m lower as 2018 included a £48m prior year release due to change in Ogden discount rate. 2019 includes £16m strengthening
- Higher commission ratio reflects the earn through of higher PCW volumes

Motor
Market pricing shows some improvement

UK Motor premiums[1]



1. ABI UK Motor premiums year on year adjusted to remove impact of changes to IPT

Motor claims

Vertical integration provides greater visibility and control

Greater fraud detection | **21 owned accident repair centres** | **Consistent reduction in risk mix** | **Strong feedback loops**

Peril	Proportion of gross claims cost	Underlying experience versus our long-term expectation: Frequency	Underlying experience versus our long-term expectation: Severity
Damage	**c. 59%**	↓	↔
Small BI	**c. 23%**	↓	↔
Large BI	**c. 18%**	↓	↔

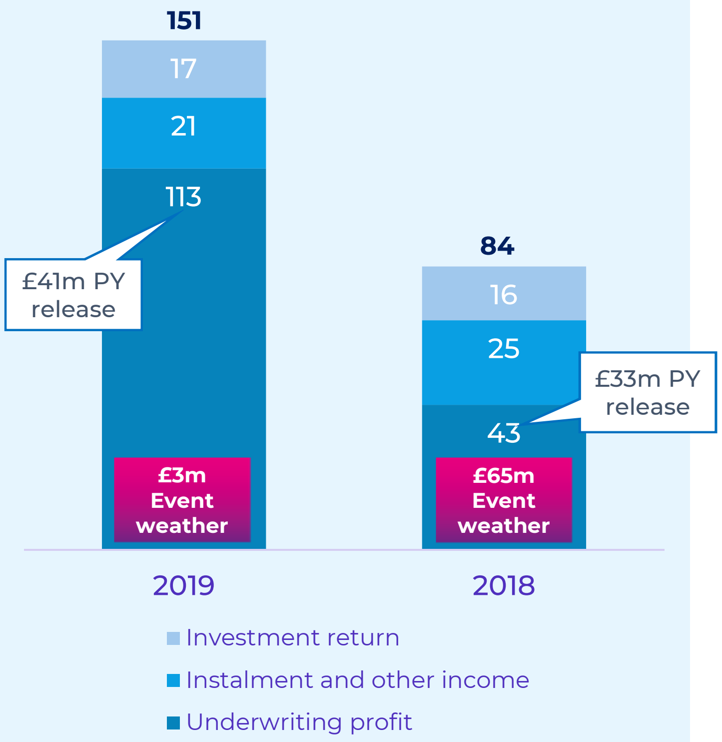
- 2019 frequency was better than our expectations and more in line with 2017. 2018 was elevated due to weather conditions
- We've taken actions on application fraud and our claims fraud detection rates have increased
- c. 50% of damage repairs are carried out in-house through our network of 21 owned repair centres
- Managing third party claims and supply chain reduces claims leakage

Home

Strong result reflects benign weather and actions on EoW

Trading metrics (Own brands)	2019	2018
Change in GWP	**(1.2%)**	0.7%
Change in price	**2.0%**	3.5%
Change in risk mix	**(2.7%)**	(3.1%)
Change in IFPs	**(1.3%)**	(0.3%)

- Priced ahead of the market on new business
- Retention continued to be strong
- Own brand average premiums were 0.7% lower than 2018 reflecting changes in risk mix and tenure

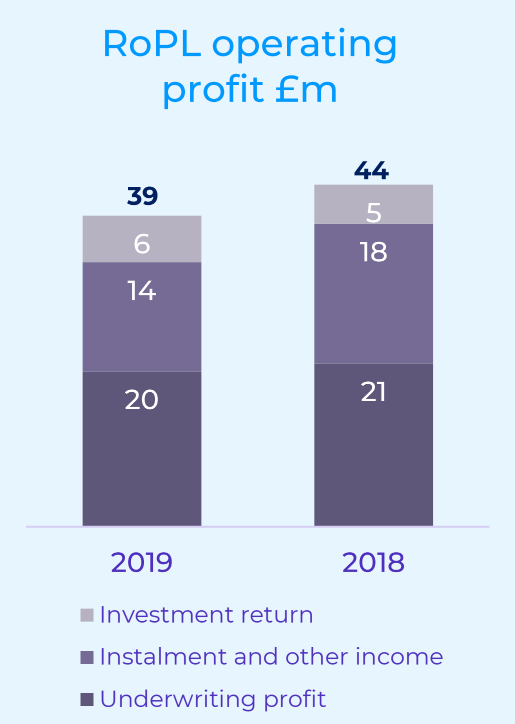


Key ratios	2019	2018 restated
Current year attritional loss ratio	**53.5%**	57.0%
Event weather	**0.5%**	9.7%
Prior year ratio	**(7.2%)**	(4.9%)
Loss ratio	**46.8%**	61.8%
Commission ratio	**9.7%**	9.4%
Expense ratio	**23.8%**	22.3%
COR	**80.3%**	**93.5%**
COR normalised for weather	**86.9%**	**91.6%**

- 3.5 point improvement in current year attritional loss ratio reflects actions taken on Escape of Water (EoW) claims and benign weather
- Increase in prior year releases due to favourable development in EoW
- Event weather was £3m versus £65m in 2018

Rescue and other personal lines

Rescue growth offset by losses in other personal lines



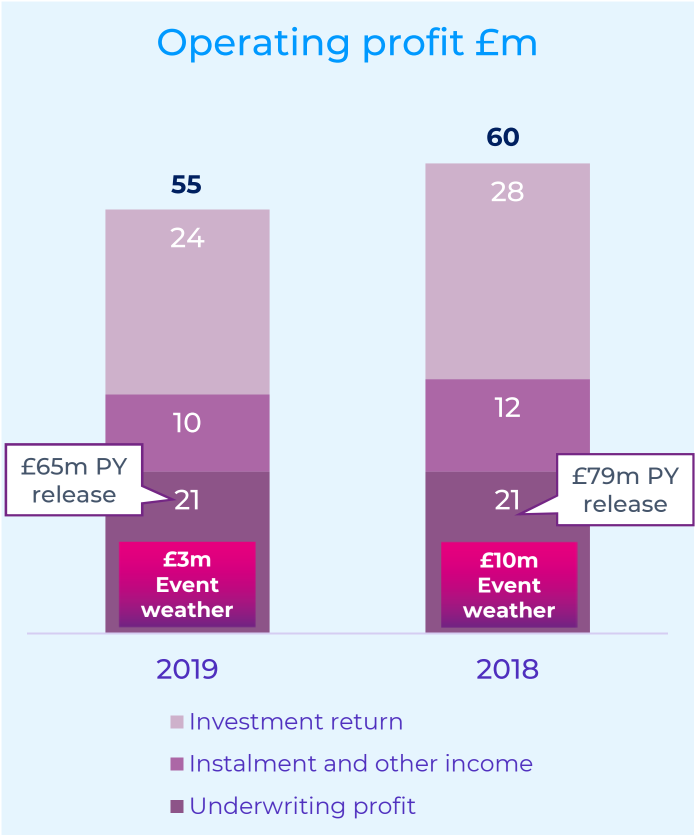
COR	
95.4%	95.0%

- Rescue is the largest product within RoPL
- Increase in Rescue profit driven by operational improvements and better claims experience
- Other personal lines include Pet, Travel and a mid-high net worth business, UK Select
- Reduction in other personal lines due to lower prior year releases in Travel and UK Select and higher large loss severity in UK Select
- RoPL maintained a COR of 95%

COR	
81.5%	85.0%

See notes on slide 34 and glossary of terms on slides 54 to 57

Commercial
Improved current year performance



Key ratios	2019	2018 restated
Current year attritional loss ratio	**65.6%**	66.8%
Event weather	**0.7%**	2.1%
Prior year ratio	**(13.6%)**	(17.1%)
Loss ratio	**52.7%**	51.8%
Commission ratio	**18.5%**	18.9%
Expense ratio	**24.5%**	24.7%
COR	**95.7%**	**95.4%**
COR normalised for weather	**99.4%**	**97.7%**

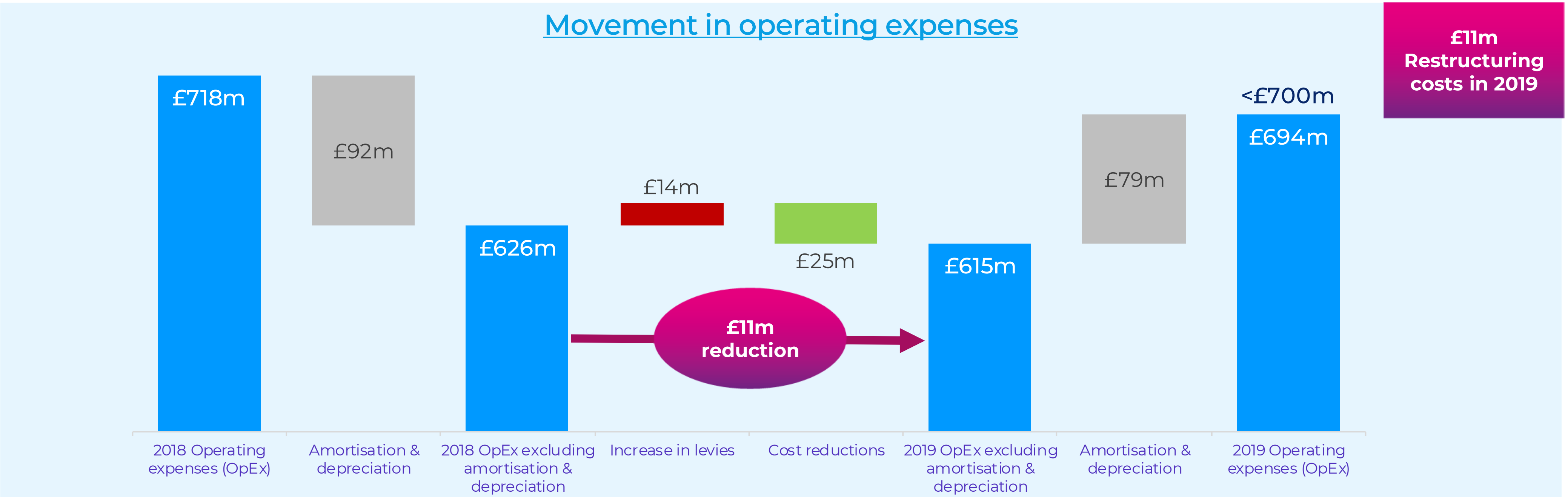
- Focus on improving margins with strong rate carried in NIG
- Current year loss ratio improvement helped offset lower contribution from prior year releases
- Event weather below expectations; £3m in 2019 (2018 £10m)

Direct Line Group

See notes on slide 34 and glossary of terms on slides 54 to 57

The changing shape and quality of our earnings

Reducing operating expenses; targeting £50m reduction by 2021[1]

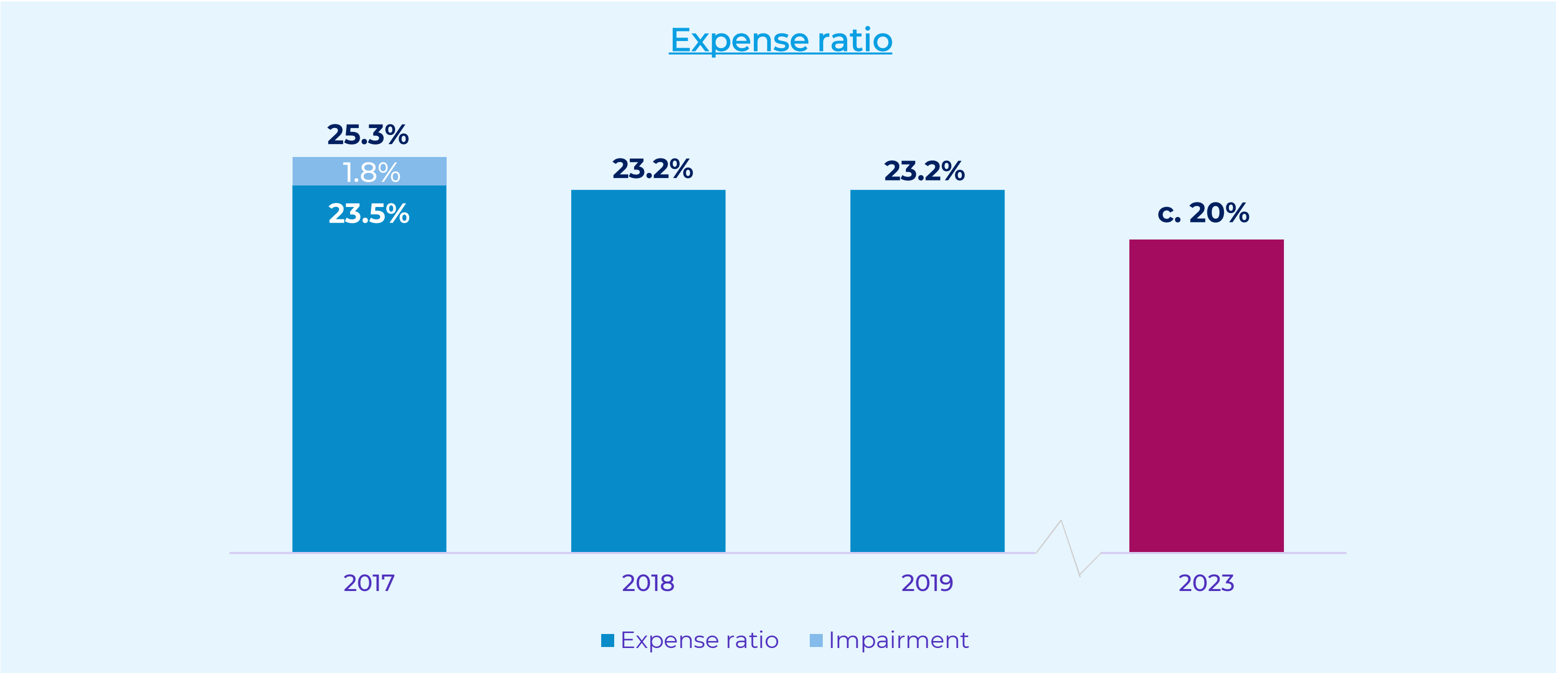


Cost targets supported by Restructuring and one-off costs of approximately £60m across 2019 and 2020

1. Applies to operating expenses excluding amortisation and depreciation and restructuring and one-off costs between year ended 31 December 2018 and year ending 31 December 2021

See notes on slide 34 and glossary of terms on slides 54 to 57

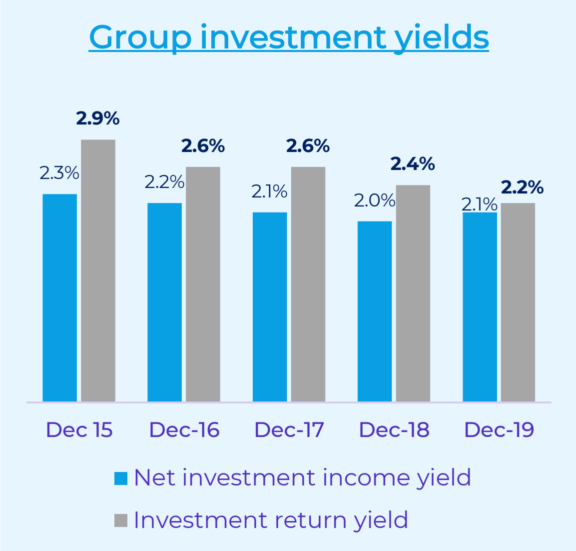
The changing shape and quality of our earnings
Reducing the expense ratio; targeting 20% by 2023

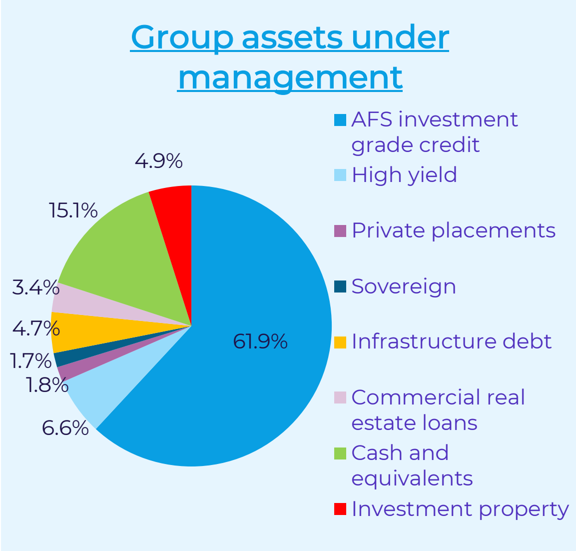


Expense ratio was flat in 2019 as lower costs were offset by lower earned premiums

Investment return
2.1% net investment income yield

Group investment returns	2019 £m	2018 £m
Investment income	**146.4**	159.2
Hedging to sterling floating rate	**(22.1)**	(30.8)
Net investment income	**124.3**	**128.4**
Net realised and unrealised gains ex. hedging	**10.3**	26.2
Of which property fair value	***(6.2)***	*12.7*
Total investment return	**134.6**	**154.6**
Available for sale reserve net of tax	***47.5***	***(36.8)***





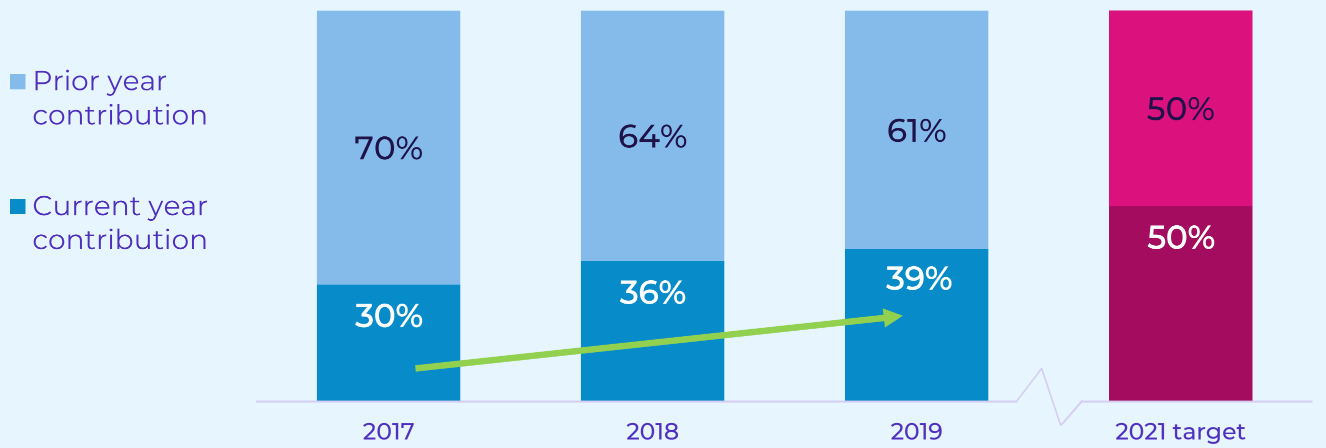
- Total investment return of £135m, £20m lower than prior year principally due to lower realised gains including property fair value
- £4m reduction in net investment income driven by lower assets under management
- Net investment yield of 2.1%, 0.1pts higher than 2018

We expect to achieve net investment income yield of approx. 2.0% in 2020 with minimal gains

See notes on slide 34 and glossary of terms on slides 54 to 57

Changing shape and quality of our earnings
Growth in contribution from current year profit

Normalised operating profit breakdown[1,2]

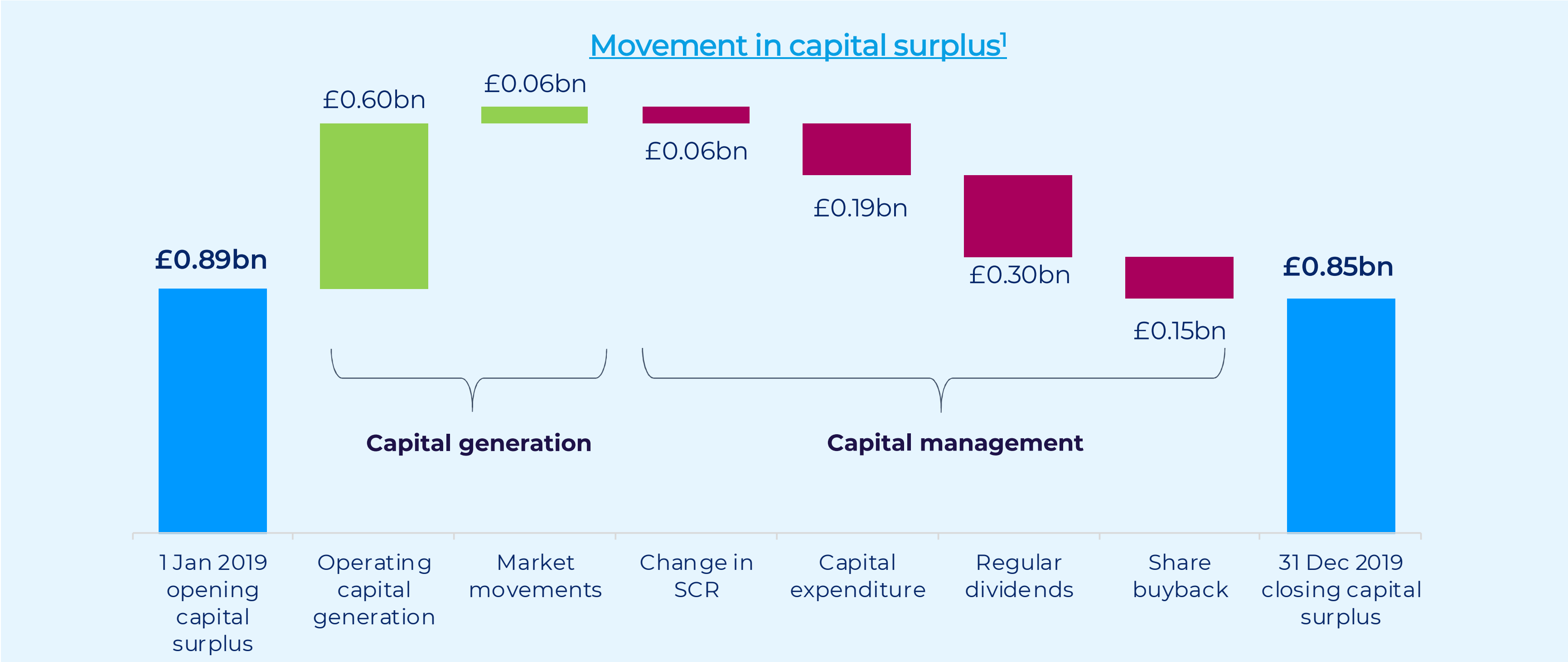


1. Group operating profit normalised for weather, and Ogden rate changes, excluding restructuring and one-off costs
2. 2017 and 2018 restated having adjusted for Ogden current year and the removal of restructuring and one-off costs

See notes on slide 34 and glossary of terms on slides 54 to 57

Capital and balance sheet management

Strong conversion of earnings to distributable capital



We expect capital expenditure to be approx. £150m in 2020 and around £100m in 2021

1. Figures estimated and based on partial internal model (PIM) output as at 31 December 2019

See notes on slide 34 and glossary of terms on slides 54 to 57

Capital and balance sheet management

Solvency ratio strong at 165% after capital distributions

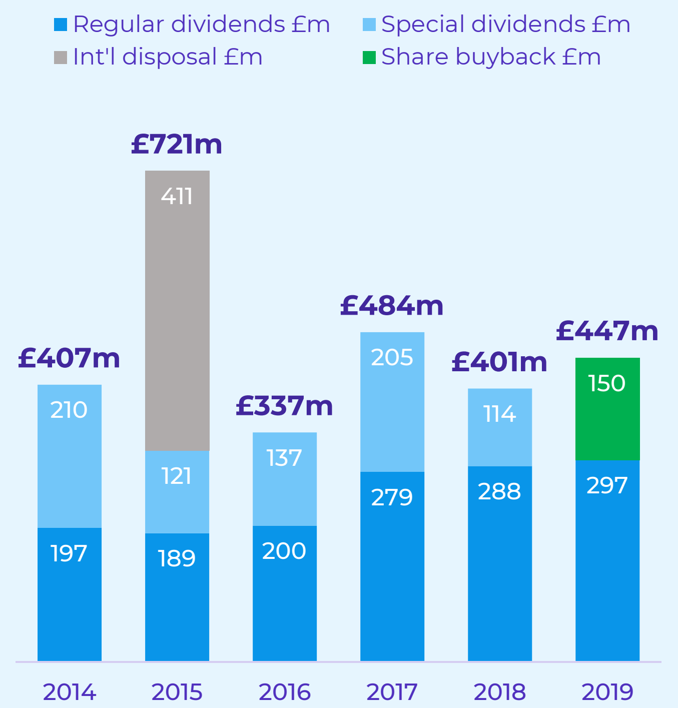
Regular dividend

Final regular dividend of 14.4p pence, an increase of 2.9% compared to 2018

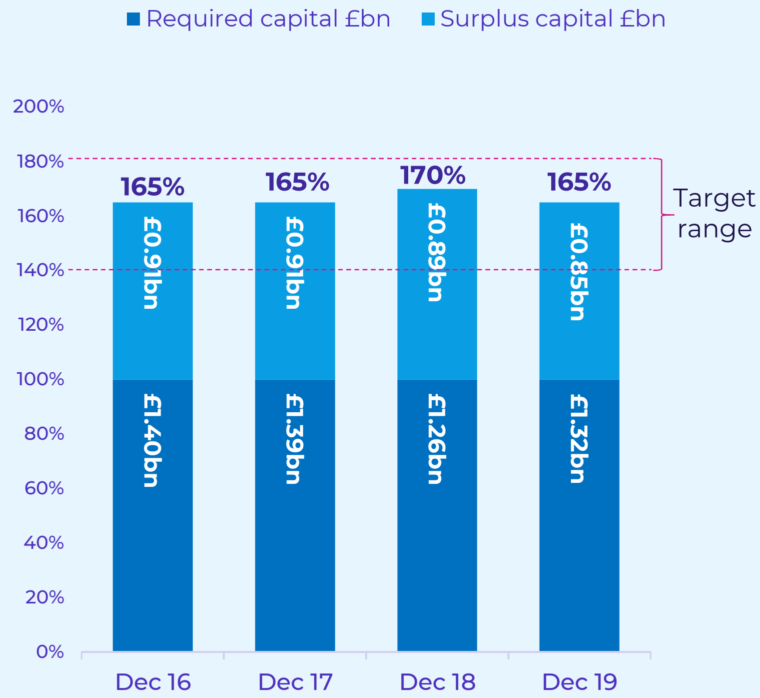
Buybacks

Announcing a £150m share buyback

Capital distributions



Solvency ratio[1]



1. Figures estimated and based on partial internal model (PIM) output as at 31 December 2019

See notes on slide 34 and glossary of terms on slides 54 to 57

Financial outlook
Reiterating our targets

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

1. Applies to operating expenses before amortisation and depreciation and restructuring and one-off costs between year ended 31 December 2018 and year ending 31 December 2021
2. Normalised for weather and Ogden rate changes, excluding restructuring and one-off costs
3. Normalised for weather

See notes on slide 34 and glossary of terms on slides 54 to 57

Strategy

Leveraging our customer focus
with new technology

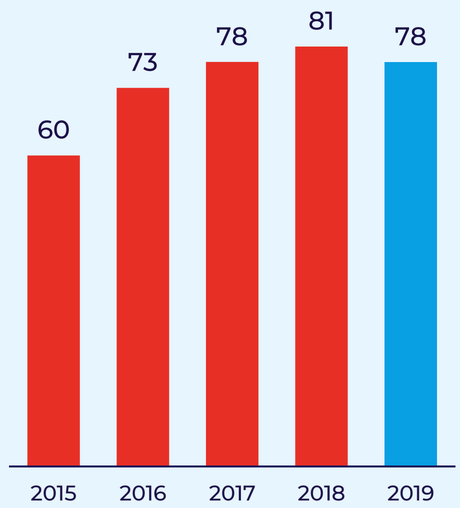
Penny James
CEO

Direct Line Group

Focused on delivering good outcomes for all key stakeholders

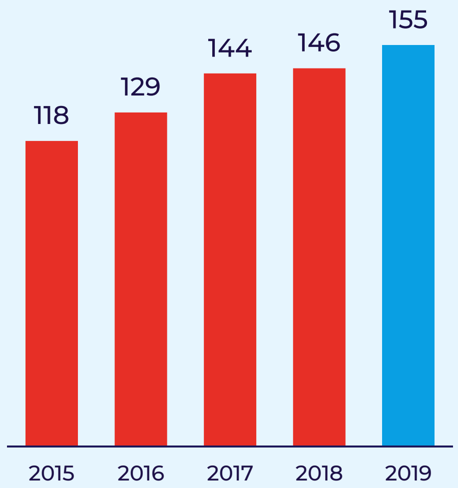
DLG has a highly engaged workforce

Highly engaged, %



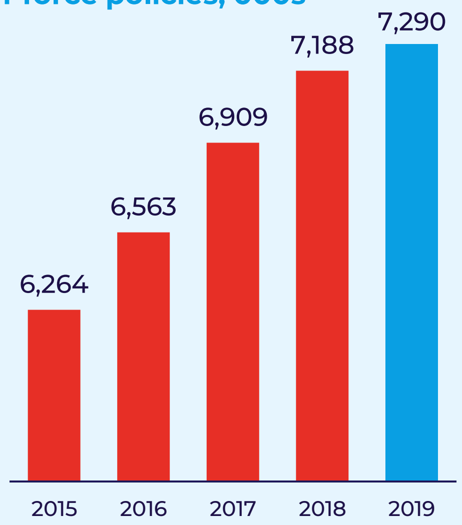
Driving improved net promotor scores

Direct Line NPS[1], indexed to 2013



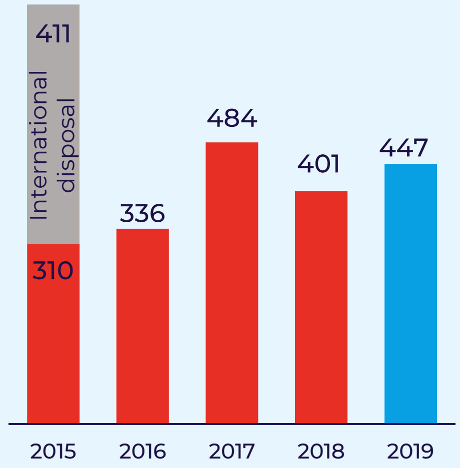
Leading to growth across our direct own brands

In-force policies, 000s



Driving sustainable returns to shareholders

Capital returns, £m



Direct Line Group

1. Net promotor score on an aggregated 12 months rolling basis with 2013 indexed to 100

See notes on slide 34 and glossary of terms on slides 54 to 57

The next horizon for DLG
Business transformation

Technology transformation

Required significant capital expenditure

Business transformation

Targeting margin improvement in portfolio as full benefits of technology realised

Business growth

More competitive and agile business to deliver the full potential of the Group enabling it to take market share and innovate faster to grow

Direct Line Group

Building a better business

Technology a key enabler across brands, channels and products

Improved sales and service
Greater pricing accuracy
Brilliant claims experience

Direct Line, Churchill, Privilege	Darwin	GreenFlag	Direct Line for Business	NIG	DLG Partnerships
Motor & Home	**Motor**	**Rescue**	**Micro & SME**	**Commercial**	**Travel**
Privilege Motor live, Churchill and Direct Line to follow in 2020	**Launched in 2019**	**New claims system built**	**Launched Trades-person**	**Rolled-out in 2019**	**Launched in 2019**
New customer service and back office support tools New pricing engine	New brand, new pricing model, new operating model	New set of customer systems under construction	New digital platform	New pricing and underwriting tools	New end to end digital platform

Finance transformation	**Progressing well**
Claims transformation	**Clear plans**
Technology transformation	**Good progress**

Good progress across our strategic objectives
Easy to use and accessible everywhere

Best at Direct

Why?

A direct relationship with our customers provides opportunity for profitable growth by meeting a broader set of customer needs; and the foundation for future product and service innovation

2019 Achievements

- ✓ **Direct Line: Best ever NPS**
- ✓ **Green Flag: Passed 1 million policies**
- ✓ **Direct Line for Business: New Tradesperson proposition launched**

Win on PCWs

Why?

Price comparison websites will continue to be the biggest market for new business and therefore our primary route for profitable growth

2019 Achievements

- ✓ **Privilege: Motor live on new platform and available on 4 PCWs**
- ✓ **Churchill: Relaunched brand as PCW first**
- ✓ **Darwin: New Motor proposition launched on 2 PCWs**

Extend our reach

Why?

Our new platform makes it easier for us to onboard new books of business. We will use this to explore inorganic growth opportunities through partnerships and acquisitions

2019 Achievements

- ✓ **NatWest Travel: New platform rolled-out**
- ✓ **RBS Home: Grew 3 year proposition**
- ✓ **Starling Bank and YouMeCar: New partnerships**

Direct Line Group

Good progress across our strategic objectives

Key enablers

Technical edge

Why?

To create a great experience for our customers and sustainable competitive advantage for us by better utilising our scale advantage in repair, data and claims insight and management

2019 Achievements

- ✓ **Motor: New pricing models and rating factors deployed**
- ✓ **Motor: Extended owned repair centres to 21**
- ✓ **Home: Escape of Water cost control**

Nimble and cost efficient

Why?

To bring our cost base in line with the market to compete better, in particular through PCWs and partnerships. We will introduce new ways of working to exploit our advantages within each product and channel

2019 Achievements

- ✓ **Costs: Delivered 2019 cost target**
- ✓ **Agile: Embedded new ways of working across a number of areas**
- ✓ **Organisational change: programme underway**

Great people

Why?

As disruption in our market increases, we need to become brilliant at innovation and change. We can only do this by empowering and developing the best people.

2019 Achievements

- ✓ **Women in Finance: 30% target achieved**
- ✓ **Talent: First cohort of graduates completed 3 year training programme**
- ✓ **Diversity: Neurodiversity, BAME, Disability and carers**

Direct Line Group

Clear priorities as we go into 2020

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

- Continue the development and roll-out of our ambitious and complex technology change
  - Prepare Direct Line and Churchill motor new business for new platform
  - Launch Darwin motor on two more PCWs
  - Launch Van on new Direct Line for Business platform
  - Begin roll-out of new Green Flag claims system
  - Continuing the re-engineering of our technology platform
- Launch and embed new ways of working
- Continue focus on delivering cost saves to deliver cost targets
- Launch new Direct Line creative campaign

Key investment points

1. Strengths that are hard to replicate
2. Our customers and our people are at the heart of our business
3. Delivering tools and organisational change to increase competitiveness
4. Continuing our journey to improve quality of earnings
5. Strong balance sheet with further opportunities to improve its effectiveness

Closing messages

1

Good financial performance in 2019

2

Great delivery of our transformation agenda

3

Clear and focused plans for 2020

Questions

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’. See note 23 to the consolidated financial statements in the preliminary results. For more information.

2. In-force policies, including direct own brands, as at 31 December 2018 have been restated to include 41,000 policies omitted from previously reported amounts.

3. 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 commercial products sold under the Churchill brand.

4. See glossary of terms on pages 54 to 57

5. 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.

Sustainability pillars – materiality matrix

C Our customers

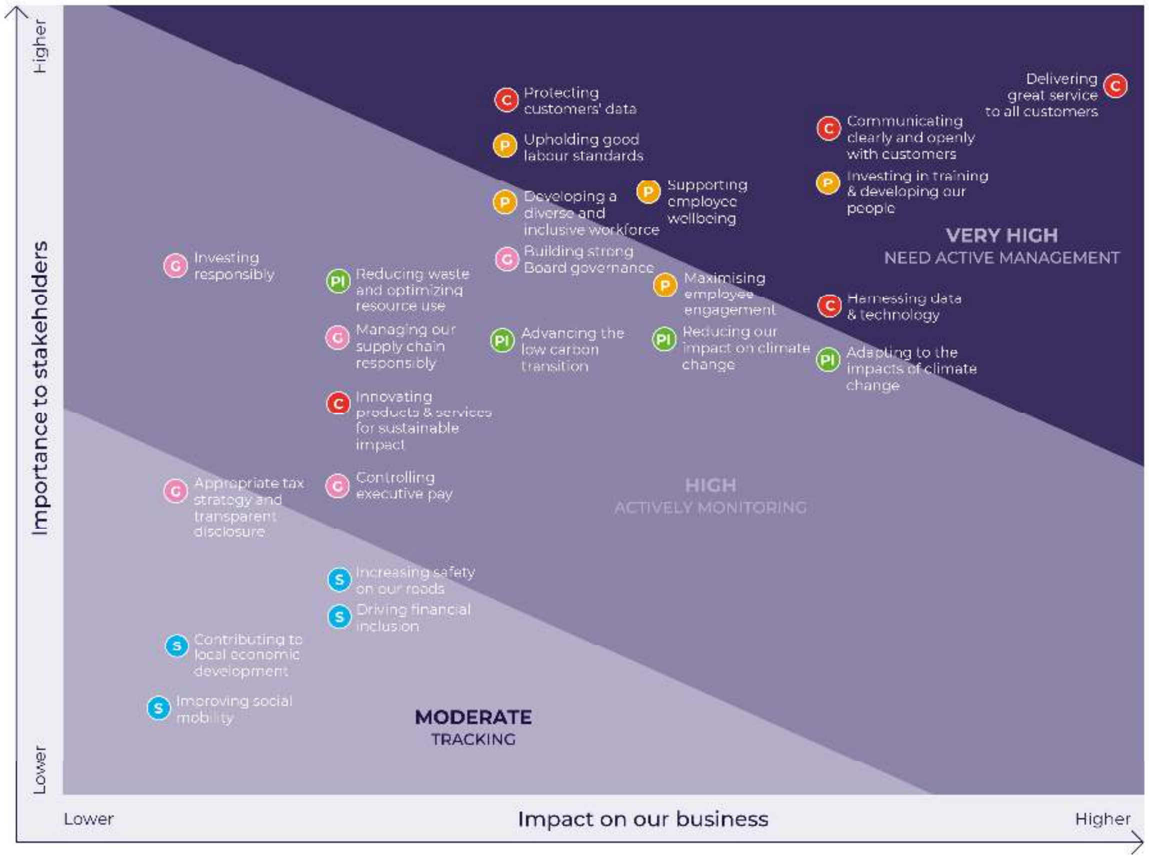
S Our society

Pl Our planet

P Our people

G Our governance

MATERIALITY MATRIX



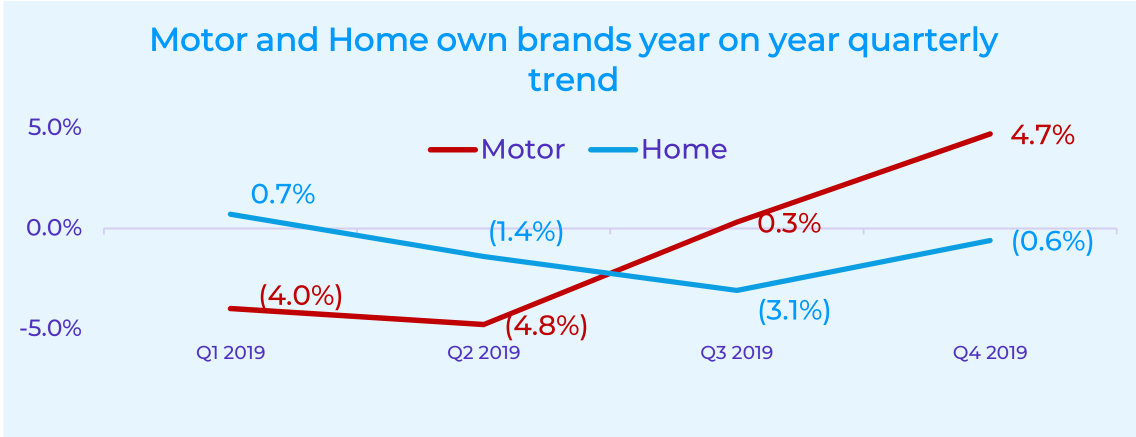
Direct Line Group

Good progress across our five sustainability pillars

Customers	• Technology upgrades providing greater value and ease for customers • Actively engaged with the FCA and support a level playing field • Rebranded Church*ill*
People	• Mental health first aiders on every floor in every site • Diversity Network Alliance promoting diversity and inclusion • 'Thrive' women's network expanded and helping support women's careers
Society	• Working with the Parliamentary Advisory Council for Transport Safety (PACTS) on road safety • Working with FiveAI and TRL to trial autonomous vehicles • 'One Day' volunteering during company time, supporting local communities
Planet	• 100% of investment grade corporate bond mandates have an ESG rating of 'A' • Recycled 98% of our total waste and 100% of our electricity is from renewal sources • Working with the Carbon Trust to set scientific based targets
Governance	• Supplier prompt payment code • Named Executives responsible for customer pricing • Changes made to the Directors' Remuneration Policy

Gross written premiums

Gross Written premiums	2019 £m	Change %
Motor own brands	1,592	(1.1%)
Home own brands	408	(1.2%)
Green Flag	79	13.5%
Commercial own brands	149	8.3%
Direct own brands	**2,228**	**(0.0%)**
Motor and Home partners	239	(7.0%)
Other rescue and personal lines	357	1.1%
NIG and other	380	1.7%
Total Group	**3,203**	**(0.3%)**



- Motor premiums returned to growth in H2 2019
- Home own brand premiums were 1.2% lower reflecting risk mix and channel shift towards PCW
- Green Flag delivered its third successive year of double-digit growth
- Commercial direct grew premiums by 8.3%

See notes on slide 34 and glossary of terms on slides 54 to 57

Motor

	2019	2018 restated
In-force policies (000s)	**4,043**	**4,094**
Own brand in-force policies	3,921	3,950
Partnerships in-force policies	122	144
Gross written premium £m	**1,652**	**1,671**
Net earned premium £m	1,508	1,542
Loss ratio – current year	81.2%	81.4%
Loss ratio – prior years	(11.9%)	(17.9%)
Loss ratio	69.3%	63.5%
Commission ratio	2.6%	2.0%
Expense ratio	22.9%	23.1%
Combined operating ratio	**94.8%**	**88.6%**
Underwriting profit £m	**79**	**175**
Of which prior year releases £m	181	276
Instalment and other income £m	135	137
Investment return £m	89	106
Operating profit £m	**303**	**418**

See notes on slide 34 and glossary of terms on slides 54 to 57

Home

	2019	2018 restated
In-force policies (000s)	**2,594**	**2,651**
Own brand in-force policies (000s)	1,765	1,789
Partnerships in-force policies (000s)	829	862
Gross written premium £m	**587**	**607**
Net earned premium £m	574	668
Loss ratio – current year attritional	53.5%	57.0%
Loss ratio – prior years	(7.2%)	(4.9%)
Loss ratio – major weather events	0.5%	9.7%
Loss ratio	46.8%	61.8%
Commission ratio	9.7%	9.4%
Expense ratio	23.8%	22.3%
Combined operating ratio	**80.3%**	**93.5%**
COR Normalised for weather	***86.9%***	***91.6%***
Underwriting profit £m	**113**	**43**
Of which prior year releases £m	*41*	*33*
Instalment and other income £m	21	24
Investment return £m	17	16
Operating profit £m	**151**	**84**

Normal weather assumed to be £46m in 2020

See notes on slide 34 and glossary of terms on slides 54 to 57

Rescue and other personal lines

Rescue and other personal lines	2019	2018 restated
In-force policies (000s)	**7,377**	**7,573**
Rescue (000s)	3,450	3,532
Travel (000s)	3,648	3,759
Pet (000s)	157	156
Other personal lines (000s)	122	126
Gross written premium £m	**436**	**423**
Net earned premium £m	425	415
Loss ratio – current year	68.7%	70.7%
Loss ratio – prior years	(1.8%)	(3.9%)
Loss ratio	66.9%	66.8%
Commission ratio	6.4%	4.6%
Expense ratio	22.1%	23.6%
Combined operating ratio	**95.4%**	**95.0%**
Underwriting profit £m	**20**	**21**
Of which prior year releases £m	*8*	*16*
Operating profit £m	**39**	**44**

Rescue	2019	2018 restated
In-force policies (000s)	3,450	3,532
Of which Green Flag (000s)	1,063	935
Gross written premium £m	**168**	**163**
Combined operating ratio	**81.5%**	**85.0%**
Operating profit £m	**45**	**40**

Direct Line Group

See notes on slide 34 and glossary of terms on slides 54 to 57

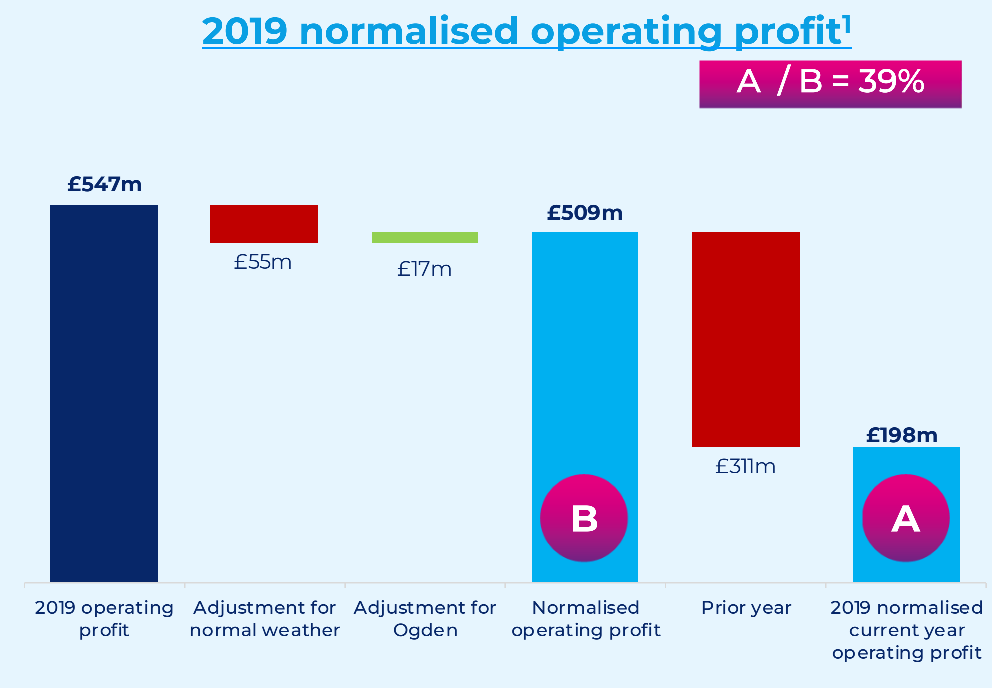
Commercial

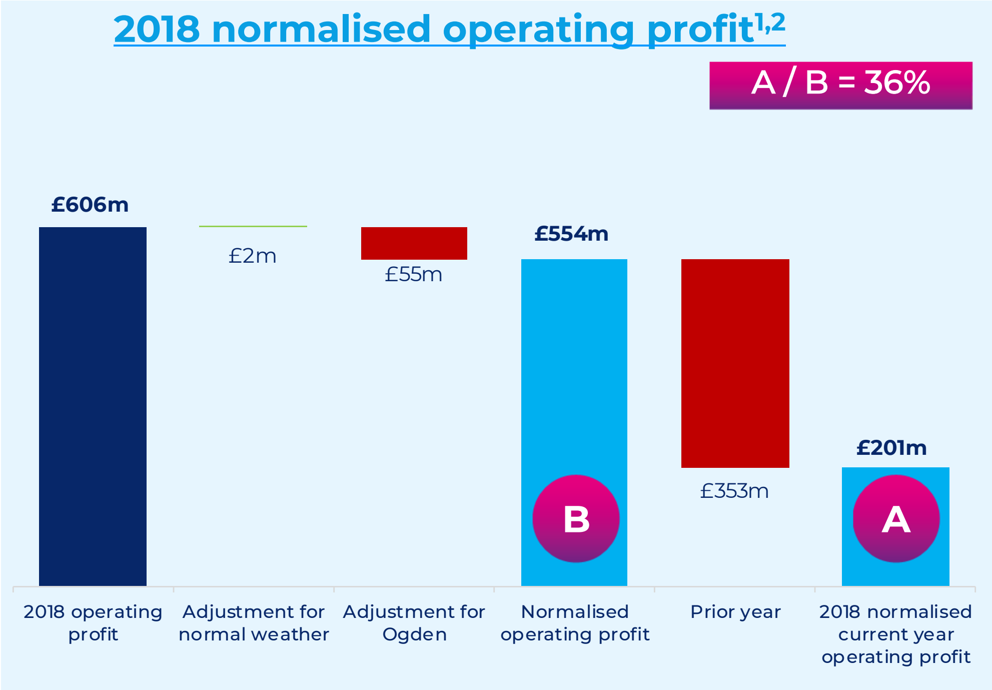
	2019	2018 restated
In-force policies (000s)	**775**	**755**
Own brands (000s)	541	514
NIG and other (000s)	234	241
Gross written premium £m	**529**	**511**
Net earned premium £m	478	465
Loss ratio – current year attritional	65.6%	66.8%
Loss ratio – prior years	(13.6%)	(17.1%)
Loss ratio – major weather events	0.7%	2.1%
Loss ratio	52.7%	51.8%
Commission ratio	18.5%	18.9%
Expense ratio	24.5%	24.7%
Combined operating ratio	**95.7%**	**95.4%**
COR Normalised for weather	***99.4%***	***97.7%***
Underwriting profit £m	**21**	**21**
Of which prior year releases £m	*65*	*79*
Instalment and other income £m	10	12
Investment return £m	24	28
Operating profit £m	55	60

Normal weather assumed to be £18m in 2020

See notes on slide 34 and glossary of terms on slides 54 to 57

Current year contribution to operating profit





Ogden rate changes	31 Dec 2019	31 Dec 2018
Current year impact £m	-	4
Prior year impact £m	(17)	51
Total £m	**(17)**	**55**

1. Group operating profit normalised for weather, and Ogden rate changes, excludes restructuring and one-off costs
2. 2017 and 2018 restated having adjusted for Ogden current year and the removal of restructuring and one-off costs

See notes on slide 34 and glossary of terms on slides 54 to 57

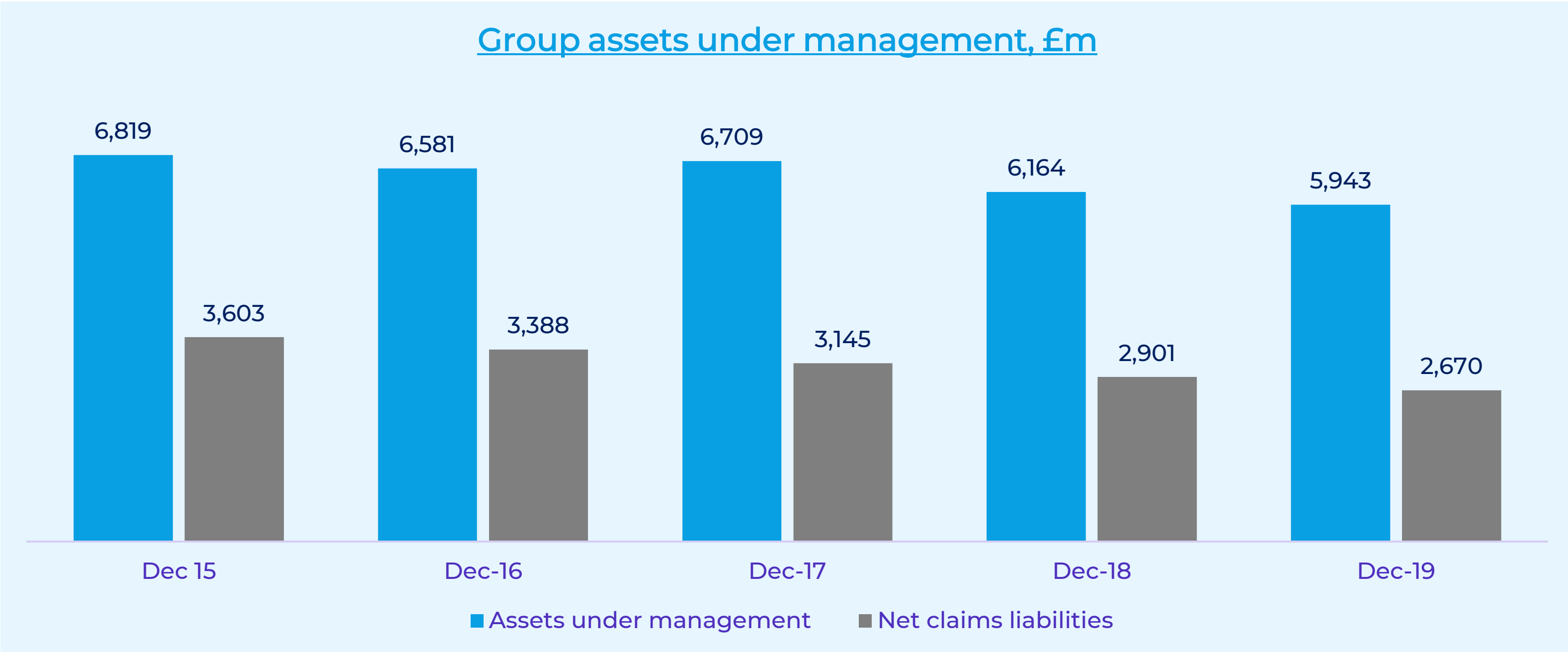
Balance sheet

Group balance sheet £m	Dec-19	Dec-18 restated
Goodwill and other intangible assets	**703**	567
Financial investments and cash	**5,914**	6,214
Reinsurance assets	**1,251**	1,209
Other assets	**1,566**	1,545
Total Assets	**9,434**	**9,535**
Unearned premium reserve	**1,506**	1,506
Insurance liabilities	**3,820**	4,006
Other liabilities	**1,118**	1,119
Total Liabilities	**6,444**	**6,631**
Shareholders' equity	**2,644**	2,558
Tier 1 notes	**346**	346
Total Equity	**2,990**	**2,905**

- Investment in new technology reflected in higher intangibles
- Simple debt structure and low leverage

Direct Line Group

Assets under management



See notes on slide 34 and glossary of terms on slides 54 to 57

Investment portfolio

As at 31 Dec 2019	U K Insurance target allocation	U K Insurance current holding	Total Group income yield	Total Group interest rate duration (years)
Investment grade (incl private placements)	68.0%	64.3%	2.3%	2.84
High yield	6.0%	6.9%	5.4%	1.51
Credit	**74.0%**	**71.2%**	**2.6%**	**2.71**
Sovereign	5.0%	1.7%	1.8%	0.64
Total debt securities	**79.0%**	**72.9%**	**2.5%**	**2.67**
Infrastructure debt	5.0%	4.9%	2.5%	0.19
Commercial real estate loans	4.0%	3.7%	3.4%	-
Investment property	5.0%	5.1%	5.3%	-
Cash and cash equivalents	7.0%	13.4%	0.8%	0.00
Total	**100.0%**	**100.0%**	**2.4%**	**1.95**

- 2.8% of total debt securities rated as 'AAA' and 58.6% rated as 'AA' or 'A'
- Average duration of total debt securities was 2.5 years

Direct Line Group

See notes on slide 34 and glossary of terms on slides 54 to 57

Reinsurance

Motor Excess of Loss (unlimited)

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

- Cover renewed on 1 January 2020
- Retained £1m deductible (indexed) with 100% placement of all layers
- 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

Accident year	Limit £m	Deductible £m
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

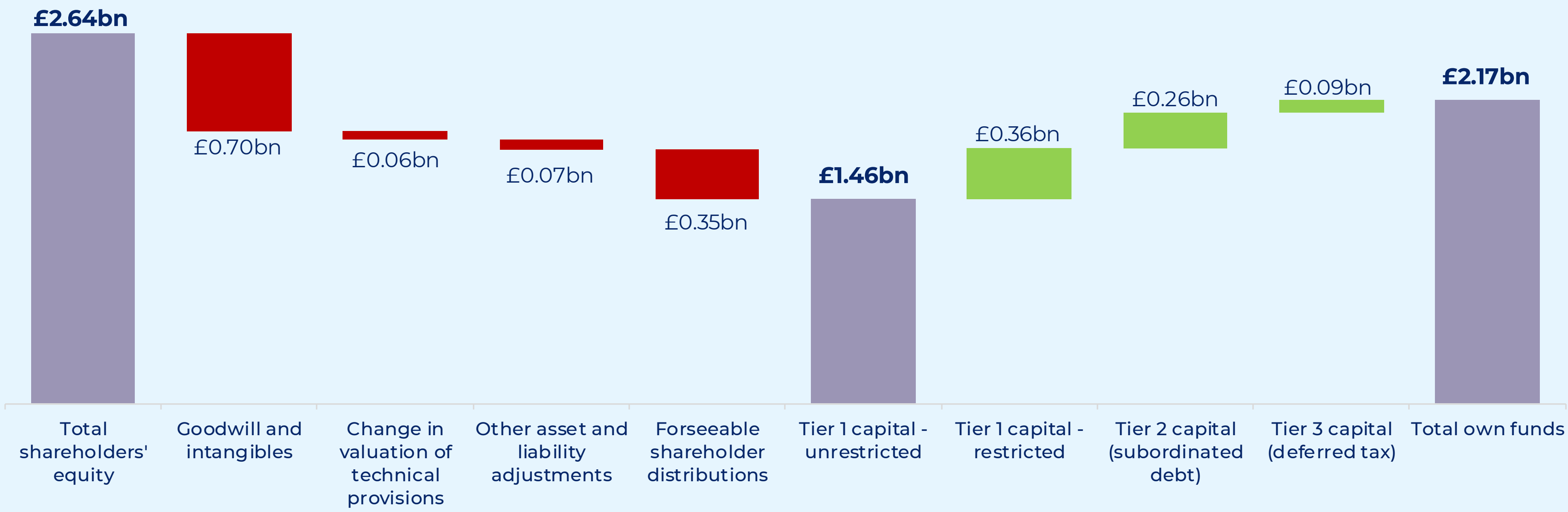
- Cover renewed on 1 July 2019
- Retained deductible of 15.6% of gross earned premium (c. £132m)
- Limit is 133.6% of gross earned premium, (c. £1,132m), equivalent to a modelled 1 in 200 year loss
- Cover has one full reinstatement for all programme and additional reinstatement up to £570m
- Placed 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)

Direct Line Group

1. Partial placement on lower layers. For 2018 90% of the first layer (£2m excess £1m) was placed with 10% retained

IFRS to Solvency II bridge

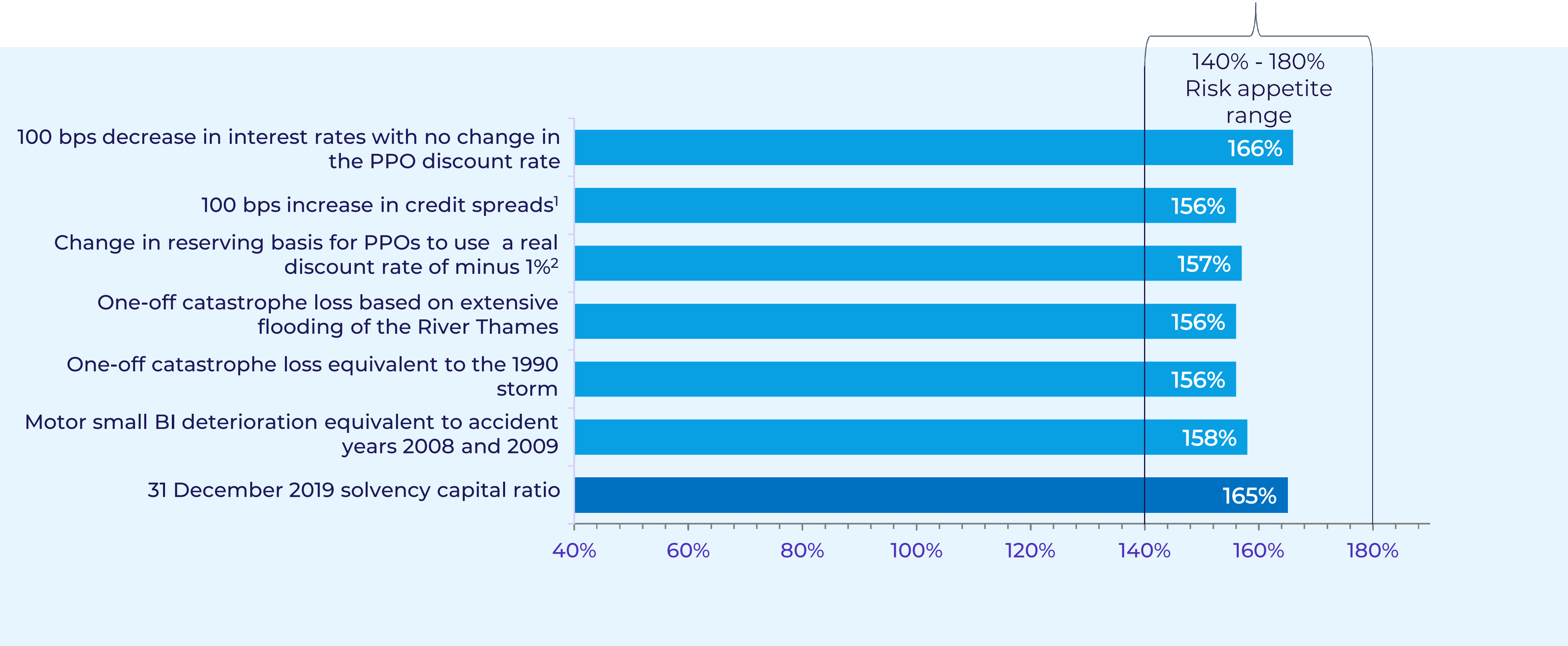
Reconciliation of IFRS shareholders' equity to solvency II own funds[1]



1. Figures estimated and based on partial internal model (PIM) output as at 31 December 2019

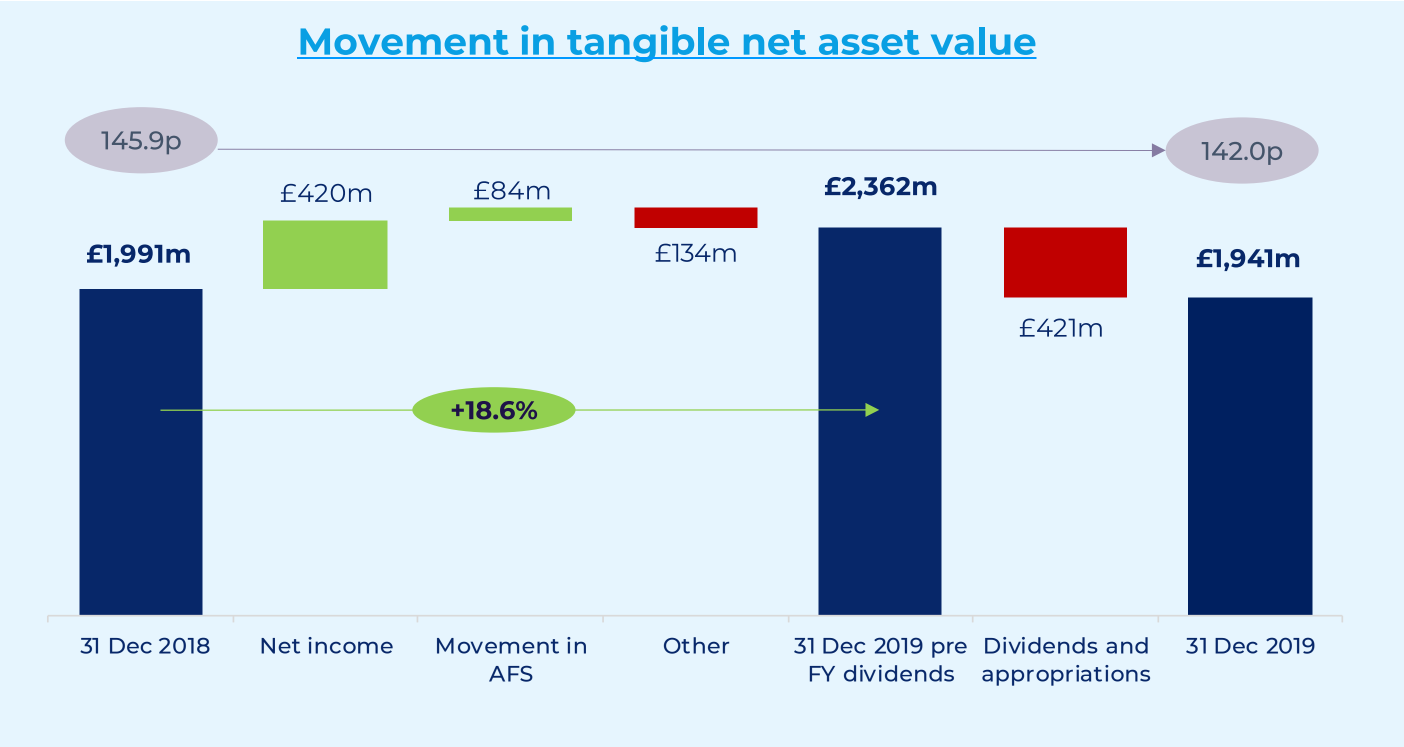
See notes on slide 34 and glossary of terms on slides 54 to 57

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 EIOPA discount rate curve

Book value and TNAV



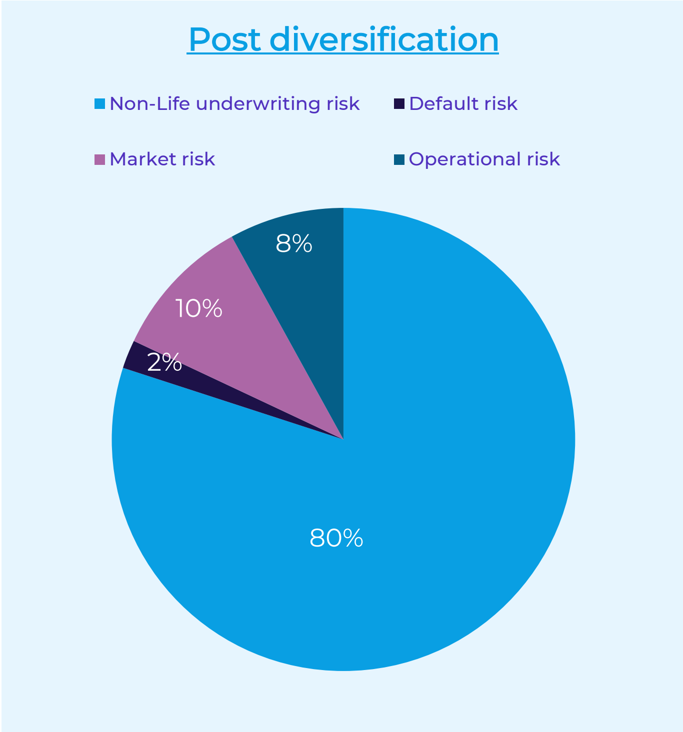
	31 Dec 2019	31 Dec 2018
Net asset value per share (pence)	**193.4**	187.5
Tangible net asset value per share (pence)	**142.0**	145.9

Total unrealised AFS reserves of £47.5m (net of tax) as at 31 December 2019

See notes on slide 34 and glossary of terms on slides 54 to 57

Solvency capital requirements by risk type

	31 Dec 2019	31 Dec 2018	Comments
Non-Life underwriting risk	**1,029**	892	
- *Premium risk*	***445***	*331*	Reflects restructuring costs in 2020
- *Reserve risk*	***319***	*306*	Includes books in run-off
- *Catastrophe risk*	***258***	*238*	Home and Commercial driven
- *Other underwriting*	***8***	*17*	Risk margin volatility
Default risk	**24**	17	
Market risk	**135**	232	Lower AUM and volatility
Operational risk	**97**	91	
U K Insurance solvency capital requirement	**1,284**	**1,232**	
Other entity Solvency capital requirement	**32**	33	
Group solvency capital requirement	**1,316**	**1,294**	



1. Figures estimated and based on partial internal model (PIM) output as at 31 December 2019

Return on tangible equity and earnings per share calculations

Return on tangible equity (RoTE)

	2019 £m	2018 £m restated
Profit before tax	**509.7**	580.5
Add back: Restructuring and one-off costs	**11.2**	-
Coupon payments in respect of Tier 1 notes	**(16.6)**	(16.6)
Adjusted profit before tax	**504.3**	563.9
Tax charge	**-**	(108.5)
Tax charge (using the 2019 UK standard tax rate of 19%)	**(95.8)**	-
Adjusted profit after tax	**408.5**	**455.4**
Opening shareholders tangible equity	1,991.4	2,230.8
Closing shareholders' tangible equity	1,941.1	1,991.4
Average shareholders' tangible equity	**1,966.3**	**2,111.1**
RoTE	**20.8%**	**21.6%**

Earnings per share (EPS)

	2019 £m	2018 £m restated
Profit after tax	419.9	472.0
Coupon payments in respect of Tier 1 notes	(16.6)	(16.6)
Profit for the calculation of EPS	403.3	455.4
Weighted average number of shares (millions)	1,367.2	1,366.5
Basic earnings per share (pence)	**29.5**	**33.3**

Direct Line Group

See notes on slide 34 and glossary of terms on slides 54 to 57

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)**
Operating profit after restructuring and one-off costs	**-**	**-**	**-**	**-**	**535.7**
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%**

Direct Line Group

See notes on slide 34 and glossary of terms on slides 54 to 57

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	-	-	-	-	**-**
Operating profit after restructuring and one-off costs	**-**	**-**	**-**	**-**	**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%	66.7%	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%**

See notes on slide 34 and glossary of terms on slides 54 to 57

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 (the “**Company**”).
Current-year attritional loss ratio	The loss ratio for the current accident year, excluding the movement of claims reserves relating to previous accident years and claims relating to major weather events.
Current-year combined operating ratio	This is calculated using the combined operating ratio less movement in prior-year reserves.

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 and Privilege brands, Rescue under the Green Flag brand and Commercial under the Direct Line for Business and commercial products sold under the Churchill 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 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 guaranteed dated notes) as a percentage of total capital employed.
Gross written premium	The total premiums from contracts that were accepted during the period.
Group	Direct Line Insurance Group plc and its subsidiaries ("**Direct Line Group**" or the "**Group**").
In-force policies	The number of policies on a given date that are active and against which the Group will pay, following a valid insurance claim.
Insurance liabilities	This comprises insurance claims reserves and claims handling provision, which the Group maintains to meet current and future claims.
International Accounting Standards Board ("IASB")	A not-for-profit public interest organisation that is overseen by a monitoring board of public authorities. It develops IFRS standards that aim to make worldwide markets transparent, accountable and efficient.
Investment income yield	The income earned from the investment portfolio, recognised through the income statement during the period divided by the average assets under management ("**AUM**"). This excludes unrealised and realised gains and losses, impairments, and fair value adjustments. The average AUM derives from the period's opening and closing balances for the total Group.
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 equity excluding Tier 1 notes and intangible assets per 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 restructing and other one-off costs.

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

- United Kingdom ("UK") domestic and global economic business conditions;
- the outcome of discussions between the UK and the European Union ("EU") regarding the terms, following Brexit, of any future trading and other relationships between the UK and the EU;
- the terms of future trading and other relationships between the UK and other countries following Brexit;
- market-related risks such as fluctuations in interest rates and exchange rates;
- the policies and actions of regulatory authorities (including changes related to capital and solvency requirements or the Ogden discount rate or rates);
- the impact of competition, currency changes, inflation and deflation;
- the timing impact and other uncertainties of future acquisitions, disposals, partnership arrangements, joint ventures or combinations within relevant industries; and
- the impact of tax and other legislation and other regulation in the jurisdictions in which the Group and its affiliates operate.

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