Direct Line Group

2020 Half Year Results

Direct Line Group

Today's speakers

Penny James
CEO

Tim Harris
CFO

H1 2020 highlights

1. Focused on protecting our people, our customers and society during Covid-19
2. Trading momentum and financial resilience; return to paying dividends
3. Strategy delivering a more technology-driven business

Operating profit	Return on tangible equity	2020 Investment in 'force for good' vision	H1 2020 Interim dividend	Catching up on 2019 final dividend
£265m	19.9%	£80-90m	£100m	£195m

See notes on slide 35 and glossary of terms on slides 48 to 51

Our strategy has enabled us to stay focussed and deliver…

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

...while ensuring that we support our people, our customers and society through Covid-19

Vision

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

People	Customers	Society
Job security Roles protected until the autumn **Home working** A shift to home working for all our office based employees **Flexible working** Offered flexible working to all employees throughout lockdown	**Financial support** Supported over 300,000 customers through: • Mileage refunds and reducing cover • Premium deferrals • Waived cancellation and mid-term amendment fees **Travel** • Supported over 10,000 customers • Repatriated 800 stranded customers	No utilisation of any government support schemes **Supporting suppliers** Accelerated payments and directly supported SME roadside assistance firms **NHS workers** Supported NHS workers with free Green Flag breakdown and Home emergency cover **Community** £7.1 million committed to charities to help those most in need

Full year investment in the region of £80m-£90m with around half incurred in H1

Direct Line Group

Financials

Delivering our ambition

Tim Harris
CFO

Direct Line Group

H1 2020 financial highlights: Improving current year profitability

Continued to grow our own brand portfolio	+2.0%	Direct own brands in-force policies
Resilient result supported by strong progress on current year attritional loss ratio; on track to deliver 50% target by 2021[1]	£265m	Operating profit
Progress on costs offset by impact of Covid-19; reiterating 20% target by 2023	25.2%	Expense ratio
On track to deliver our combined operating ratio target[2] in 2020	90.3%	Combined operating ratio
Paying an interim dividend of 7.4p and catching up on 2019 final dividend of 14.4p	£296m	Capital distribution
Solvency ratio after dividends remains strong	192%	Solvency ratio

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

See notes on slide 35 and glossary of terms on slides 48 to 51

H1 2020 result summary: Resilient financial performance

Financials summary £m

	H1 2019	H1 2020	Change
Gross written premium	1,575	1,581	0.4%
Underwriting profit	**111**	**144**	**29.8%**
Instalment and other income	88	80	(9.1%)
Investment return	76	41	(45.4%)
Operating profit	**274**	**265**	**(3.4%)**
Restructuring and one-off costs	-	(15)	-
Finance costs	(13)	(14)	(3.8%)
Profit before tax	**261**	**236**	**(9.5%)**
Profit after tax	**212**	**193**	**(9.1%)**

Comments

- Gross written premium growth of 0.4% driven by strong Q1 trading across direct own brands
- Underwriting profit grew 29.8% due to reduced Motor claims frequency following the impact of Covid-19, alongside an improvement in underlying current year profitability
- Reduction in instalment and other income reflects lower new business and claims volumes in Q2
- Investment return reduction due to a combination of lower income and higher realised losses from commercial property revaluations

Significant items £m	H1 2019	H1 2020
Major weather	-	[30]
Ogden rate change	(17)	-
Estimated net impact of Covid-19 on operating profit[1]	-	7

1. Management estimate

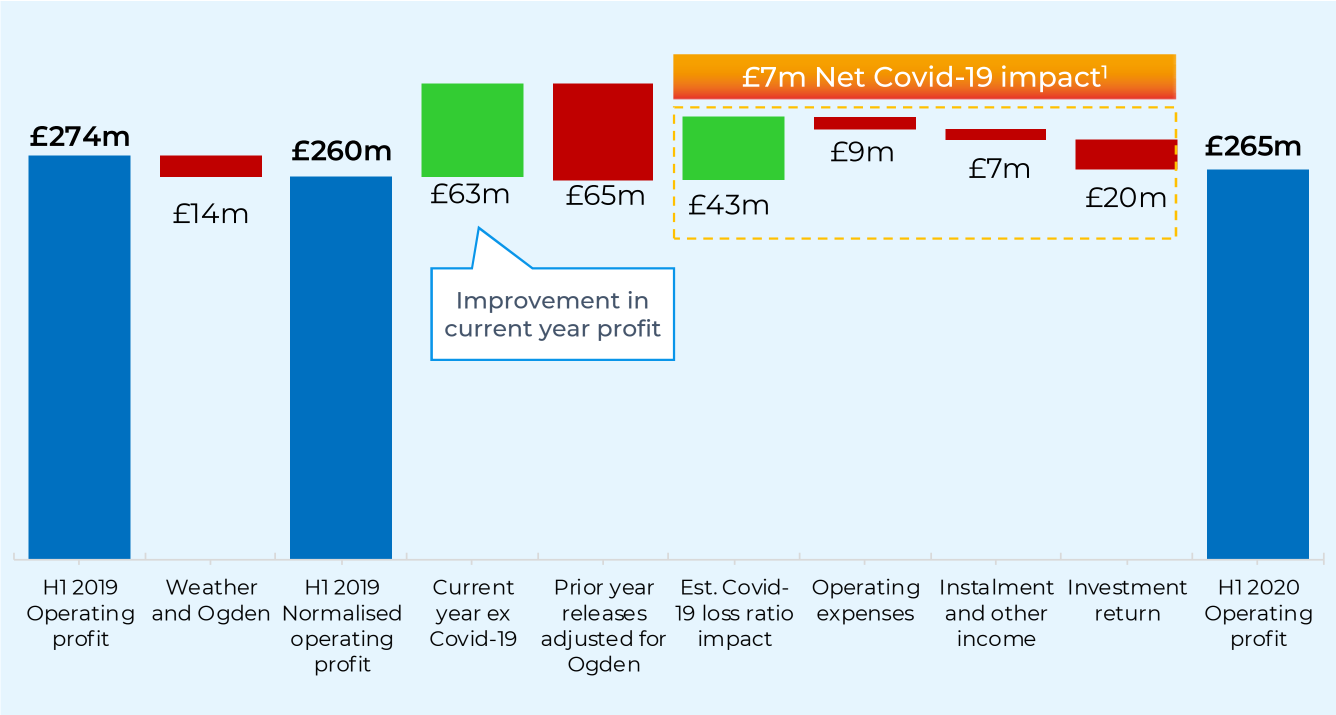
See notes on slide 35 and glossary of terms on slides 48 to 51

Group profit: Good progress on current year profitability

Est. Covid-19 profit impact[1]

£m	H1 2020
Motor	64
Home	-
Rescue	3
Travel and other personal lines	(28)
Commercial	4
Loss ratio subtotal	**43**
Operating expenses	(9)
Instalment and other income	(7)
Investment return	(20)
Total Covid-19 impact	**7**

Operating profit walk



1. Management estimate

See notes on slide 35 and glossary of terms on slides 48 to 51

Group ratios: Improved current year loss ratio

Group ratios	H1 2019	H1 2020
Current year attritional loss ratio	73.5%	65.3%
Estimated impact of Covid-19[1]	-	*(3.5%)*
Major weather events	n/a	2.1%
Prior year loss ratio	(11.6%)	(8.4%)
Loss ratio	**61.9%**	**59.0%**
Expense ratio	24.5%	25.2%
Commission ratio	6.1%	6.1%
Combined operating ratio	**92.5%**	**90.3%**
Combined operating ratio normalised for weather	**94.6%**	**90.4%**
RoTE (annualised)	**20.9%**	**19.9%**

Comments

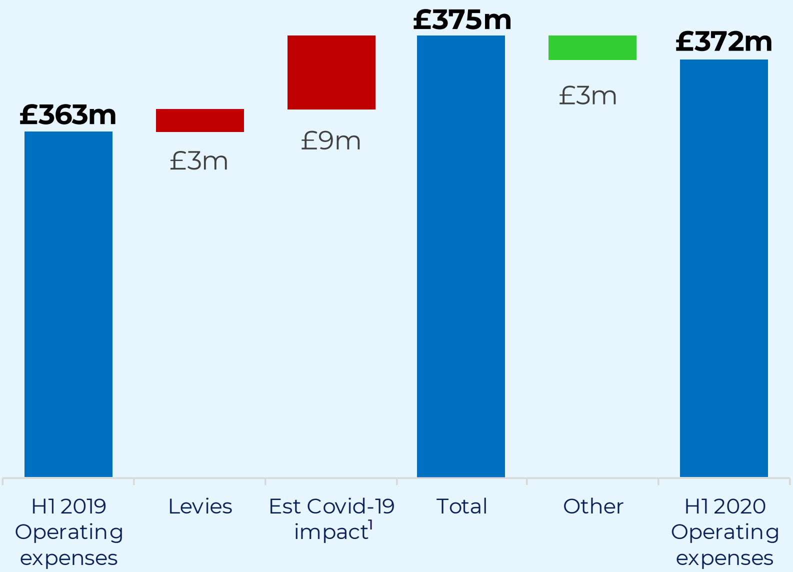
- Current year attritional loss improved by 8.2pts due to underlying progress and a reduction in claims frequency driven by Covid-19
- Major weather events in Home and Commercial totalled £30m versus nil in H1 2019
- Prior year releases of £123m were £48m lower than prior year as Motor prior year releases reduced in line with expectation
- Expense ratio increased by 0.7pts due to additional costs incurred to support our people and society during Covid-19
- Headline COR was 2.2 pts lower than prior year at 90.3% and below the Group's 93-95% target
- Annualised RoTE was 19.9%, ahead of the Group's 15% target

1. Management estimate

See notes on slide 35 and glossary of terms on slides 48 to 51

Operating expenses: Investment in our customers, people and society; reiterating 20% expense ratio target by 2023

Operating expense walk



Comments

- H1 2020 operating expenses increased due to higher levies and costs incurred to support our people and society during the COVID-19 disruption including;
  - Costs associated with enabling people to work form home
  - Protecting all roles until the autumn
  - Support for local charities

Outlook

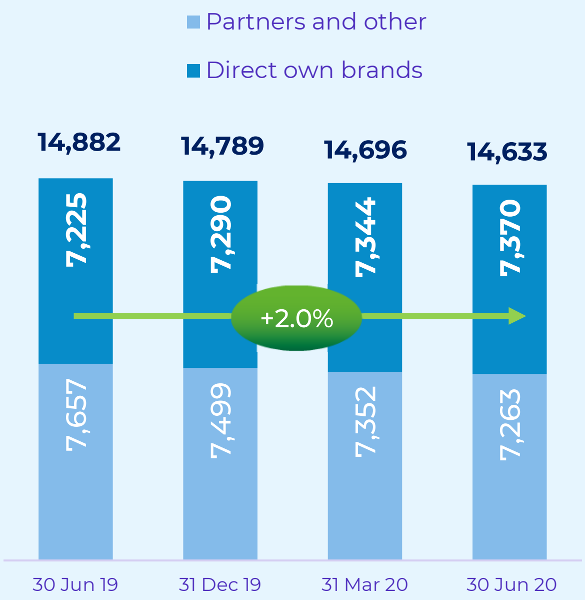
- **Investment in Covid-19 expected to be around £20-25 million in H2 2020**
- **Reiterating expense ratio target of 20% by 2023 (H1 2020 25.2%)**

1. Management estimate

See notes on slide 35 and glossary of terms on slides 48 to 51

In-force policies and premiums: Strong momentum in Q1, Covid-19 disruption in Q2

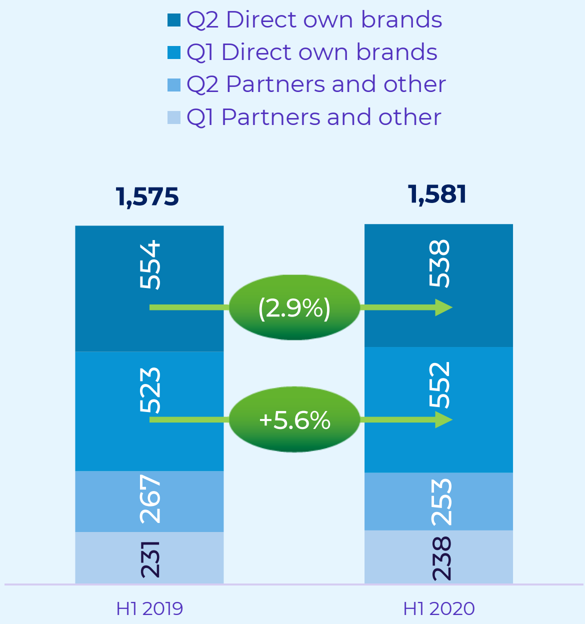
In-force policies 000's



Comments

- Group in-force policies were 1.7% lower in H1 2020 as growth across direct own brands was offset by lower partner volumes
- Direct own brands in-force policies were 2.0% higher than prior year and 1.1% higher than Dec-19 driven by strong growth in Q1
- Group gross written premiums were broadly stable in H1 versus prior year
- Direct own brands gross written premiums grew 1.2% in H1 as growth of 5.6% in Q1 was offset by lower premiums in Q2 due to Covid-19

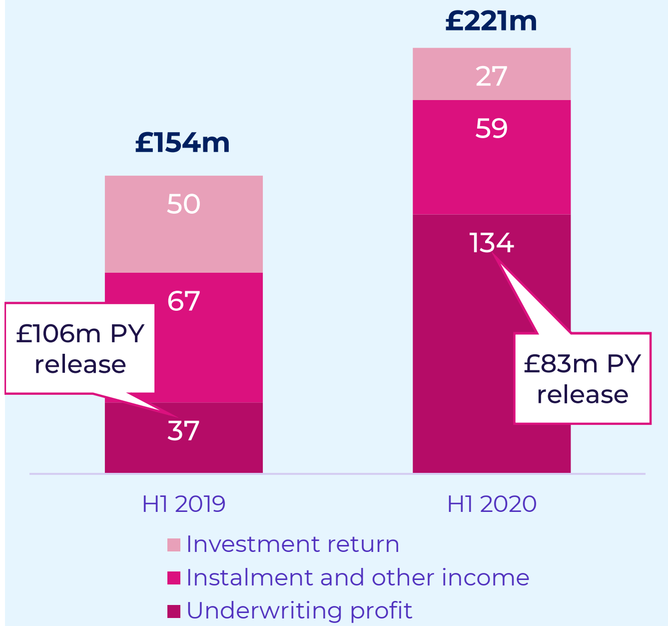
Gross written premiums £m



See notes on slide 35 and glossary of terms on slides 48 to 51

Motor: Strong result reflects underlying improvements and lower claims frequency

Operating profit



Operating ratios

Key ratios	H1 2019	H1 2020
Current year loss ratio	83.4%	65.5%
Est. impact of Covid-19[1]	-	*(9.7pts)*
Prior year ratio	(14.2%)	(11.3%)
Loss ratio	69.2%	54.3%
Commission ratio	2.5%	2.9%
Expense ratio	23.4%	24.7%
COR	**95.1%**	**81.9%**

Comments

- Current year loss ratio improvement reflects initiatives supporting new business competitiveness and the reduction in claims notifications due to Covid-19
- Reduction in instalment and other income driven by lower new business and claims volumes in Q2
- Reduction in prior year loss ratio in line with expectations

1. Management estimate

See notes on slide 35 and glossary of terms on slides 48 to 51

Motor trading: Good momentum in Q1, Covid-19 disruption in Q2

Trading update

Pricing

- Price increases in Q1 were offset by risk mix changes in Q2 following lower new car sales and fewer young drivers entering the market

IFPs

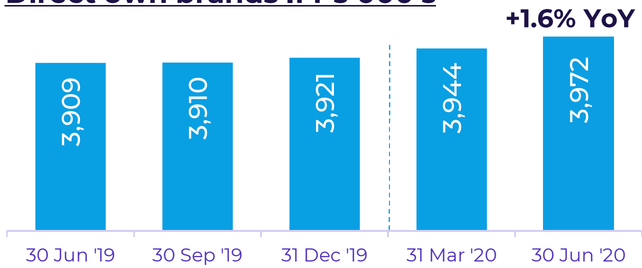
- Motor own brand IFPs grew 1.6% in H1 2020 due to strong momentum in Q1 followed by a slowdown in Q2
- IFP growth was driven by Churchill and Darwin demonstrating progress on PCW agenda
- Retention increased across all brands

GWP

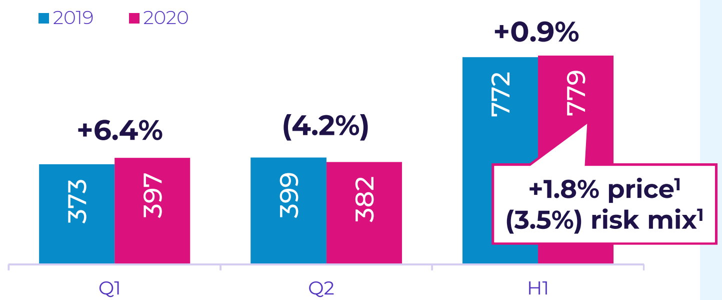
- Direct own brands grew 0.9% in H1 driven by strong Q1 trading

Top line performance

Direct own brands IFPs 000's



Direct own brands GWP £m



Claims trends

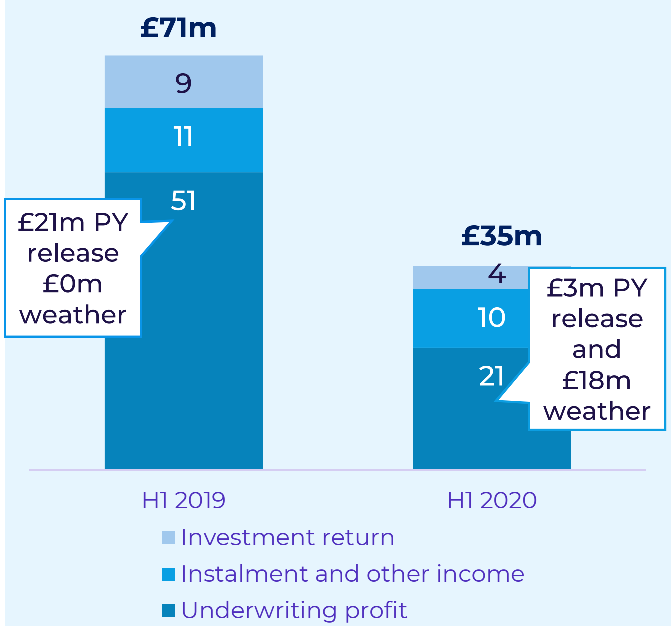
- Frequency remained below expected levels. Covid-19 drove a c.70% reduction in notifications in April, which has increased since lockdown restrictions were eased
- Claims severity was higher due to factors including repair capability, changes to settlement patterns and credit hire durations
- No change to underlying claims severity inflation of 3%-5%

1. Based on all brands (except Darwin and Privilege on the new platform) average undeveloped incepted written premium (excludes IPT)

See notes on slide 35 and glossary of terms on slides 48 to 51

Home: Lower headline profit due to weather, progress on current year attritional

Operating profit



Operating ratios

Key ratios	H1 2019	H1 2020
Current year attritional loss ratio	55.3%	53.0%
Major weather	n/a	6.4%
Prior year ratio	(7.2%)	(0.9%)
Loss ratio	48.1%	58.5%
Commission ratio	7.6%	6.8%
Expense ratio	26.5%	27.1%
COR	**82.2%**	**92.4%**
COR normalised for weather	**c. 89%**	**c. 94%**

Comments

- Operating profit was £36m lower than prior year due to weather and lower prior year releases
- Current year attritional loss ratio improvement reflects actions taken on Escape of Water (EoW)

Direct Line Group

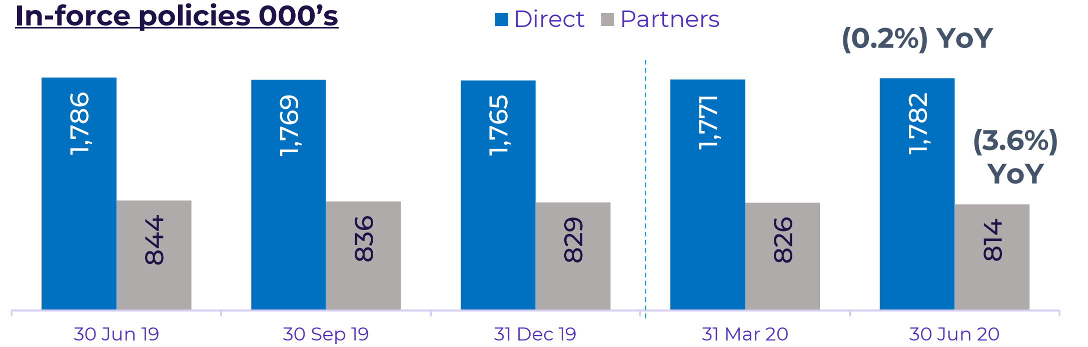
See notes on slide 35 and glossary of terms on slides 48 to 51

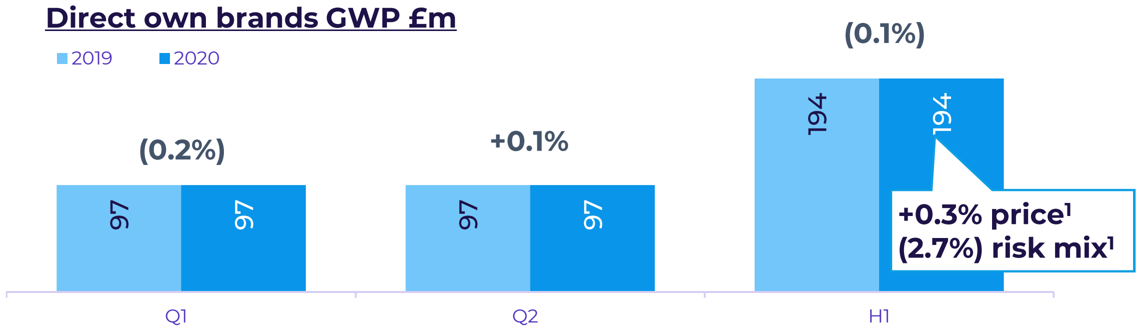
Home trading: Direct own brands stable, growth in PCWs

Trading update

- Despite Covid-19 trading pressure, direct own brand IFPs were broadly stable compared to prior year and were higher than December 2019
- New business IFP growth in Q1 was more than offset by a slow down in Q2
- Retention rates increased over the period and compared to prior year
- A shift in direct own brand mix towards PCW reflects improved competitiveness in this channel
- GWP was lower across direct own brands reflecting lower average premiums driven by channel and risk mix

Top line performance



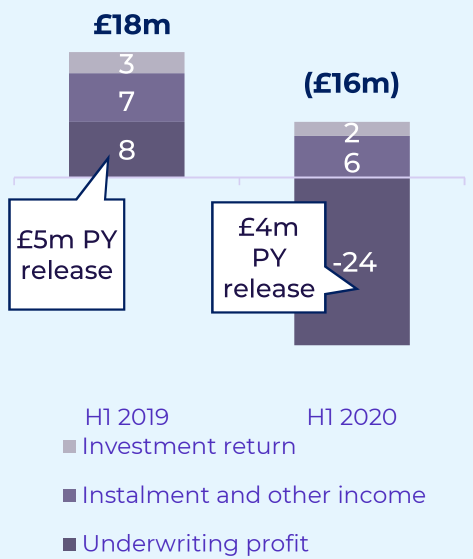


1. Based on average undeveloped incepted written premium (excludes IPT)

See notes on slide 35 and glossary of terms on slides 48 to 51

Rescue and other personal lines: Strong Q1 trading, Covid-19 disruption in Q2

RoPL operating profit

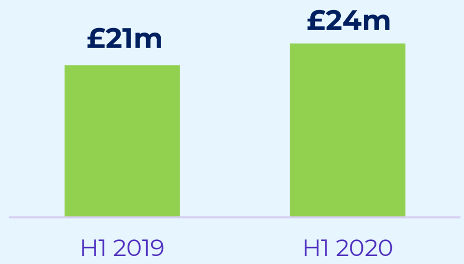


RoPL operating ratios

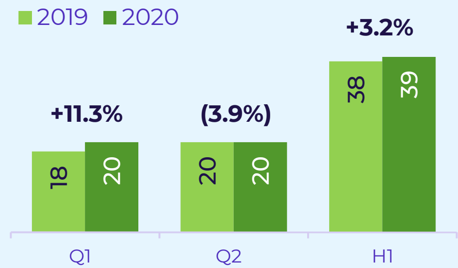
Key ratios	H1 2019	H1 2020
Current year loss ratio	70.1%	86.0%
Est. impact of Covid-19[1]	-	*11.3%*
Prior year ratio	(2.5%)	(1.9%)
Loss ratio	67.6%	84.1%
Commission ratio	4.1%	3.0%
Expense ratio	24.5%	24.2%
COR	**96.2%**	**111.3%**
Rescue COR	**83.1%**	**78.1%**

Rescue

Rescue operating profit



Green Flag GWP £m



Comments

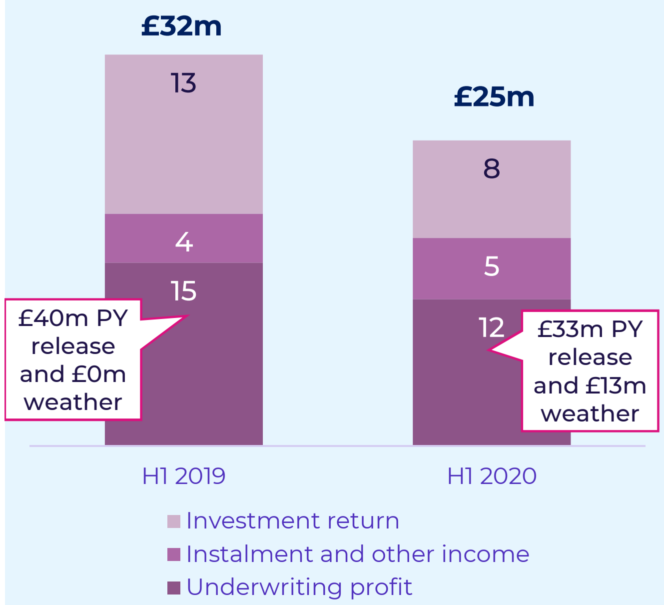
- RoPL operating loss driven by expected Covid-19 impact in travel
- £25m expected net full year impact of Covid-19 on travel recognised in H1 2020, assuming travel restrictions remain in place until the end of September 2020
- Rescue grew operating profit by £3m partly due to lower claims frequency
- Green Flag continued to deliver double digit growth in IFPs and GWP in Q1, before new business reductions in Q2 due to Covid-19

1. Management estimate

See notes on slide 35 and glossary of terms on slides 48 to 51

Commercial: Improved current year performance offset by weather

Operating profit



Operating ratios

Key ratios	H1 2019	H1 2020
Current year attritional loss ratio	67.5%	60.2%
Est. impact of Covid-19[1]	-	*(0.1%)*
Major weather	0.0%	5.2%
Prior year ratio	(16.8%)	(13.7%)
Loss ratio	50.7%	51.7%
Commission ratio	17.5%	17.7%
Expense ratio	25.6%	25.5%
COR	**93.8%**	**94.9%**
COR normalised for weather	**c.98%**	**c.93%**

Comments

- Reduction in operating profit due to weather event in Q1
- Current year attritional loss ratio reflects underlying pricing improvements
- Covid-19 impact includes prudent estimate of business interruption claims of £10m offset by lower claims frequency

1. Management estimate

See notes on slide 35 and glossary of terms on slides 48 to 51

Commercial trading: Strong trading despite Covid-19 headwinds

Trading update

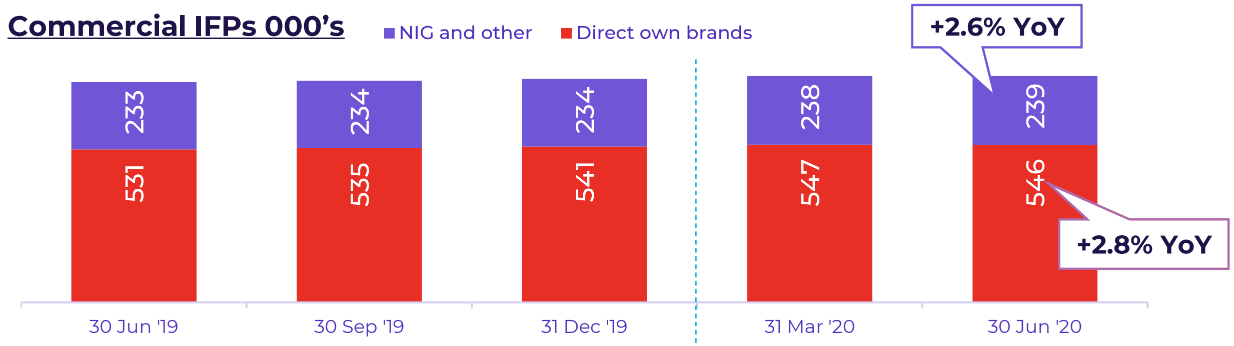
NIG and other

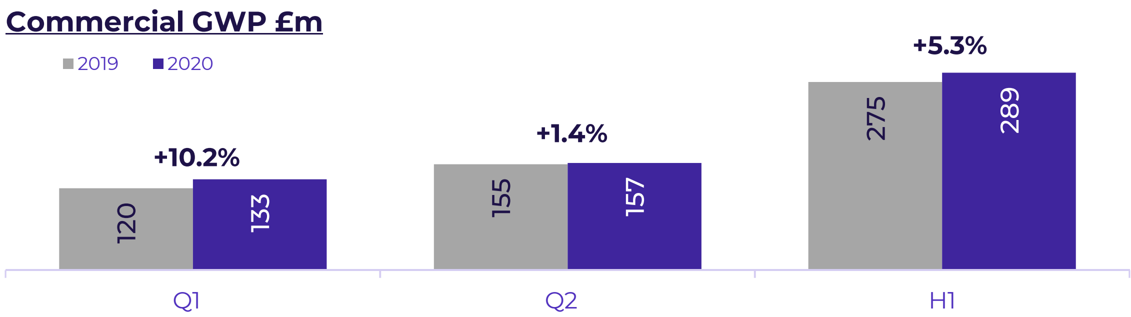
- Delivered growth in policy count and premiums in H1 driven by strong growth in Van
- NIG rate carried was strong at c. 5%

Direct own brands

- Double digit policy count and premium growth continued into Q1 which reduced in Q2 due to lower new business volumes
- Retention on the new Direct Line for Business (DL4B) platform performed in line with expectations

Top line performance





Direct Line Group

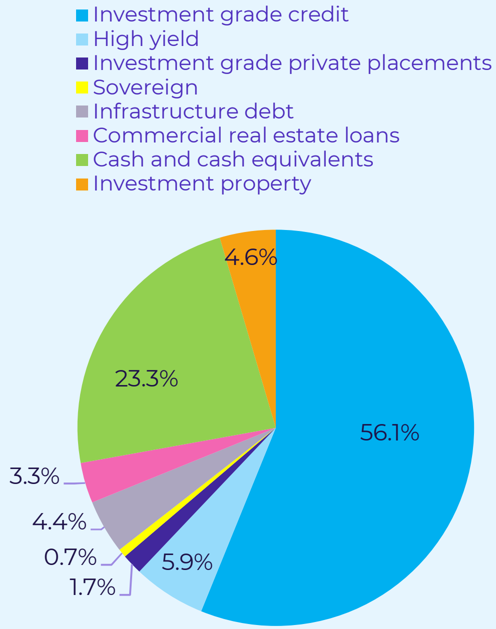
See notes on slide 35 and glossary of terms on slides 48 to 51

Investment return:
Lower income and higher realised losses

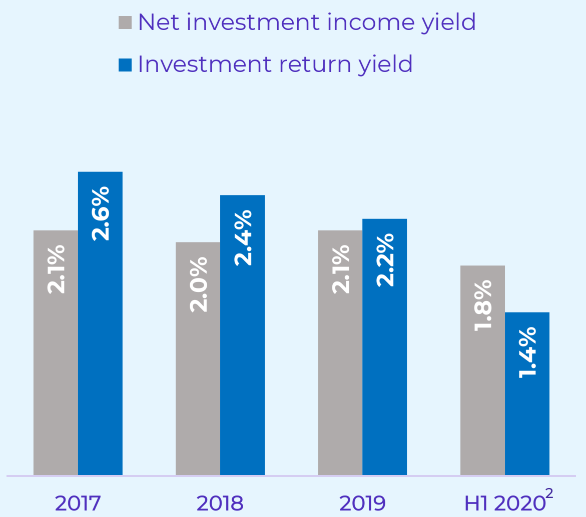
Group returns

£m	H1 2019	H1 2020
Investment income	75.4	64.8
Hedging to sterling floating rate	(12.1)	(9.6)
Net investment income	**63.3**	**55.2**
Net realised and unrealised gains/losses	12.4	(13.9)
Of which property fair value	*0.7*	*(10.3)*
Total Investment return	**75.7**	**41.3**
Available for sale reserve net of tax	**27.3**	**11.9**

Group holdings[1] £6,163m



Group yields



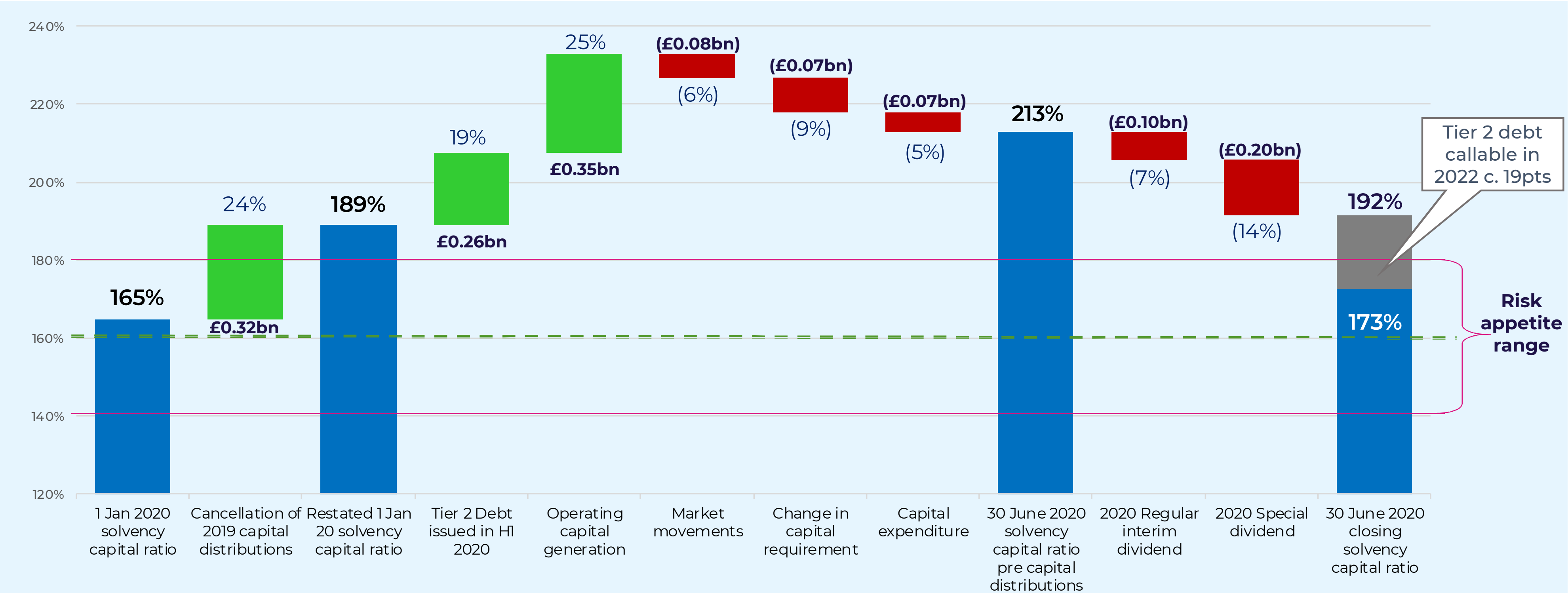
Net investment income yield expected to be approx. 1.8% in 2020

1. Excludes Equity investment
2. Annualised

See notes on slide 35 and glossary of terms on slides 48 to 51

Capital and balance sheet management:
Resilient solvency ratio throughout H1

Solvency ratio walk[1]



1. Figures estimated and based on partial internal model (PIM) output as at 30 June 2020

See notes on slide 35 and glossary of terms on slides 48 to 51

Capital and balance sheet management:
Declaring an interim and catching up on 2019 final dividend

Comments

- **Regular interim dividend of 7.4p per share; 2.8% growth compared to 2019 interim**
- **Additional special dividend of 14.4p per share representing the full catch-up of the cancelled 2019 final dividend**
- **Dividends due to be paid 4 September 2020 (ex-dividend date 13 August 2020)**

Capital returns £m

Reiterating our targets

1

Operating expenses

Expense ratio of 20% in 2023

2

Current year operating profit

At least 50% by 2021[1]

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

2020:
- 'Force for good' investment in the region of £80m-£90m
- Net investment income yield of c. 1.8%
- Restructuring and one-off costs of £60m
- Capital expenditure approx. £150m

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

See notes on slide 35 and glossary of terms on slides 48 to 51

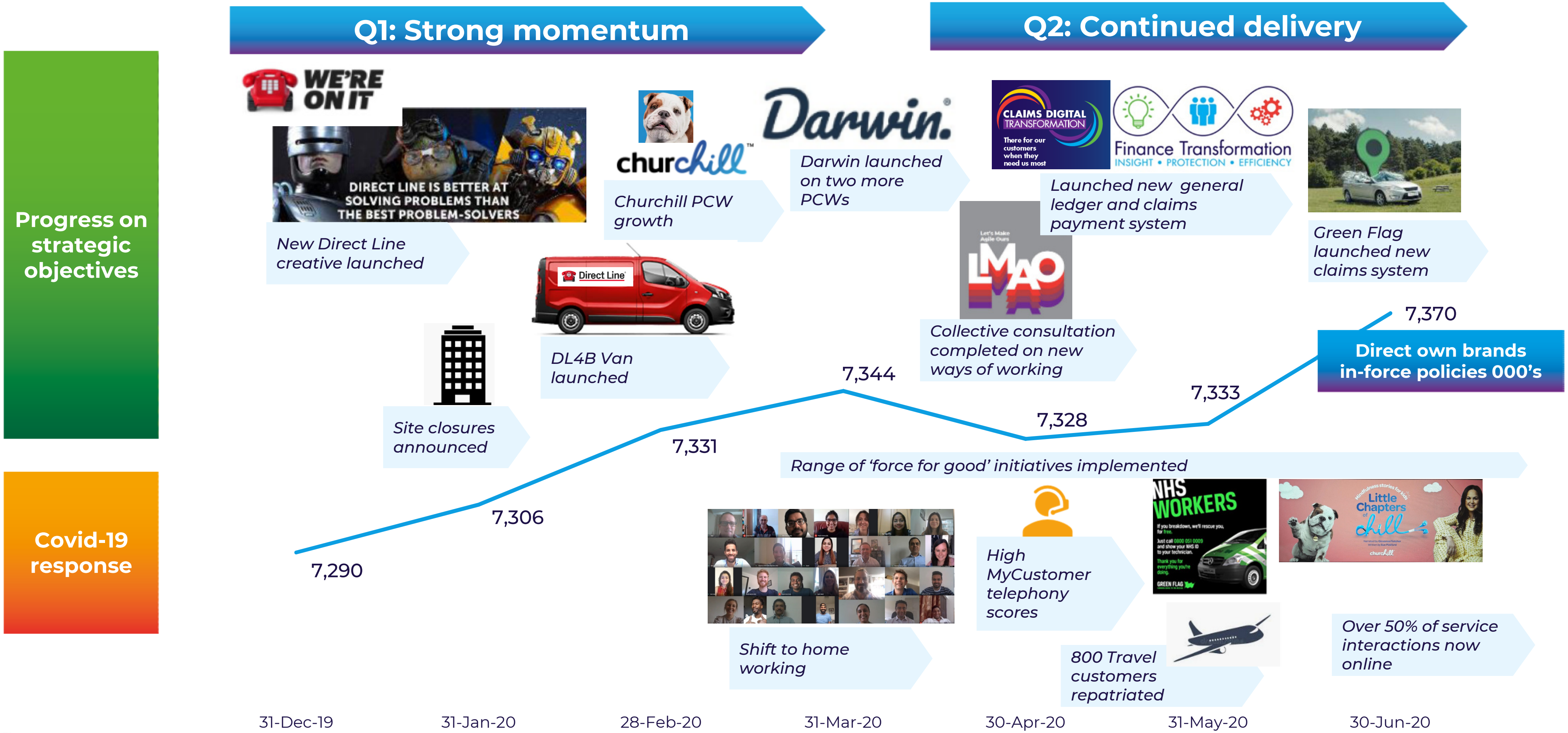
Strategy

Leveraging our customer focus with new technology

Penny James
CEO

Direct Line Group

H1 2020: Good progress in difficult times



Direct Line Group

Building a better business: On track with our tech transformation

Improved sales and service
Greater pricing accuracy
Brilliant claims experience

Motor & Home	Motor	Rescue	Micro & SME	Commercial	Travel
All Privilege new business sold through new platform Churchill and Direct Line to follow in 2020	Launched in 2019 – now live on 4 PCWs	New claims system rolled out in H1 2020	Van launched in H1 2020	Roll-out started in 2019 – almost complete	Launched in 2019
New customer service and back office support tools New pricing engine	New brand, new operating model	New set of customer systems under construction	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
Claims transformation	New Counter-fraud operating system
Technology transformation	New telephony system

Good progress across our strategic objectives

Easy to use and accessible everywhere

Best at Direct

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

H1 2020 Achievements

- ✓ **Direct Line: *Superhero* creative launched**
- ✓ **Direct Line: Fractional products under development, including acquisition of Brolly**
- ✓ **Green Flag: Delivered exceptional NPS and still growing**
- ✓ **Direct Line for Business: New Van proposition launched**

Win on PCWs

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

H1 2020 Achievements

- ✓ **Churchill: Growing market share; over 1.5m Motor policies**
- ✓ **Darwin: Rapid growth and increase in pace of change; over 30k policies written**
- ✓ **Privilege: All Motor new business sold through the new platform**

Extend our reach

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

H1 2020 Achievements

- ✓ **Exploring growth opportunities as new systems make it easier to onboard new books of business**

Good progress across our strategic objectives

Key enablers

Technical edge

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

H1 2020 Achievements

- ✓ Motor: Introduced online claims registration for single vehicle accidents
- ✓ Home: Expanded the online claims system
- ✓ Green Flag: Improved the 'Rescue Me' App journey
- ✓ Travel: Launched new online claims form

Nimble and cost efficient

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

H1 2020 Achievements

- ✓ Agile and organisational change: Completed collective consultation and new ways of working embedded across more teams; full launch in the autumn
- ✓ Site closures announced

Great people

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.

H1 2020 Achievements

- ✓ 9,000 people working from home
- ✓ One of our highest levels of employee engagement
- ✓ Virtual Sprintathon for Stand up to cancer (SUTC)

Direct Line Group

Post Covid world: What does it look like?

- Greater reliance on technology
- Greater social responsibility
- More flexible working
- Financial resilience
- Desire for more product flexibility
- Faster move towards digitalisation
- Increased focus on looking after the planet

Direct Line Group

Force for good: Our long term commitment to a carbon neutral future

Planet mission	2020 targets	Becoming a net zero business
Protect our business from the impact of climate change and give back more to the planet than we take out	• 57% Reduction in carbon emissions[1]: **Exceeded, currently at 67%** • 30% Reduction in energy consumption[1]: **Already achieved**	• **Committed to setting Science Based Targets (SBTs)** • **Become a carbon neutral[3] business this year whilst working to reduce our footprint over time** • **Aim to be TCFD[2] compliant by end of 2020**

Long-term commitment to a carbon neutral future in line with the Paris Climate Change Agreement

1. Against 2013 baseline, emissions within our control
2. TCFD Task Force on Climate-related Financial Disclosures
3. Against 2019 baseline Scope 1, 2 and 3 under our direct control

See glossary on slides 48 to 51

Building a better business: Our priorities for H2 2020

1. **Moving towards launching Direct Line and Churchill motor new business on our new platform**
2. **Embedding an enterprise agile operating model to increase pace and reduce the cost of change**
3. **Continue to support our 'Force for Good' initiatives**
4. **Focussed on getting our cost base on track to meet our long-term expense ratio target**

Direct Line Group

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. Focused on protecting our people, our customers and society during Covid-19
2. Trading momentum and financial resilience; return to paying dividends
3. Strategy delivering a more technology-driven business

APPENDIX

Notes to financial disclosures

1. 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 under the Direct Line for Business and Churchill brands.

2. Commercial direct own brands include Direct Line for Business and commercial products sold under the Churchill brand that were previously reported within NIG and other. Prior periods have been re-presented accordingly.

3. In-force policies, including direct own brands, as at 30 June 2019 have been restated to include 52,000 policies omitted from previously reported amounts.

4. A reduction in the ratio represents an improvement as a proportion of net earned premium, while an increase in the ratio represents a deterioration. See glossary pages 48 to 51 for definitions.

5. The solvency capital ratio as reported at 31 December 2019 is after taking into account the then expected 14.4p final dividend and the £150 million share buyback declared on 3 March 2020. The impacts of the cancellation of the dividend (as announced on 8 April 2020) and the suspension of the share buyback programme (as announced on 19 March 2020) would have added 24 percentage points to the ratio as reported to give an adjusted solvency capital ratio of 189%.

Instalment and other operating income

£m	H1 2019	H1 2020
Instalment income	**56.3**	**54.8**
Other operating income:		
Revenue from vehicle recovery and repair services	14.4	11.2
Vehicle replacement and referral income	9.0	6.3
Legal services income	5.3	4.7
Other income	3.0	3.0
Other operating income	**31.7**	**25.2**
Total instalment and other operating income	**88.0**	**80.0**

- Reduction in H1 2020 due to impact of Covid-19 on new business volumes and claims volumes

See notes on slide 35 and glossary of terms on slides 48 to 51

Balance sheet

Group balance sheet £m	31 Dec 2018 restated	31 Dec 2019	30 June 2020
Goodwill and other intangible assets	567	703	741
Financial investments and cash	6,214	5,914	6,303
Reinsurance assets	1,209	1,251	1,048
Other assets	1,545	1,566	1,480
Total Assets	**9,535**	**9,434**	**9,572**
Unearned premium reserve	1,506	1,506	1,502
Insurance liabilities	4,006	3,820	3,590
Other liabilities	1,119	1,118	1,377
Total Liabilities	**6,631**	**6,444**	**6,469**
Shareholders' equity	2,558	2,644	2,757
Tier 1 notes	346	346	346
Total Equity	**2,904**	**2,990**	**3,103**

- Investment in new technology reflected in higher intangibles
- Increase in other liabilities due to Tier 2 debt issue of £260m
- Simple debt structure

Investment portfolio

As at 30 June 2020	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%	2.1%	2.8
High yield	6.0%	6.5%	5.1%	2.5
Credit	**74.0%**	**70.8%**	**2.4%**	**2.7**
Sovereign	5.0%	0.7%	1.5%	0.7
Total debt securities	**79.0%**	**71.5%**	**2.4%**	**2.7**
Infrastructure debt	5.0%	4.8%	2.3%	0.2
Commercial real estate loans	4.0%	3.6%	3.6%	0.2
Investment property	5.0%	4.9%	4.5%	-
Cash and cash equivalents	7.0%	15.2%	0.4%	0.0
Total	**100.0%**	**100.0%**	**2.1%**[1]	**2.0**

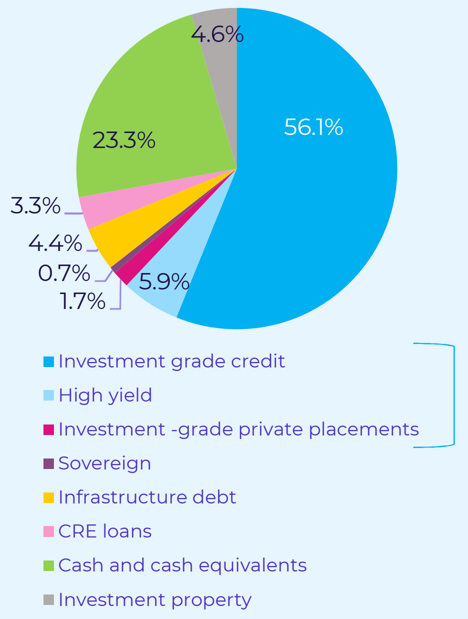
- 2.5% of total debt securities rated as ‘AAA’ and 54.7% rated as ‘AA’ or ‘A’

1. Gross investment income yield

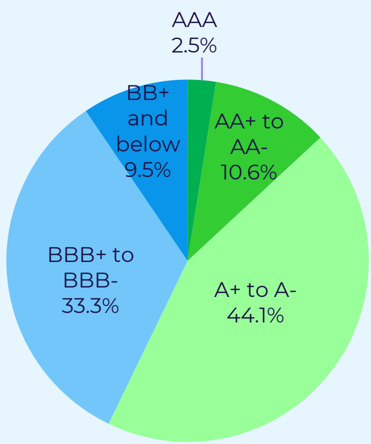
See notes on slide xx and glossary of terms on slides xx to xx

Investment portfolio: Robust, good quality

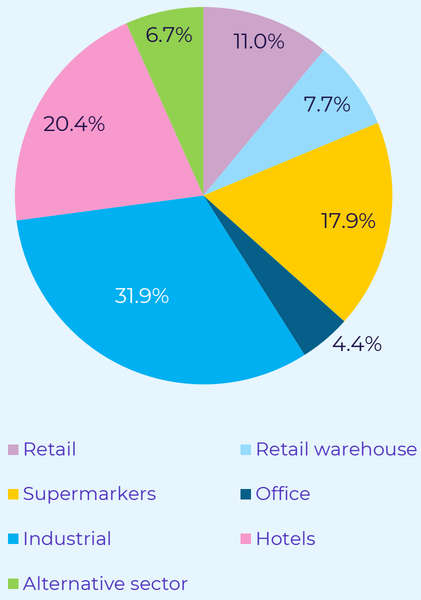
Group holdings[1] £6,163m



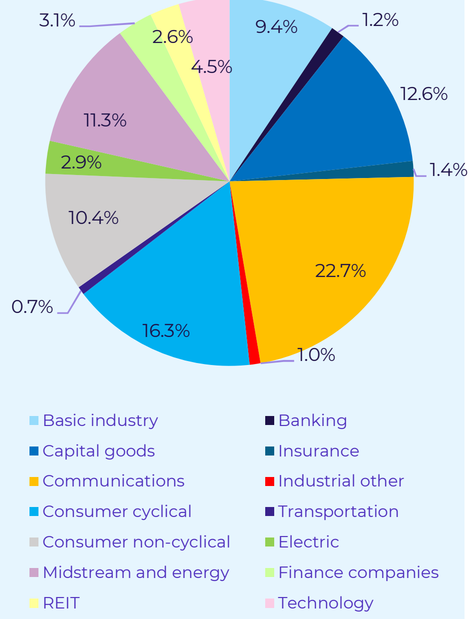
Debt securities credit quality



Property by sector[2] £277m



High yield by sector £365m



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 35 and glossary of terms on slides 48 to 51

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

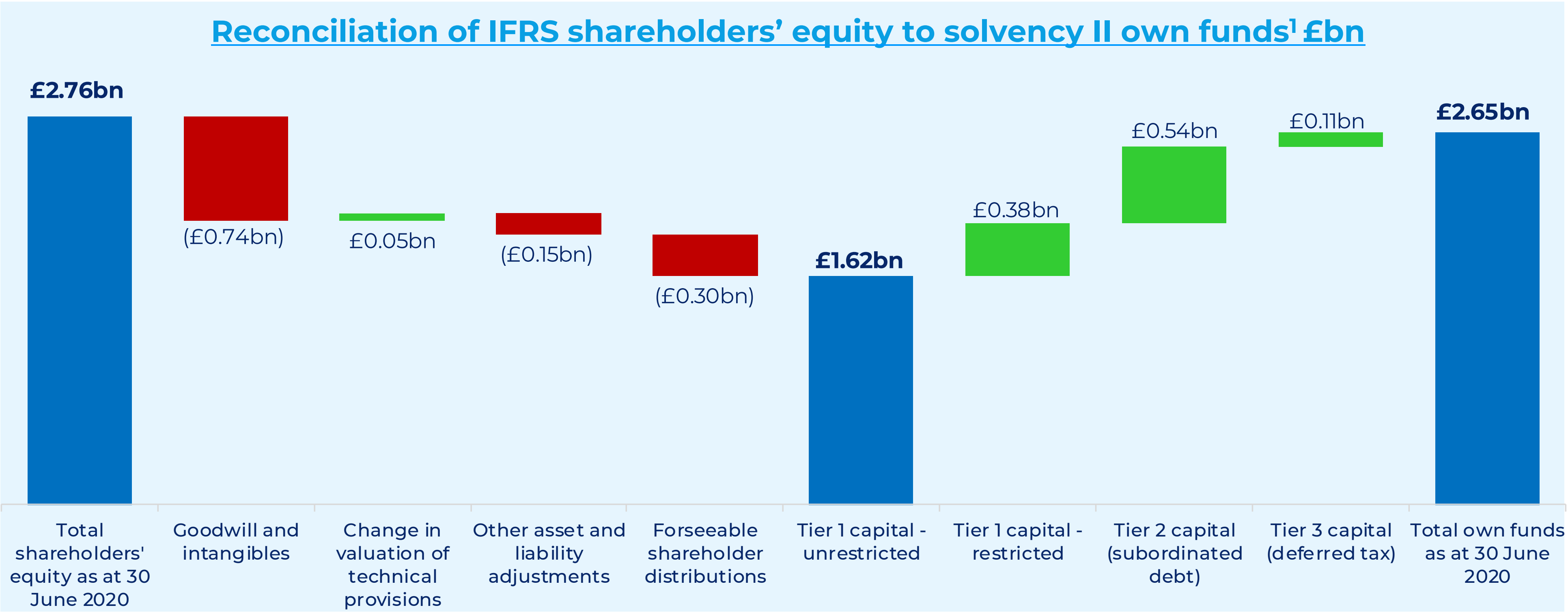
Accident year	Limit £m	Deductible £m
2020/21	1,125	130
2019/20	c. 1,132	c. 132
2018/19	c. 1,205	c. 139
2017/18	c. 1,275	c. 150
2016/18	1,250	c. 150
2015/16	1,350	c. 150
2014/15	1,400	c. 150
2013/14	1,300	c. 150

- Cover renewed on 1 July 2020
- Limit is equivalent to a modelled c.1 in 200 year loss
- Cover has one full reinstatement for all programme and additional reinstatement up to £545m
- Placed with a wide panel of reinsurers who are all at least 'A-' rated .

Direct Line Group

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

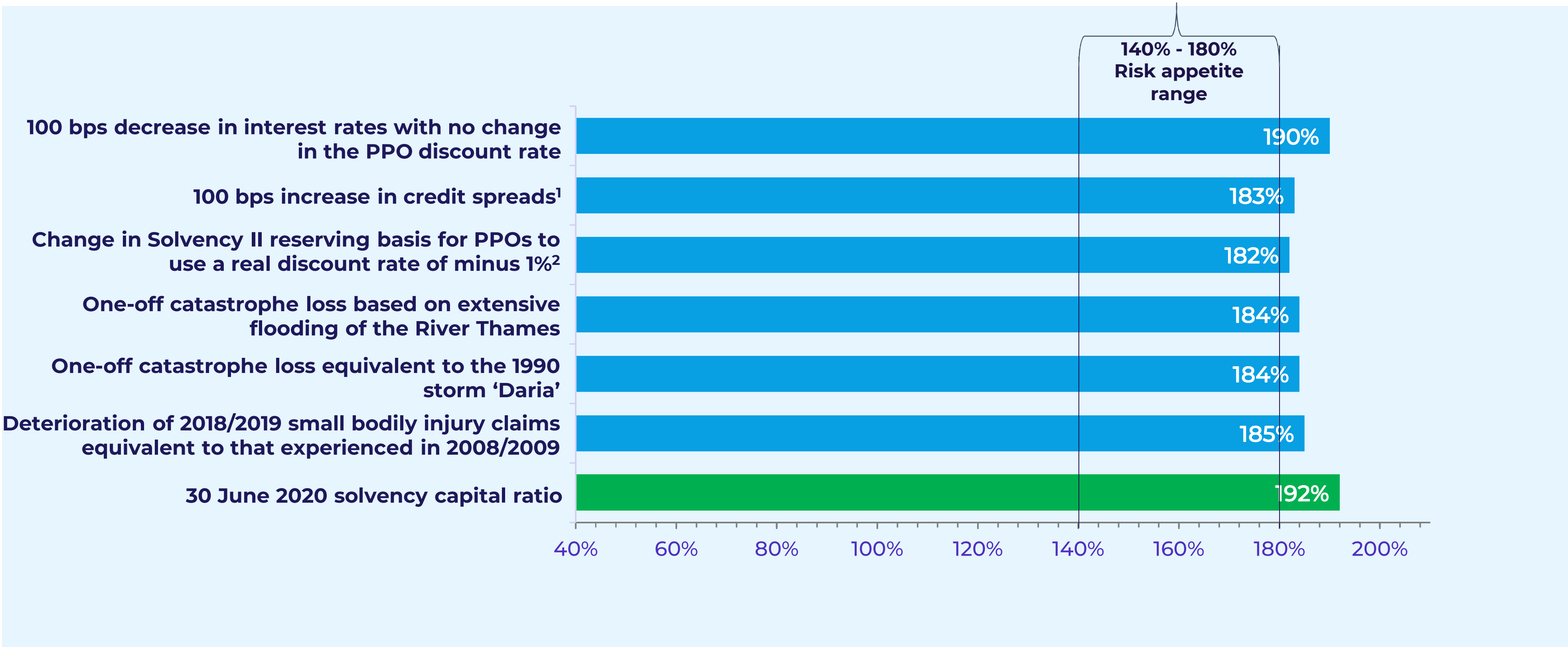
IFRS to Solvency II bridge



Direct Line Group

1. Figures estimated and based on partial internal model (PIM) output as at 30 June 2020
See notes on slide xx and glossary of terms on slides xx to xx

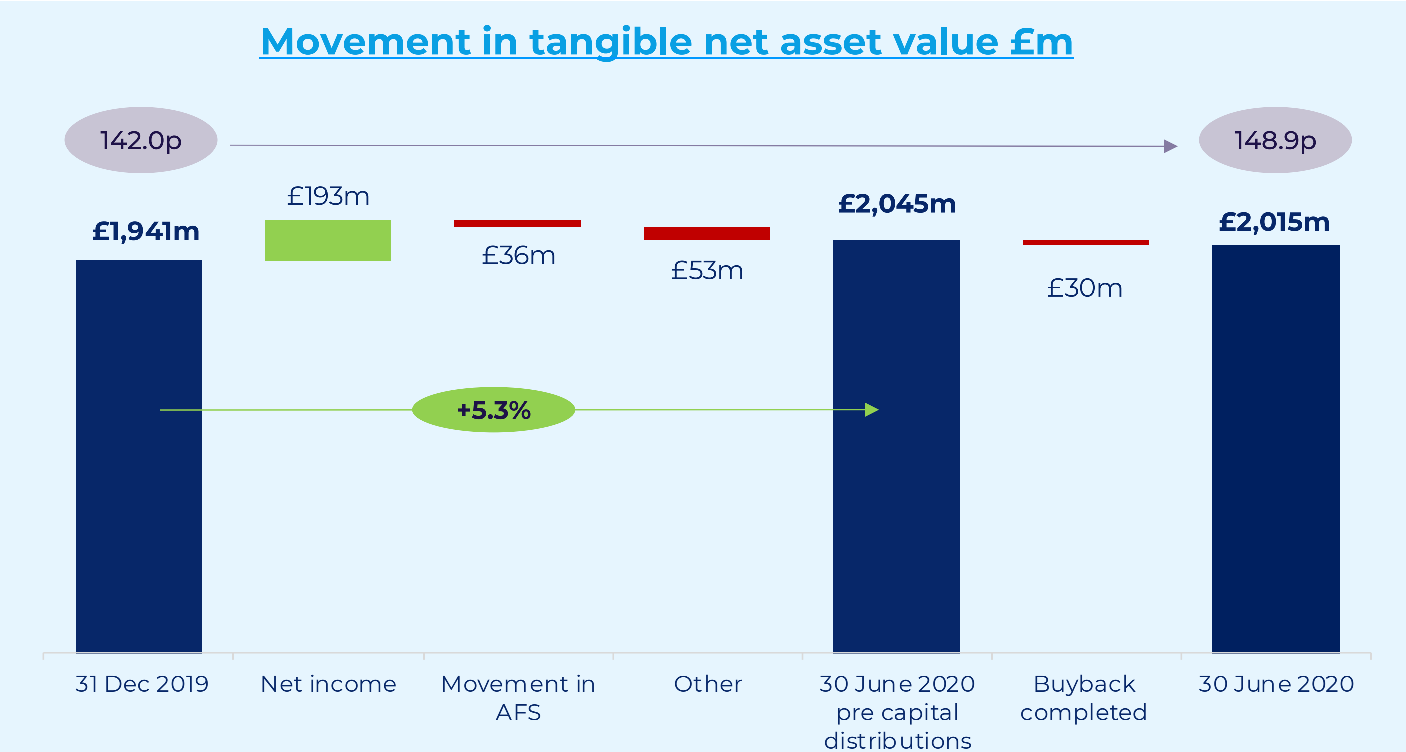
Solvency sensitivity analysis



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

Direct Line Group

Book value and TNAV



	31 Dec 2019	30 Jun 2020
Net asset value per share (pence)	**193.4**	**203.7**
Tangible net asset value per share (pence)	**142.0**	**148.9**

Total unrealised AFS reserves of £11.9 (net of tax) as at 30 June 2020

Direct Line Group

See notes on slide 35 and glossary of terms on slides 48 to 51

Return on tangible equity and earnings per share calculations

Return on tangible equity (RoTE)

£m	H1 2019	H1 2020
Profit before tax	261.3	**236.4**
Add back: Restructuring and one-off costs	-	**15.0**
Coupon payments in respect of Tier 1 notes	(8.3)	**(8.3)**
Adjusted profit before tax	253.0	**243.1**
Tax charge	(49.5)	**-**
Tax charge (using the 2019 UK standard tax rate of 19%)	-	**(46.2)**
Adjusted profit after tax	**203.5**	**196.9**
Opening shareholders tangible equity	1,991.4	1,941.1
Closing shareholders' tangible equity	1,901.0	2,015.3
Average shareholders' tangible equity	**1,946.2**	**1,978.2**
RoTE annualised	**20.9%**	**19.9%**

Earnings per share (EPS)

£m	H1 2019	H1 2020
Profit after tax	211.8	192.6
Coupon payments in respect of Tier 1 notes	(8.3)	(8.3)
Profit for the calculation of EPS	203.5	184.3
Weighted average number of shares (millions)	1,366.5	1,355.6
Basic earnings per share (pence)	**14.9**	**13.6**

See notes on slide 35 and glossary of terms on slides 48 to 51

H1 2020 segmental results

£m	Motor	Home	Rescue and other personal lines	Commercial	Total Group
GWP	805.3	276.1	210.1	289.3	**1,580.8**
Net earned premium	740.4	277.8	213.2	243.0	**1,474.4**
Net insurance claims	(401.8)	(162.2)	(179.3)	(125.7)	**(869.0)**
Commission expenses	(21.4)	(19.0)	(6.4)	(43.0)	**(89.8)**
Operating expenses	(183.2)	(75.4)	(51.5)	(61.9)	**(372.0)**
Underwriting profit / (loss)	**134.0**	**21.2**	**(24.0)**	**12.4**	**143.6**
Investment return	27.4	4.3	1.5	8.1	**41.3**
Instalment and other operating income	59.1	9.8	6.3	4.8	**80.0**
Operating profit / (loss)	**220.5**	**35.3**	**(16.2)**	**25.3**	**264.9**
Restructuring and one-off costs	-	-	-	-	**(15.0)**
Operating profit after restructuring and one-off costs	**-**	**-**	**-**	**-**	**249.9**
Finance costs	-	-	-	-	**(13.5)**
Profit before tax	-	-	-	-	**236.4**
Tax	-	-	-	-	**(43.8)**
Profit after tax	**-**	**-**	**-**	**-**	**192.6**
Loss ratio – current year	65.5%	59.4%	86.0%	65.4%	**67.4%**
Loss ratio – prior year	(11.3%)	(0.9%)	(1.9%)	(13.7%)	**(8.4%)**
Estimated impact of Covid-19 on loss ratio	*(9.7%)*	-	*11.3%*	*(0.1%)*	***(3.5%)***
Commission ratio	2.9%	6.8%	3.0%	17.7%	**6.1%**
Expense ratio	24.7%	27.1%	24.2%	25.5%	**25.2%**
Combined operating ratio	**81.9%**	**92.4%**	**111.3%**	**94.9%**	**90.3%**

See notes on slide 35 and glossary of terms on slides 48 to 51

H1 2019 segmental results

£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**
Restructuring and one-off costs	-	-	-	-	**-**
Operating profit after restructuring and one-off costs	**-**	**-**	**-**	**-**	**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%**

Direct Line Group

See notes on slide 35 and glossary of terms on slides 48 to 51

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	**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	**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%**

See notes on slide 35 and glossary of terms on slides 48 to 51

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 managed 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 are 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.
Carbon emissions	**Scope 1** – covers direct emissions from owned or controlled sources, including fuels used in office buildings, accident repair centres and owned vehicles. **Scope 2** – covers indirect emissions from the generation or purchased electricity, steam, heating and cooling of office buildings and accident repair centres. **Scope 3** – includes all other indirect emissions that occur in the company’s value chain such as waste disposal, business travel and staff commuting.
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. It is stated after charging tax using the UK standard rate of 19% and for 2019 it is stated after charging tax using the effective rate of 18.9%
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 restructuring and other one-off costs.

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 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 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 and bodies (including changes related to capital and solvency requirements or 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;
- 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 Covid-19) 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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