Direct Line Group

2021 Half year results

3 August 2021

Today's speakers

Penny James
CEO

Neil Manser
CFO

H1 2021 highlights

1. Strong financial performance with operating profit of £370m
2. Announced a new Motor partnership with Motability Operations Ltd; demonstrating our strengths in customer service and car repair
3. Delivered major technology milestone; new Motor platform live across Direct Line, Churchill and Privilege
4. Continued to focus on digitalisation, personalisation and the transition to a green economy
5. Strong capital generation; growth in interim dividend and commencing the remaining £50m share buyback programme announced at the FY2020

Financials

Delivering our ambition

Neil Manser
CFO

H1 2021 financial highlights

Operating profit

£370m

Direct own brands portfolio growth

+1.3%

+5.9% own brand portfolio excluding Motor

Progress on underlying cost base

-£30m

Reduction in controllable costs in H1 2021

2021 combined operating ratio

90% - 92%

2021 expectation[1]

Strong shareholder returns

7.6p

Interim dividend, 2.7% per share growth

£50m

Share buyback completed in H1 2021

1. Normalised for weather

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

H1 2021 results summary: Strong financial performance

Financials £m	H1 2020	H1 2021		Change
Gross written premium	1,580.8	1,556.5	A	(1.5%)
Underwriting profit	**143.6**	**229.3**		**59.7%**
Instalment and other income	80.0	72.2		(9.8%)
Investment return	41.3	68.4		65.6%
Operating profit	**264.9**	**369.9**	B	**39.6%**
Restructuring and one-off costs	(15.0)	(91.5)	C	510.0%
Finance costs	(13.5)	(17.1)	D	(26.7%)
Profit before tax	**234.6**	**261.3**		**10.5%**
Profit after tax	**192.6**	**203.8**		**5.8%**
Key metrics %	**H1 2020**	**H1 2021**		**Change**
Combined operating ratio (COR)	90.3%	**84.2%**	E	6.1pts
COR normalised for weather	90.4%	**86.3%**	E	4.1pts
Return on tangible equity (RoTE)	19.9%	**30.1%**	F	10.2pts

Observations

A Gross written premiums 1.5% lower, with growth across Commercial, Home and Green Flag Rescue offset by Motor and Travel

B Strong operating profit of £370m reflects:

- Non-repeat of Covid related Travel claims
- Investment gains of £17m (£14m net realised and unrealised investment loss in H1 2020)
- Lower Motor claims frequency due to lockdown restrictions
- Strong prior year reserve releases of £153m (£123m in H1 2020)
- Benign weather costs of just £3m (£30m in H1 2020)

C Restructuring and one-off costs of £91m reflects progress on site strategy

D Finance costs increased to £17m due to additional interest on the Tier 2 debt issued in June 2020

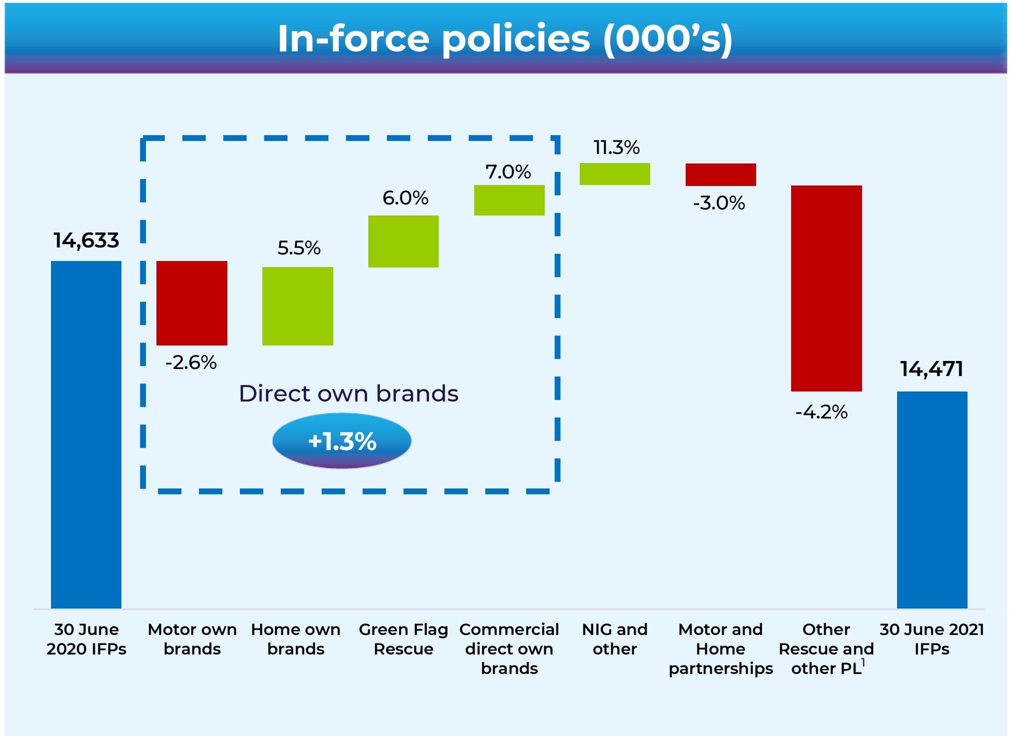
E Combined operating ratio improved by 6 points to 84%, normalised for weather, the COR improved by 4 points to 86%

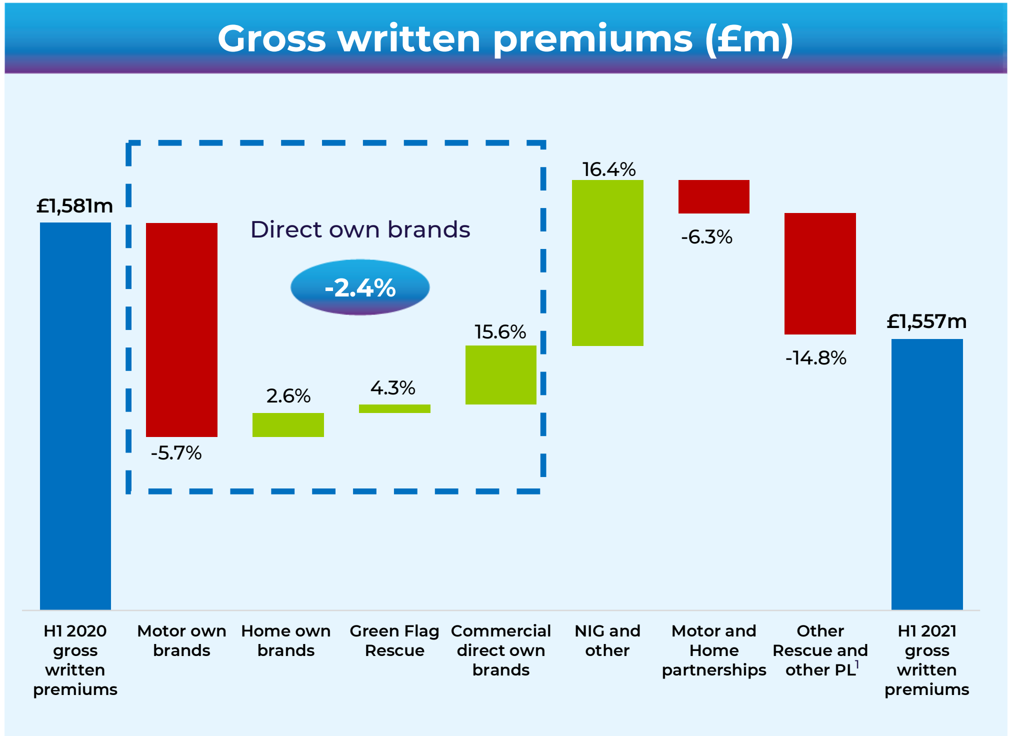
F Annualised return on tangible equity of 30%, 15 points ahead of the Group's 15% target

Direct Line Group

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

In-force policies and premiums: The benefits of a diversified model



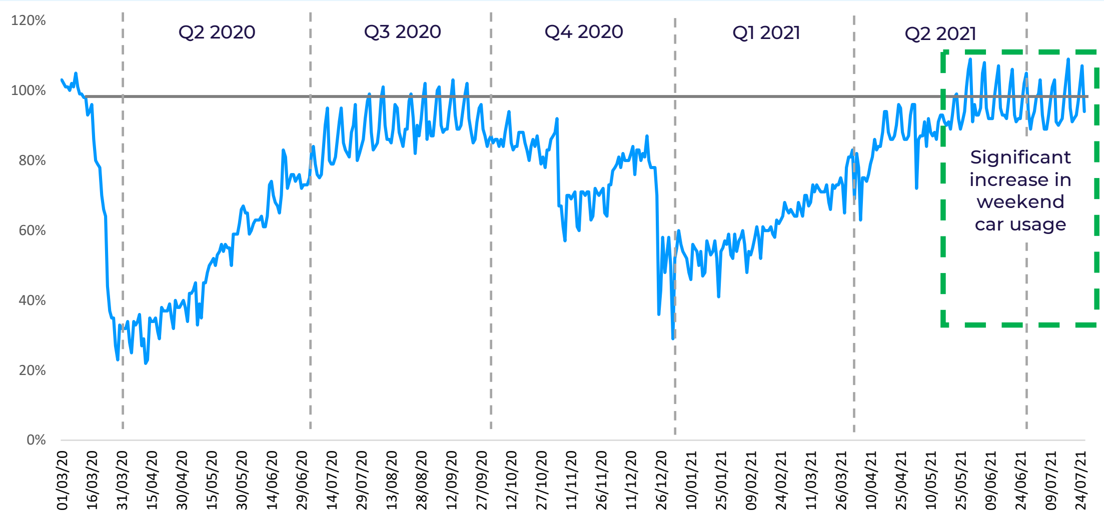


1. This segment comprises Rescue excluding Green Flag, and other personal lines products – Pet, Travel, Creditor and our mid-to high-net worth business, UK Select

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

Motor: Claims frequency has lagged car usage

Department for Transport car usage[1]



Claims severity

Vs. expectations

Damage

Small BI

Large BI

Severity inflation has returned to around the top end of our normal expectation of 3%-5%

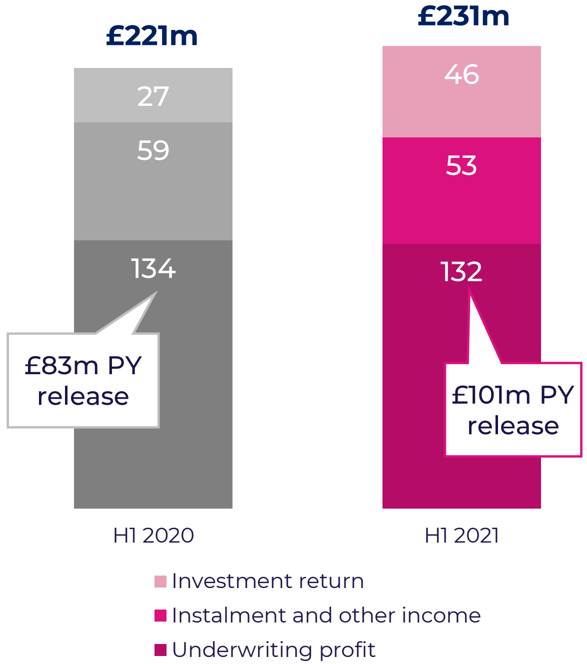
Observations

- Claims frequency lagged car usage and was broadly in line with H1 2020 experience
- Claims frequency now almost back to the level assumed in our pricing
- Whiplash reforms have contributed to deflationary market conditions

1. Department for Transport, Great Britain use of transport mode since 1 March 2020, figures are percentages of an equivalent day or week

Motor: Underwriting discipline in a deflationary market

Operating profit



Key metrics

	H1 2020	H1 2021
Own brands GWP	*£779m*	***£733m***
Own brands average premium[1] £	*£383*	***£376***
Current year loss ratio	65.5%	**66.9%**
Prior year ratio	(11.2%)	**(13.8%)**
Loss ratio	54.3%	**53.1%**
Commission ratio	2.9%	**3.1%**
Expense ratio	24.7%	**25.6%**
COR	**81.9%**	**81.8%**

Observations

- Own brands average premiums reduced by 1.7%
- Current year loss ratio continued to benefit from lower claims frequency
- Prior year reserve releases elevated by favourable development in large bodily injury claims
- Reduction in instalment and other income reflects lower premiums and claims volumes

Outlook:

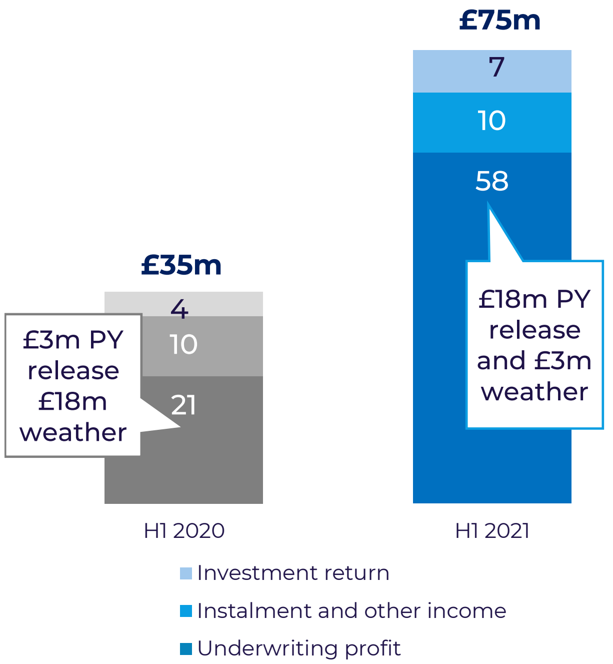
- In H2 2021 the current year loss ratio is expected to be closer to 2020 underlying of c. 79%

1. Excludes Darwin

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

Home: Growth across direct and PCW alongside benign weather

Operating profit



Key metrics

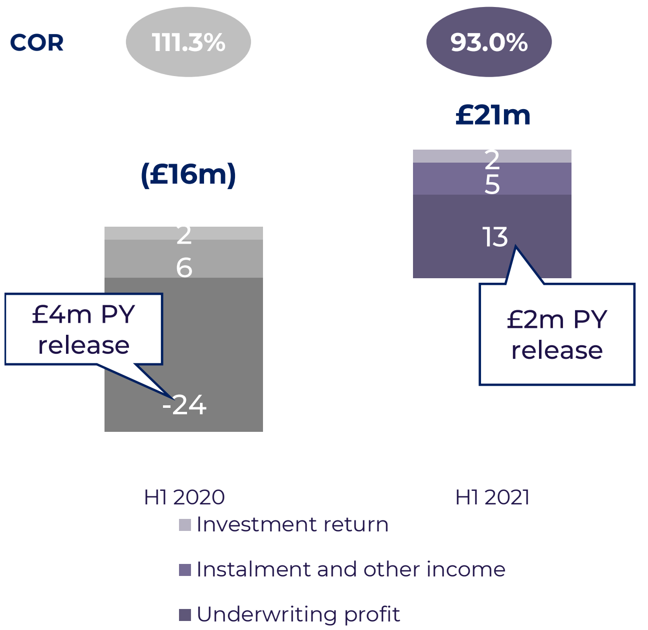
	H1 2020	H1 2021
Own brands GWP	*£194m*	***£199m***
Own brands average premium £	*£219*	***£211***
Current year attritional loss ratio	53.0%	**52.3%**
Major weather	6.4%	**1.1%**
Prior year ratio	(0.9%)	**(6.4%)**
Loss ratio	58.5%	**47.0%**
Commission ratio	6.8%	**5.8%**
Expense ratio	27.1%	**26.2%**
COR	**92.4%**	**79.0%**
COR normalised for weather	**94.2%**	**86.2%**

Observations

- Strong new business growth in direct and PCWs driven by improved competitiveness in a buoyant housing market
- Own brands average premiums were 3.5% lower than H1 2020 due to mix and pricing actions
- Stable current year attritional loss ratio with severity inflation in line with 3% to 5% expectation
- Increase in profit due to benign weather and higher prior year reserve releases following favourable development in escape of water claims
- COR of 79% or 86% normalised for weather

Rescue and other personal lines[1]: Continued earnings growth in Rescue

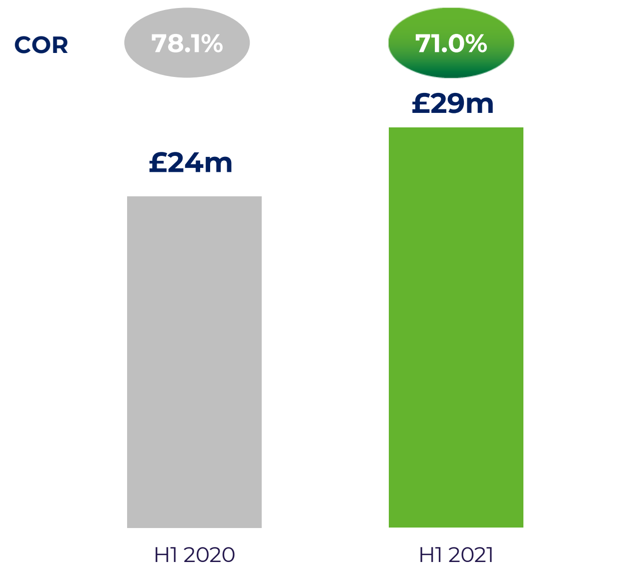
RoPL operating profit



Observations

- Rescue and other Personal Lines returned to profit with a COR of 93% due to non-repeat of Travel losses in H1 2020
- Green Flag returned to double digit premium growth in Q2 2021
- Rescue grew profit to £29m with a COR of 71% due to better indemnity control and cost efficiency due to new claims system

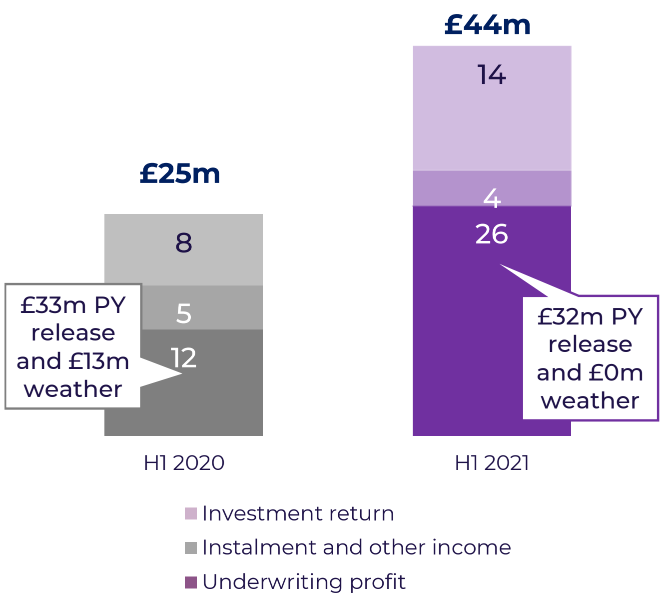
Rescue operating profit



1. The segment comprises Rescue, including our challenger brand Green Flag, as well as other personal lines products – Pet, Travel, Creditor and our mid-to high-net worth business, UK Select
See notes on slide 30 and glossary of terms on slides 50 to 53

Commercial: Double digit growth at strong margins

Operating profit



Key metrics

	H1 2020	H1 2021
Own brands GWP	*£79m*	***£91m***
NIG and other GWP	*£211m*	***£245m***
Current year attritional loss ratio	60.2%	**61.1%**
Major weather	5.2%	**-**
Prior year ratio	(13.7%)	**(12.1%)**
Loss ratio	51.7%	**49.0%**
Commission ratio	17.7%	**19.8%**
Expense ratio	25.5%	**21.4%**
COR	**94.9%**	**90.2%**
COR normalised for weather	**93.4%**	**94.0%**

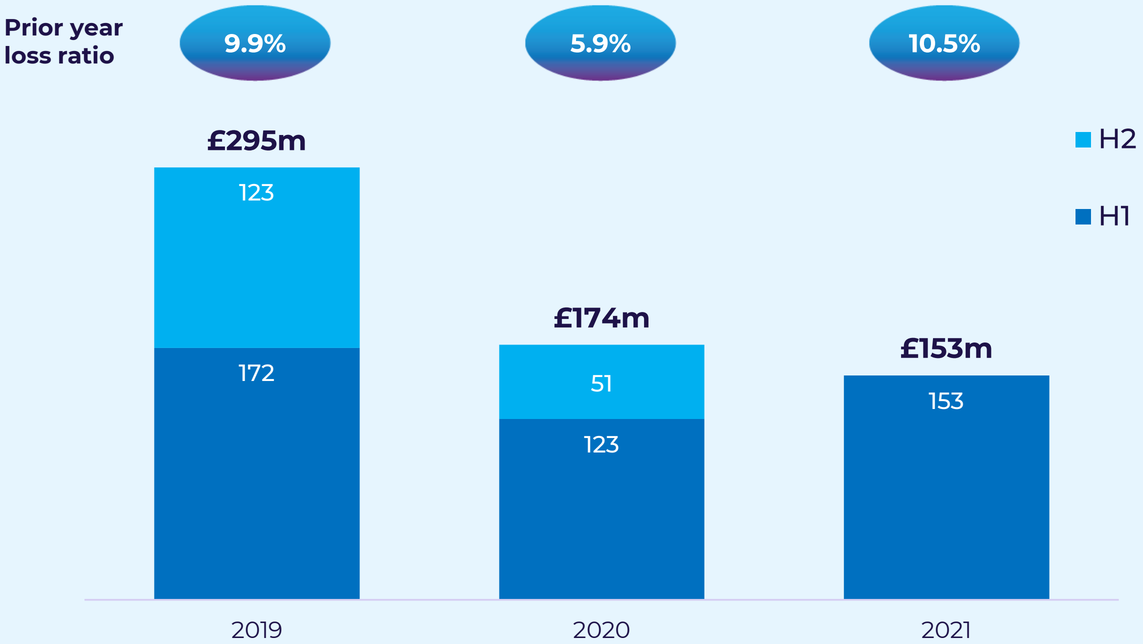
Observations

- Double digit premium growth across direct own brands and NIG
- Operating profit increased to £44m reflecting the benefits of its technology transformation and benign weather in H1 2021
- Prior year releases broadly stable at £32m
- Headline COR of 90%, normalised for weather 94%, broadly stable versus H1 2020

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

Prior year reserve release: Strong releases in H1 2021 expected to reduce in H2

Prior year reserve releases



Observations

- 2020 was a low watermark for prior year reserve releases
- H1 2021 reserve releases £30m higher due to favourable development on large bodily injury claims in Motor and escape of water in Home

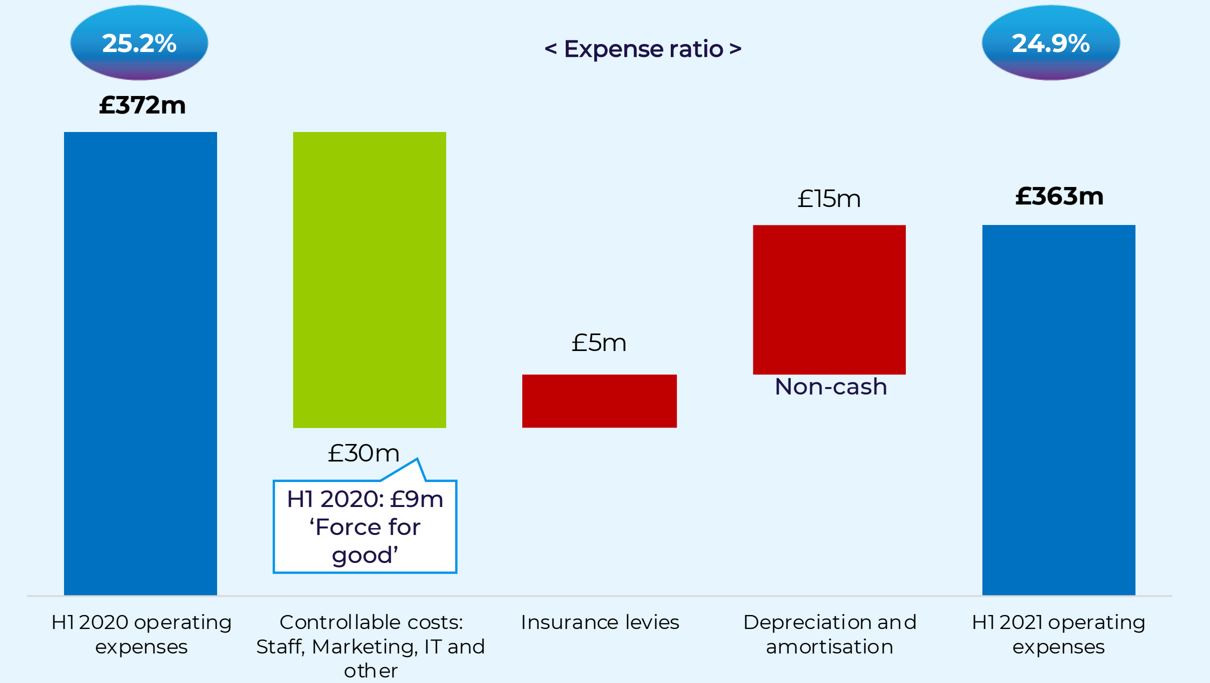
Outlook:

- 2021 full year releases expected to be between 2019 and 2020 levels

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

Operating expenses: Progress on controllable cost base

Operating expenses walk



Observations

- Operating expenses of £363m, £9m lower than prior year
- Progress on cost reduction programme in H1 2021, driven by improved operational efficiency
- Increase in non-cash depreciation and amortisation charges driven by delivery of new Motor platform
- Restructuring and other one off costs of £91.5m in H1 reflects progress on site strategy

Outlook:

- Aim to get back to expected cost run rate of <£700m by end of 2021 and reiterate 20% expense ratio target for 2023

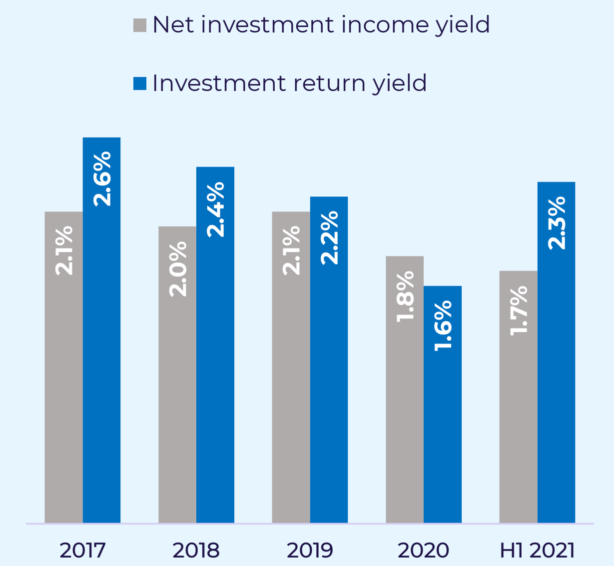
See notes on slide 30 and glossary of terms on slides 50 to 53

Investment return: High quality portfolio with commercial property revaluation gains

Investment return

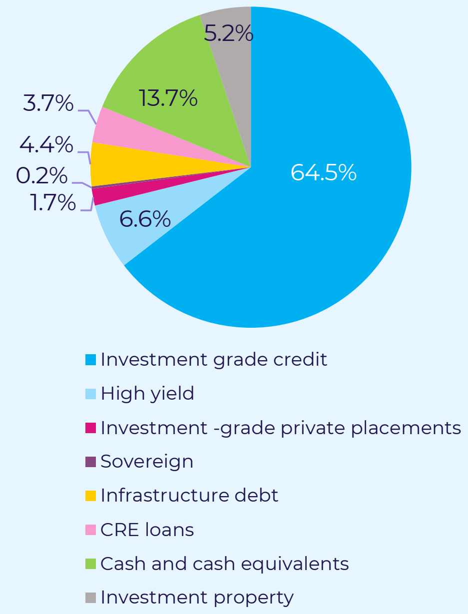
£m	H1 2020	H1 2021
Investment income	64.8	58.9
Hedging to sterling floating rate	(9.6)	(7.3)
Net investment income	**55.2**	**51.6**
Net realised and unrealised gains/(losses)	(13.9)	16.8
Of which property fair value	*(10.3)*	*10.0*
Total Investment return	**41.3**	**68.4**
	31 Dec 2020	30 June 2021
Available for sale reserve net of tax	**83.9**	**45.5**

Group yields



Net investment income yield expected to be around 1.6% in 2021

Group holdings[1] £5,865m



1. Excludes equity investment

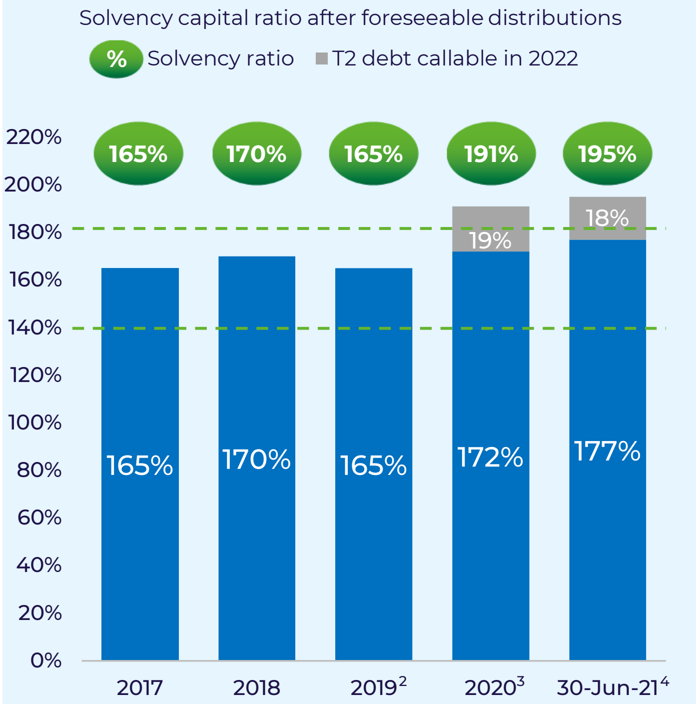
See notes on slide 30 and glossary of terms on slides 50 to 53

Capital and balance sheet management: Proposed interim dividend growth of 2.7% per share to 7.6p

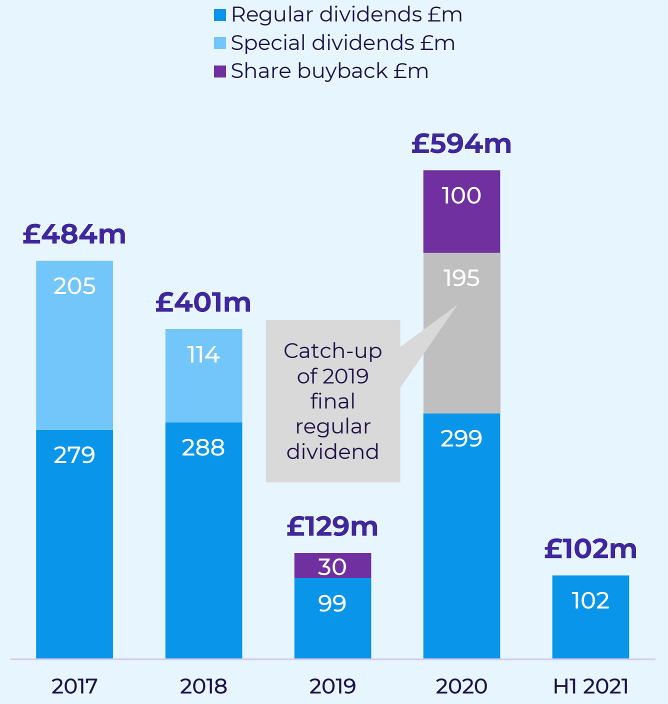
Observations

- Interim regular dividend of 7.6p per share[1]; 2.7% growth
- First tranche of the £100m share buyback programme announced alongside the FY 2020 results completed, second tranche on track to be completed before the FY 2021 results
- Solvency capital ratio after dividend and buyback of 195% and 177% excluding Tier 2 debt (callable in 2022)
- Solvency ratio at H1 2021 reflects strong earnings and phasing of dividend

Capital evolution



Capital distributions



1. Dividend due to be paid 3 September 2021
2. The impact of the cancellation of the dividend and buyback was 24 percentage points to give a solvency ratio of 189% as at 31 December 2019. The solvency capital ratio as reported as at 31 December 2019 after taking account of the then expected 14.4p final dividend and £150m share buyback was 165%
3. Solvency ratio including Tier 2 debt callable in 2022 and after 2020 final dividend and £100m buyback. Figures estimated and based on partial internal model (PIM) output as at 31 December 2020
4. Solvency ratio including Tier 2 debt callable in 2022 and after 2021 interim dividend. Figures estimated and based on partial internal model (PIM) output as at 30 June 2021

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

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Financial targets and outlook

2021 outlook

- Prior year reserve releases: Expected to be between 2019 and 2020 levels
- Operating expenses: We expect to deliver <£700m run rate by the end of the year
- Net investment income yield: Expected to be around 1.6%
- Current year operating profit: Expected to be at least 50%[1]

Combined operating ratio 90% - 92%[2]

Medium term targets

Expense ratio:

20% in 2023

Combined operating ratio:

93% - 95% throughout the medium term[2]

Return on tangible equity (RoTE):

At least 15% per annum over the long term

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

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

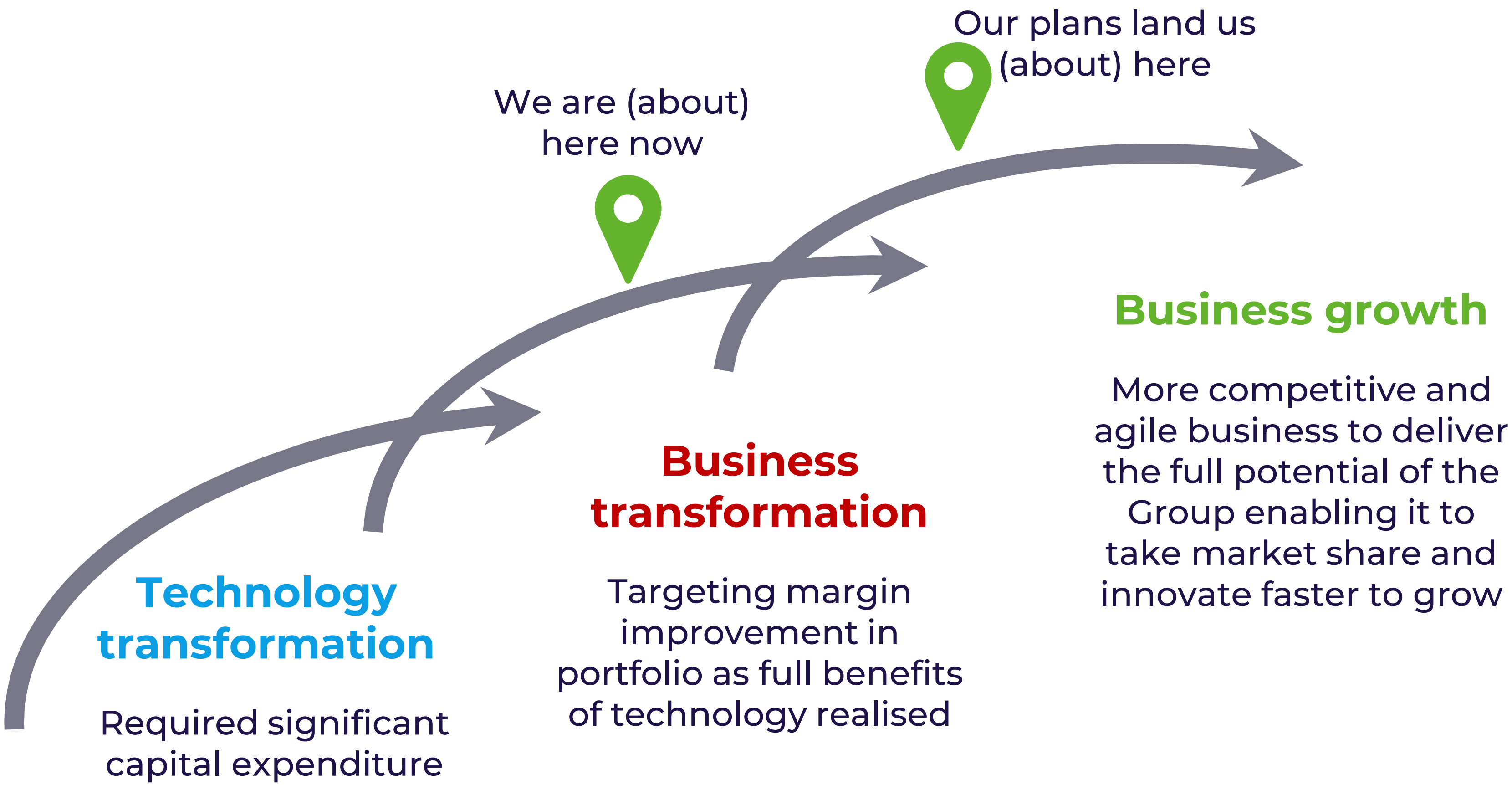
Strategy

Leveraging our customer focus
with new technology

Penny James
CEO

Direct Line Group

Strategic overview: Optimising new technology capability through Agile ways of working



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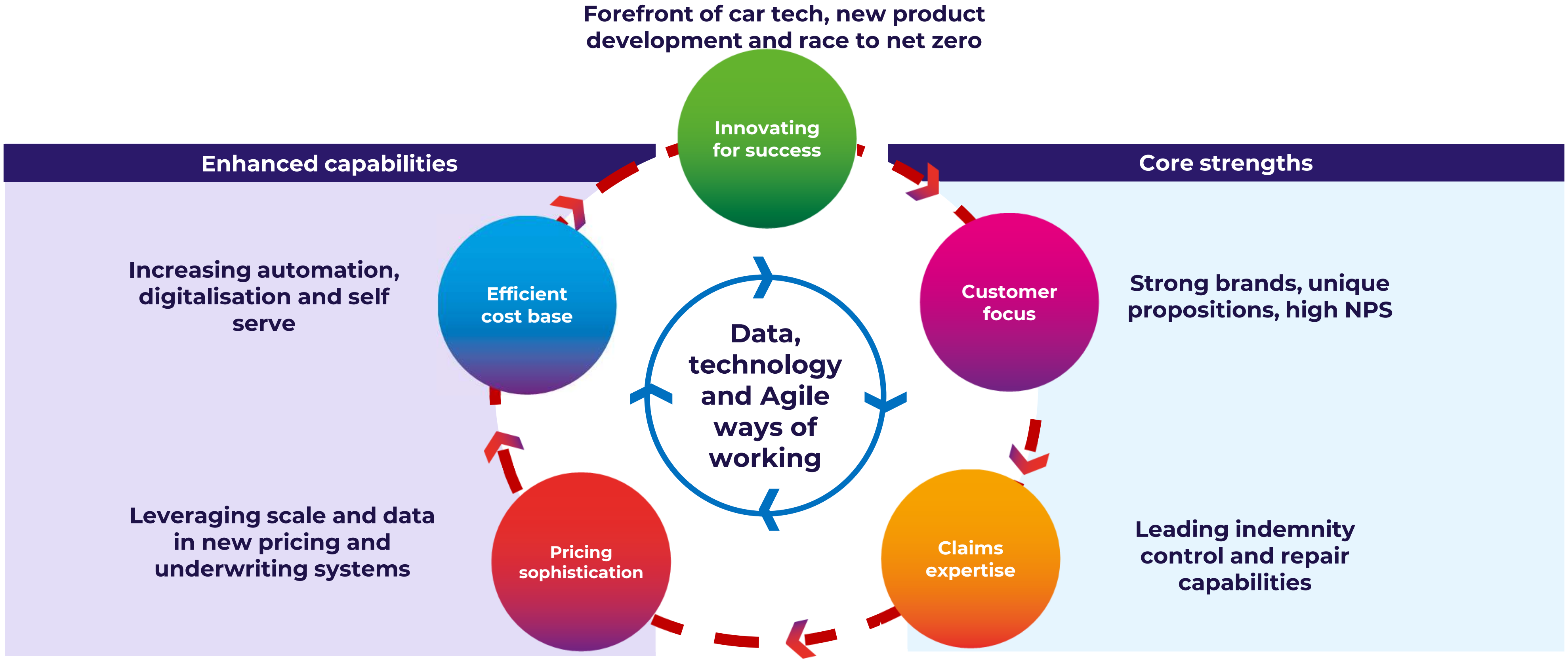
Strategic overview: Our core strengths combined with new technology are designed to deliver sustainable growth



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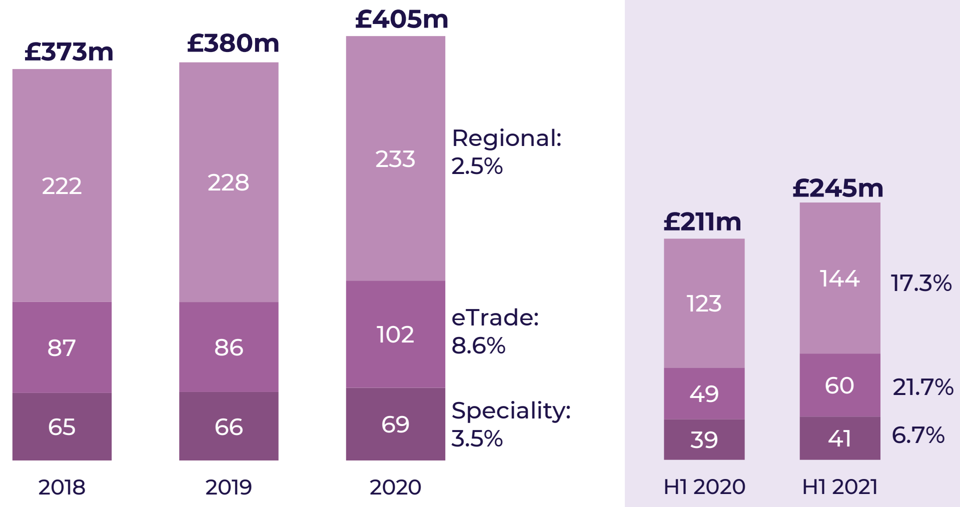
Evidence of the flywheel working: Commercial growth

Broker and affinity GWP £m

Re-platforming complex products to enable better pricing and risk selection

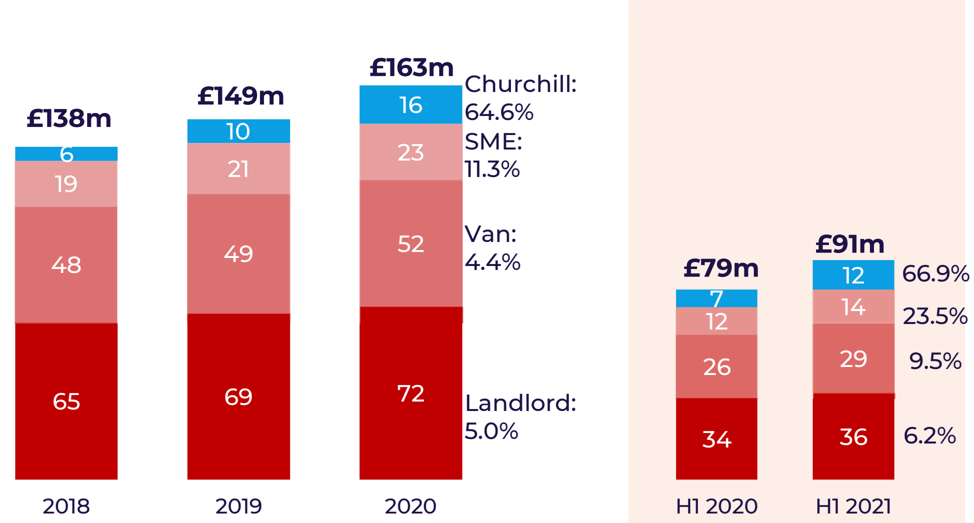
4.1% CAGR | H1 growth 16.4%



Direct own brands GWP £m

Established modularised product offering built using fully Agile methodology

8.8% CAGR | H1 growth 15.5%



Evidence of the flywheel working: Leading customer service and claims capability delivering new partnership

We hosted a claims webinar in which we demonstrated our strengths

https://www.directlinegroup.co.uk/en/investors/dlg-claims-insight-webinar.html

Spotlight on claims: How we differentiate ourselves and drive value for the Group

1 Market leading propositions

Our customer focus, and expertise in digital and claims helps us deliver:

- Excellent customer service
- Unique customer propositions
- Strong NPS scores

Delivering high retention rates

2 Efficient claims handling

We're investing in further digitalisation across the claims journey and start from a position of strength:

- 90% of claims can be registered online
- Use of AI for motor evaluation when claims registered
- Full digital e2e for simple home claims

Reducing cost to serve by 20%

3 Top quartile indemnity control

Our scale, expertise, and vertically integrated motor repair model provides unique strengths:

- Rich data and deep insight for our pricing models
- Advanced counter fraud capabilities
- Faster and lower cost repairs which drive NPS

Better than market average claims costs

4 Innovating for sustainability

Our vertically integrated repair model enables us to stay at the forefront of car technology:

- In-house motor tech R&D hub in Birmingham
- Greater control over carbon emissions in the repair process

Over 1,800 electric and hybrid vehicle repairs

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We've announced a 10 year partnership with Motability Operations Ltd

Motability Operations Ltd

DLG PARTNERSHIPS

- Supporting more than 600,000 customers
- Growing our Motor book by c. 15% to over 4.5 million
- Gross written premiums of c. £500 million per annum
- 80% of risk is reinsured back to Motability Operations

Strong alignment with our vision and purpose

Direct Line Group

Evidence of our enhanced technical capabilities: Spotlight on new Motor platform

New back-end systems

Data Centres

Radar Live
A pricing engine providing quotes, policy, renewals capability

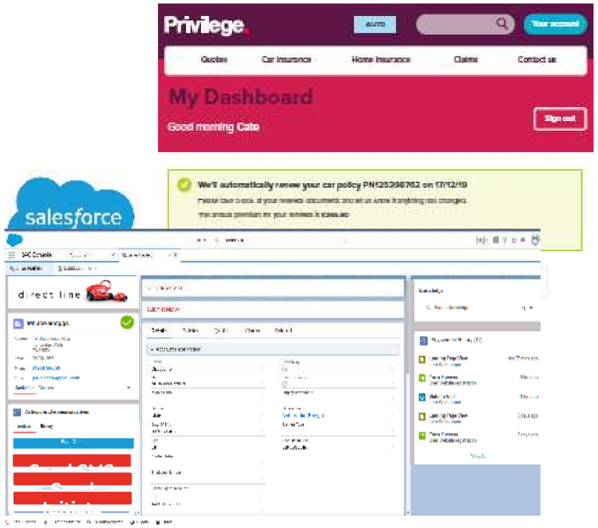
GUIDEWIRE

PolicyCenter v9
All policies and products

ClaimCenter v9
Upgrade for claims handlers

BillingCenter v9
Handles billing management

New front-end system and comprehensive digital offering



Modular cloud based infrastructure

Architecture enables changes to be deployed at pace

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Evidence of our enhanced technical capabilities: New Motor platform

Greater customer choice and more efficient sales and service	Improved pricing sophistication and agility	Innovate for sustainability
Greater product choice with product tiering across all 3 brands	Faster deployment of pricing changes with no loss of fidelity between models	Capability for greater speed to market for new products and features
Customers can move seamlessly between channels	Ability to integrate more granular data both internal and external	More efficient on-boarding of new partners
My Account portal enables customers to self serve and store policy documents	Greater underwriting sophistication through segmentation, granularity and time to update	Platform can easily be scaled for M&A
Full end to end digital processing of sales, service and renewals	Improved fraud detection capability	Opportunity to apply machine learning to pricing

High NPS supports strong retention

Supporting a 20% reduction in cost to serve

Targeted improvement in CY loss ratio

Drive opportunities for growth

Strategic overview: Innovating for sustainable success

Consumer digitalisation

- Darwin has grown to 90k+ policies
- Significant progress in the digitalisation of claims journeys
- New Motor platform provides greater digitalisation and self serve

New Motor claims resolution hub

Product personalisation

- Direct Line is uniquely positioned to offer increasingly personalised experience
- New Direct Line products in train for H2

Direct Line

Cycling insurance launched

Car technology

- Largest insurer owned repair network; 22 sites
- Developing a roadmap for electrification of UK fleets
- Training our technicians in ADAS calibration and electric vehicle repairs

In-house car tech training centre

Force for good

- Signed up to Race to Zero campaign
- Active in forums such as ABI Climate Change Roadmap
- ESG investor insight session planned in 2022

Seeking to lead the charge on the climate change agenda

A win for society and strong alignment with our vision and purpose

Summary: A Group with real momentum

Vision

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

1 Our diversified portfolio has delivered strong results in H1 2021

2 Technology transformation now largely complete and the benefits are beginning to come through

3 We are a Group with real momentum and confidence, and we continue to innovate to drive future growth

APPENDIX

Upcoming events

August	Virtual roadshow
14 September	Barclays Global Financial Services Conference (Virtual)
22 September	Bank of America 26th Annual Financials CEO Conference
9 November	Third quarter trading update
22 November	JP Morgan Best of British Seminar
7 December	Berenberg European Conference

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Strategic overview: Technology transformation largely complete

Improved sales and service
Greater pricing accuracy
Brilliant claims experience

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

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

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 policies under the Direct Line for Business and Churchill brands.

2. 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.

3. See glossary of terms on pages 50 to 53

Motor

	H1 2020	H1 2021
In-force policies (000s)	**4,091**	**3,975**
Own brand in-force policies (000s)	3,972	3,867
Partnerships in-force policies (000s)	119	108
Gross written premium £m	**805**	**756**
Net earned premium £m	740	728
Loss ratio – current year	65.5%	66.9%
Loss ratio – prior years	(11.2%)	(13.8%)
Loss ratio	54.3%	53.1%
Commission ratio	2.9%	3.1%
Expense ratio	24.7%	25.6%
Combined operating ratio	**81.9%**	**81.8%**
Underwriting profit £m	**134**	**132**
Of which prior year releases £m	83	101
Instalment and other income £m	59	53
Investment return £m	27	46
Operating profit £m	**221**	**231**

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

Home

	H1 2020	H1 2021
In-force policies (000s)	**2,596**	**2,677**
Own brand in-force policies (000s)	1,782	1,880
Partnerships in-force policies (000s)	814	797
Gross written premium £m	**276**	**278**
Net earned premium £m	278	274
Loss ratio – current year attritional	53.0%	52.3%
Loss ratio – prior years	(0.9%)	(6.4%)
Loss ratio – major weather events	6.4%	1.1%
Loss ratio	58.5%	47.0%
Commission ratio	6.8%	5.8%
Expense ratio	27.1%	26.2%
Combined operating ratio	**92.4%**	**79.0%**
COR Normalised for weather	***94.2%***	***86.2%***
Underwriting profit £m	**21**	**58**
Of which prior year releases £m	*3*	*18*
Instalment and other income £m	10	10
Investment return £m	4	7
Operating profit £m	**35**	**75**

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

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

Rescue and other personal lines

Rescue and other personal lines	H1 2020	H1 2021
In-force policies (000s)	**7,161**	**6,969**
Rescue (000s)	3,380	3,346
Travel (000s)	3,567	3,324
Pet (000s)	152	141
Other personal lines (000s)	62	58
Gross written premium £m	**210**	**187**
Net earned premium £m	213	187
Loss ratio – current year	86.0%	60.7%
Loss ratio – prior years	(1.9%)	(1.3%)
Loss ratio	84.1%	59.4%
Commission ratio	3.0%	8.2%
Expense ratio	24.2%	25.4%
Combined operating ratio	**111.3%**	**93.0%**
Underwriting profit / (loss) £m	**(24)**	**13**
Of which prior year releases £m	*4*	*2*
Operating profit £m	**(16)**	**21**

Rescue	H1 2020	H1 2021
In-force policies (000s)	3,380	3,346
Of which Green Flag (000s)	1,070	1,134
Gross written premium £m	**81**	**82**
Combined operating ratio	**76.5%**	**71.0%**
Operating profit £m	**24**	**29**

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

Commercial

	H1 2020	H1 2021
In-force policies (000s)	**785**	**850**
Own brands (000s)	546	584
NIG and other (000s)	239	266
Gross written premium £m	**289**	**336**
Net earned premium £m	243	266
Loss ratio – current year attritional	60.2%	61.1%
Loss ratio – prior years	(13.7%)	(12.1%)
Loss ratio – major weather events	5.2%	n/a
Loss ratio	51.7%	49.0%
Commission ratio	17.7%	19.8%
Expense ratio	25.5%	21.4%
Combined operating ratio	**94.9%**	**90.2%**
COR Normalised for weather	***93.4%***	***94.0%***
Underwriting profit £m	**12**	**26**
Of which prior year releases £m	*33*	*32*
Instalment and other income £m	5	4
Investment return £m	8	14
Operating profit £m	**25**	**44**

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

Direct Line Group

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

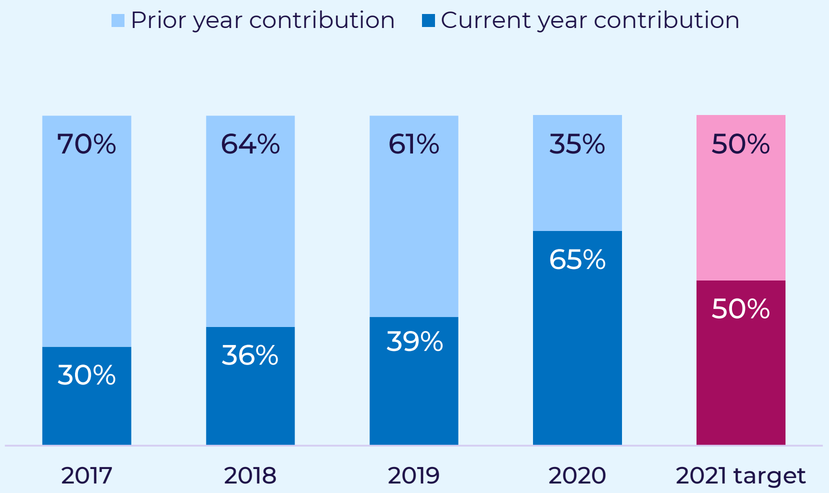
Instalment and other operating income

£m	H1 2020	H1 2021
Instalment income	**55**	**49**
Other operating income:		
Revenue from vehicle recovery and repair services	11	10
Vehicle replacement and referral income	6	5
Legal services income	5	4
Other income	3	4
Other operating income	**25**	**23**
Total instalment and other operating income	**80**	**72**

- Reduction in H1 2021 due to impact of Covid-19 on new business volumes and claims volumes

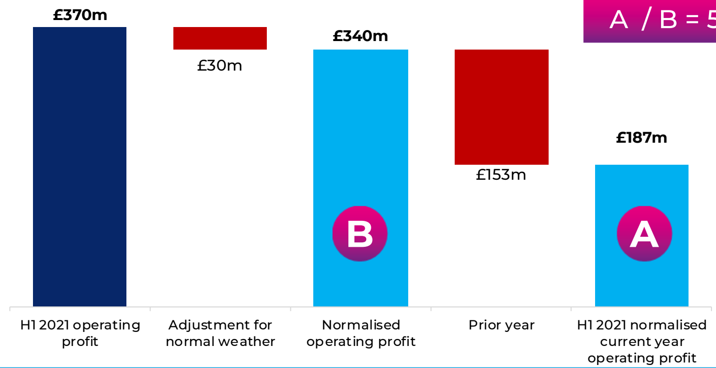
Current year contribution to operating profit

Normalised operating profit[1]



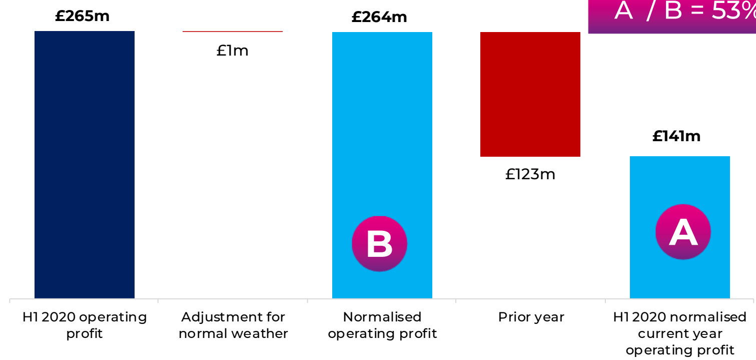
H1 2021 normalised operating profit[1]

A / B = 55%



H1 2020 normalised operating profit[1]

A / B = 53%



1. Group operating profit normalised for weather, and Ogden rate changes, excludes restructuring and one-off costs

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

Reinsurance

Motor Excess of Loss (unlimited)

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

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

Property catastrophe

Accident year	Limit £m	Deductible £m
2021/22	1,150	150
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

- Cover renewed on 1 July 2021 for 12 months
- Cover has one full reinstatement for all programme and one additional reinstatement up to £530m
- Placed with a panel of reinsurers who are all at least 'A-' rated

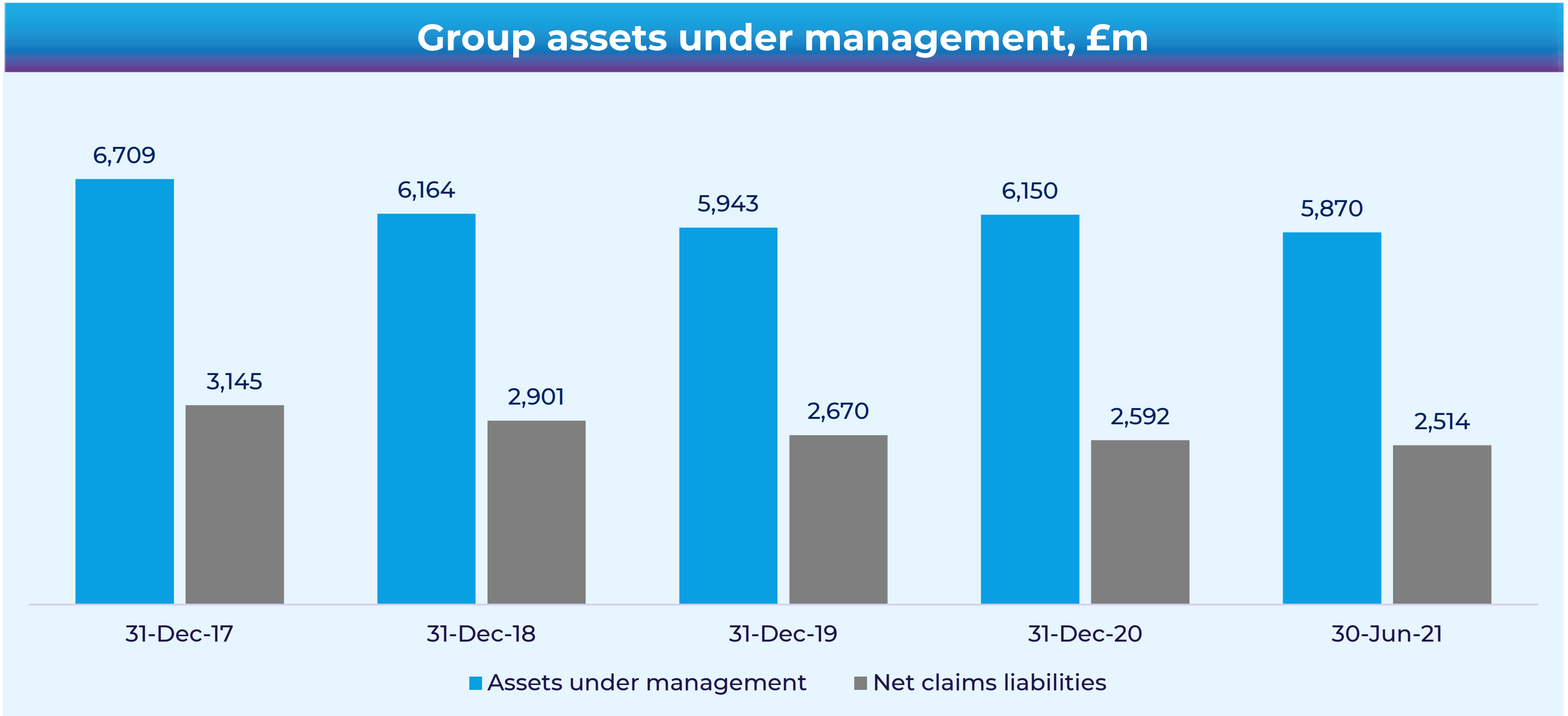
1. Partial placement on all layers up to £10m. 25% retained in layers <£10m and layers >£10m have an additional £37.5m aggregate deductible
2. Partial placement on lower layers. For 2018 90% of the first layer (£2m excess £1m) was placed with 10% retained

Balance sheet

Group balance sheet £m	Dec-18	Dec-19	Dec-20	Jun-21
Goodwill and other intangible assets	567	703	787	**808**
Financial investments and cash	6,214	5,914	6,194	**5,977**
Reinsurance assets	1,209	1,251	1,129	**1,111**
Other assets	1,545	1,566	1,512	**1,414**
Total Assets	**9,535**	**9,434**	**9,622**	**9,310**
Unearned premium reserve	1,506	1,506	1,497	**1,487**
Insurance liabilities	4,006	3,820	3,617	**3,557**
Other liabilities	1,119	1,118	1,462	**1,313**
Total Liabilities	**6,631**	**6,444**	**6,576**	**6,357**
Shareholders' equity	2,558	2,644	2,700	**2,606**
Tier 1 notes	346	346	346	**347**
Total Equity	**2,904**	**2,990**	**3,046**	**2,953**

See notes on slide 310and glossary of terms on slides 50 to 53

Assets under management



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

Investment portfolio

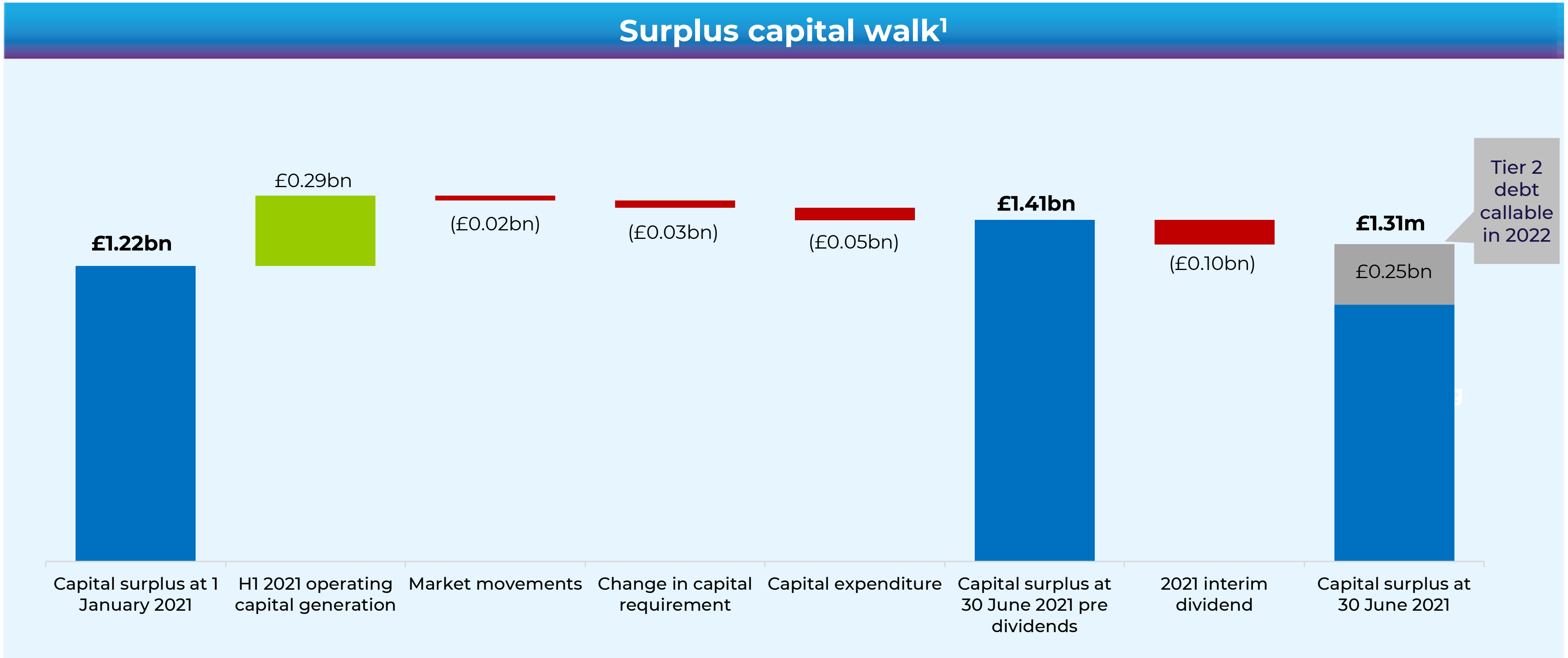
As at 30 June 2021	U K Insurance target allocation	U K Insurance current holding	Total Group income yield[1]	Total Group interest rate duration (years)
Investment grade (incl private placements)	69.0%	67.5%	1.9%	2.8
High yield	6.0%	6.8%	5.1%	1.9
Credit	**75.0%**	**74.3%**	**2.2%**	**2.7**
Sovereign	3.0%	0.2%	0.1%	1.7
Total debt securities	**78.0%**	**74.5%**	**2.2%**	**2.7**
Infrastructure debt	4.0%	4.5%	1.7%	0.2
Commercial real estate loans	6.5%	3.8%	2.8%	0.1
Investment property	5.5%	5.2%	4.7%	-
Cash and cash equivalents	6.0%	12.0%	0.0%	-
Total	**100.0%**	**100.0%**	**2.0%**	**2.0**

3.1% of total debt securities rated as ‘AAA’ and 75.2% rated as ‘AA’ or ‘A’

Direct Line Group

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

Movement in surplus capital

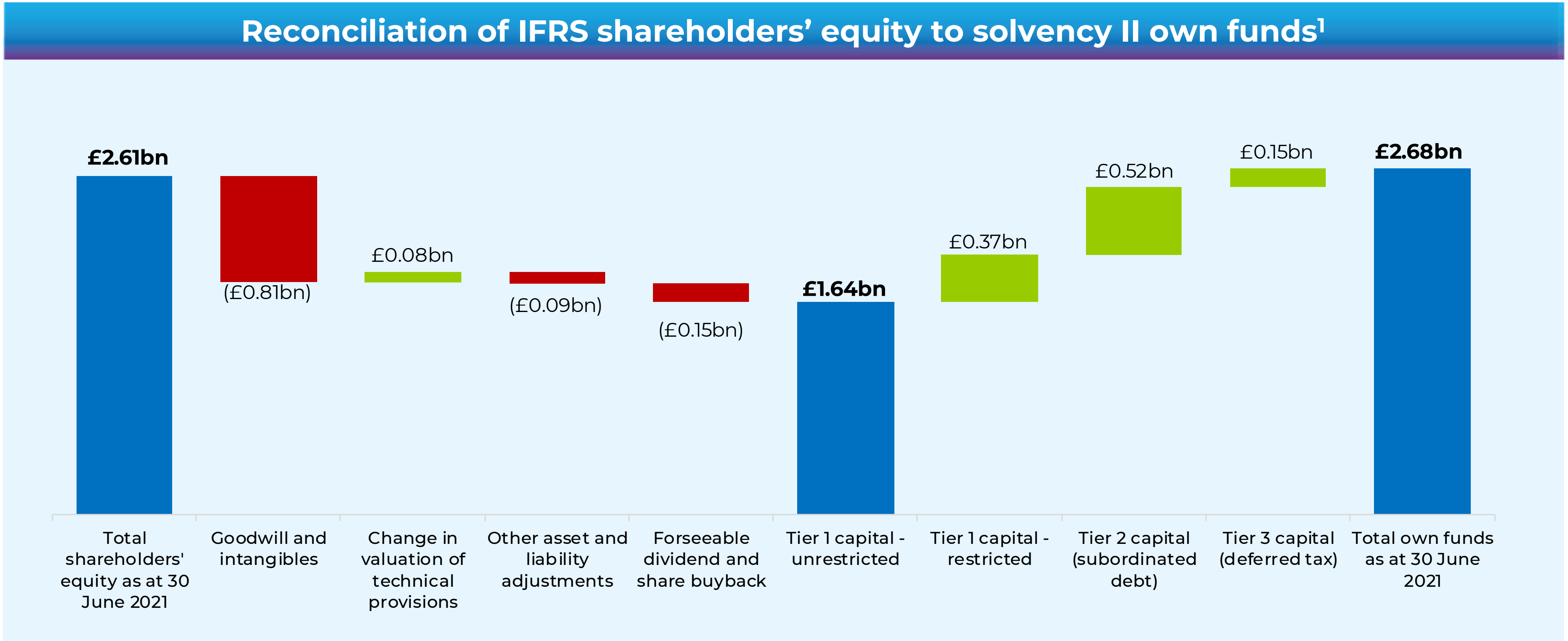


Capital expenditure expected to be around £120m in 2021

1. Figures estimated and based on partial internal model (PIM) output as at 30 June 2021

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

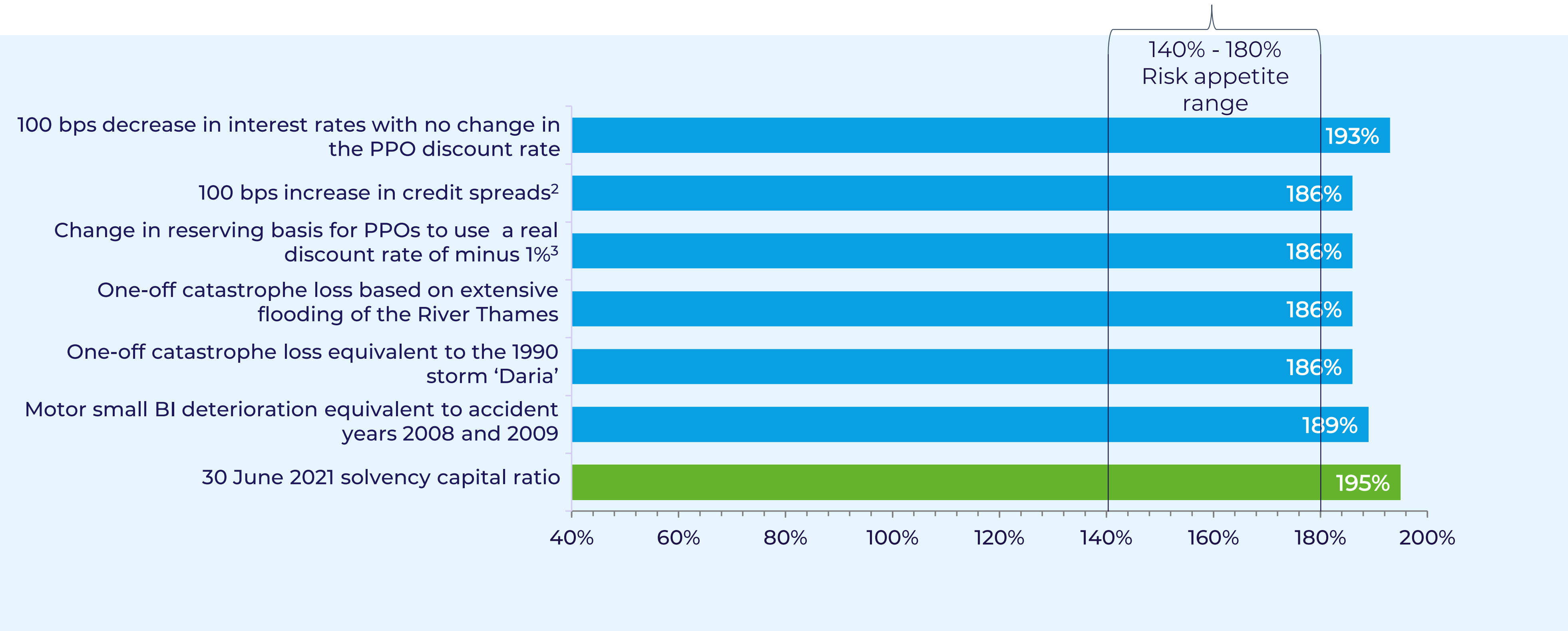
IFRS to Solvency II bridge



1. Figures estimated and based on partial internal model (PIM) output as at 30 June 2021

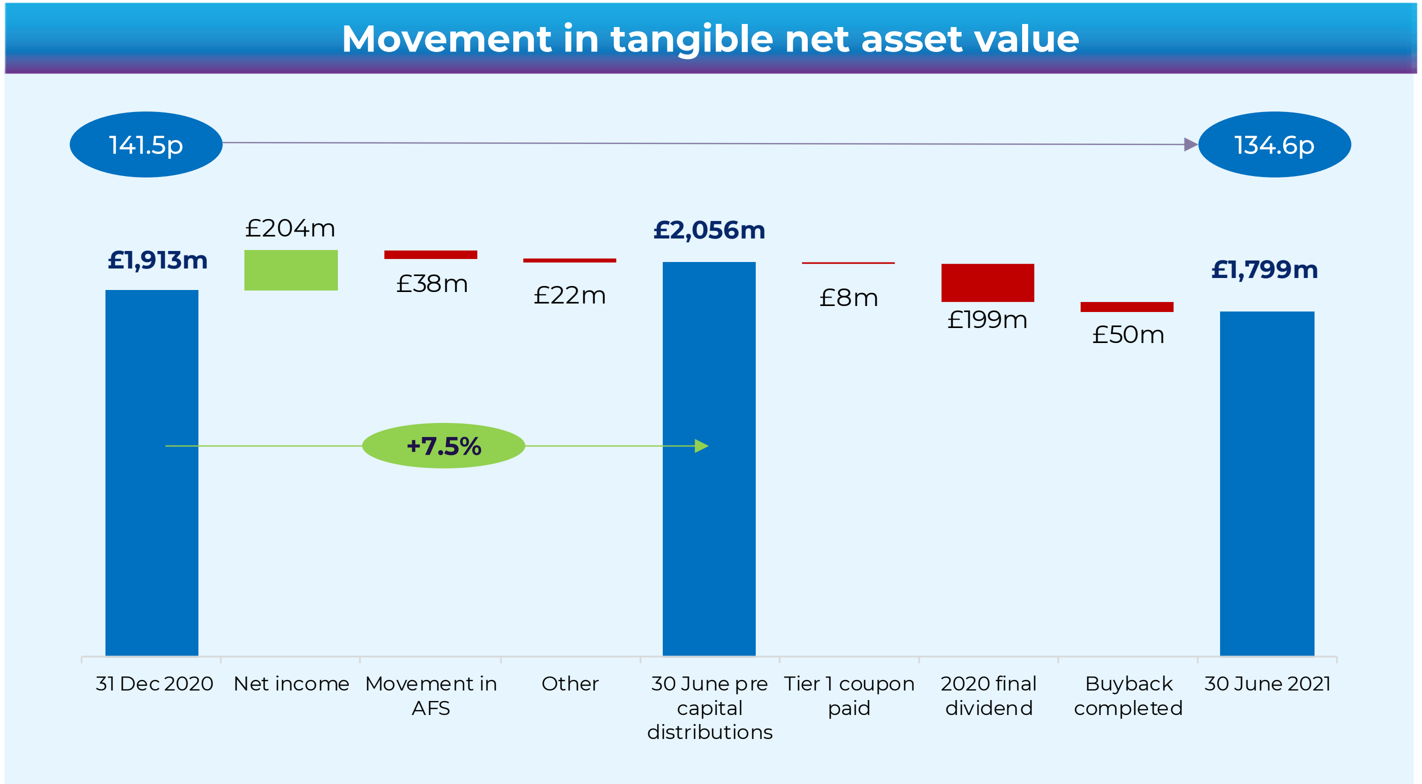
See notes on slide 30 and glossary of terms on slides 50 to 53

Solvency scenario and sensitivity analysis[1]



1. 2021 figures exclude from own funds the value of the £250 million Tier 2 subordinated debt which has a first call date of 27 April 2022.
2. Only includes the impact on AFS assets (excludes illiquid assets such as infrastructure debt) and assumes no change to the SCR
3. The PPO real discount rate used in an actuarial judgement which is reviewed annually based on the economic outlook for wage inflation relative to the PRA discount rate curve

Book value and TNAV



	30 June 2020	30 June 2021
Net asset value per share (pence)	199.7	**195.1**
Tangible net asset value per share (pence)	141.5	**134.6**

Total unrealised AFS reserves of £45.5m (net of tax) as at 30 June 2021

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

Return on tangible equity and earnings per share calculations

Return on tangible equity (RoTE)

	H1 2020 £m	H1 2021 £m
Profit before tax	236.4	261.3
Add back: Restructuring and one-off costs	15.0	91.5
Coupon payments in respect of Tier 1 notes	(8.3)	(8.3)
Adjusted profit before tax	**243.1**	**344.5**
Tax charge (using 2020 and 2021 UK standard tax rate of 19%)	(46.2)	(65.5)
Adjusted profit after tax	**196.9**	**279.0**
Opening shareholders tangible equity	1,941.1	1,912.9
Closing shareholders' tangible equity	2,015.3	1,798.7
Average shareholders' tangible equity	**1,978.2**	**1,855.8**
RoTE annualised	**19.9%**	**30.1%**

Basic earnings per share (EPS)

	H1 2020 £m	H1 2021 £m
Profit after tax	192.6	203.8
Coupon payments in respect of Tier 1 notes	(8.3)	(8.3)
Profit for the calculation of EPS	**184.3**	**195.5**
Weighted average number of shares (millions)	1,355.6	1,345.9
Basic earnings per share (pence)	**13.6**	**14.5**

On 8 March 2021, the Direct Line Group plc announced a share buyback of Ordinary Shares for an aggregate purchase price of up to £100 million with an initial tranche of £50 million to be completed by 30 June 2021. The Group has repurchased 16,623,215 Ordinary Shares for an aggregate consideration of £50,311,788.

H1 2021 segmental results

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total Group
GWP	755.6	278.3	186.5	336.1	**1,556.5**
Net earned premium	727.9	274.3	187.2	266.2	**1,455.6**
Net insurance claims	(386.6)	(128.9)	(111.2)	(130.4)	**(757.1)**
Commission expenses	(22.7)	(16.0)	(15.3)	(52.6)	**(106.6)**
Operating expenses	(186.2)	(71.7)	(47.6)	(57.1)	**(362.6)**
Underwriting profit / (loss)	**132.4**	**57.7**	**13.1**	**26.1**	**229.3**
Investment return	45.6	6.9	2.0	13.9	**68.4**
Instalment and other operating income	53.1	10.1	5.4	3.6	**72.2**
Operating profit / (loss)	**231.1**	**74.7**	**20.5**	**43.6**	**369.9**
Restructuring and one-off costs	-	-	-	-	**(91.5)**
Finance costs	-	-	-	-	**(17.1)**
Profit before tax	-	-	-	-	**261.3**
Tax	-	-	-	-	**(57.5)**
Profit after tax	-	-	-	-	**203.8**
Loss ratio – current year	66.9%	53.4%	60.7%	61.1%	**62.5%**
Loss ratio – prior year	(13.8%)	(6.4%)	(1.3%)	(12.1%)	**(10.5%)**
Commission ratio	3.1%	5.8%	8.2%	19.8%	**7.3%**
Expense ratio	25.6%	26.2%	25.4%	21.4%	**24.9%**
Combined operating ratio	**81.8%**	**79.0%**	**93.0%**	**90.2%**	**84.2%**
Combined operating ratio normalised for weather	**n/a**	**86.2%**	**n/a**	**94.0%**	**86.3%**

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

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)**
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	(11.2%)	(0.9%)	(1.9%)	(13.7%)	**(8.4%)**
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%**
Combined operating ratio normalised for weather	**n/a**	**94.2%**	**n/a**	**93.4%**	**90.4%**

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

2020 segmental results

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total Group
GWP	1,616.9	577.9	417.8	567.8	**3,180.4**
Net earned premium	1,484.8	555.8	422.9	497.0	**2,960.5**
Net insurance claims	(888.1)	(309.1)	(261.1)	(255.3)	**(1,713.6)**
Commission expenses	(47.4)	(45.0)	(69.4)	(92.9)	**(254.7)**
Operating expenses	(367.1)	(130.0)	(100.9)	(126.4)	**(724.4)**
Underwriting profit / (loss)	**182.2**	**71.7**	**(8.5)**	**22.4**	**267.8**
Investment return	62.8	10.3	3.4	18.6	**95.1**
Instalment and other operating income	118.5	19.4	11.9	9.4	**159.2**
Operating profit / (loss)	**363.5**	**101.4**	**6.8**	**50.4**	**522.1**
Restructuring and one-off costs	-	-	-	-	**(39.4)**
Finance costs	-	-	-	-	**(31.3)**
Profit before tax	-	-	-	-	**451.4**
Tax	-	-	-	-	**(84.2)**
Profit after tax	-	-	-	-	**367.2**
Loss ratio – current year	66.6%	57.5%	63.0%	62.8%	**63.8%**
Loss ratio – prior year	(6.8%)	(1.9%)	(1.3%)	(11.4%)	**(5.9%)**
Commission ratio	3.2%	8.1%	16.4%	18.7%	**8.6%**
Expense ratio	24.7%	23.4%	23.9%	25.4%	**24.5%**
Combined operating ratio	**87.7%**	**87.1%**	**102.0%**	**95.5%**	**91.0%**
Combined operating ratio normalised for weather	**n/a**	**90.3%**	**n/a**	**95.9%**	**91.7%**

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

2019 segmental results

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total Group
GWP	1,651.6	586.6	436.0	528.9	**3,203.1**
Net earned premium	1,507.7	573.6	425.2	478.4	**2,984.9**
Net insurance claims	(1,043.3)	(268.4)	(284.4)	(251.5)	**(1,847.6)**
Commission expenses	(39.9)	(55.7)	(27.2)	(88.7)	**(211.5)**
Operating expenses	(345.6)	(136.7)	(94.0)	(117.4)	**(693.7)**
Underwriting profit / (loss)	**78.9**	**112.8**	**19.6**	**20.8**	**232.1**
Investment return	88.6	16.7	5.6	23.7	**134.6**
Instalment and other operating income	135.1	21.1	13.9	10.1	**180.2**
Operating profit / (loss)	**302.6**	**150.6**	**39.1**	**54.6**	**546.9**
Restructuring and one-off costs	-	-	-	-	**(11.2)**
Finance costs	-	-	-	-	**(26.0)**
Profit before tax	-	-	-	-	**509.7**
Tax	-	-	-	-	**(89.8)**
Profit after tax	-	-	-	-	**419.9**
Loss ratio – current year	81.2%	54.0%	68.7%	66.3%	**71.8%**
Loss ratio – prior year	(11.9%)	(7.2%)	(1.8%)	(13.6%)	**(9.9%)**
Commission ratio	2.6%	9.7%	6.4%	18.5%	**7.1%**
Expense ratio	22.9%	23.8%	22.1%	24.5%	**23.2%**
Combined operating ratio	**94.8%**	**80.3%**	**95.4%**	**95.7%**	**92.2%**
Combined operating ratio normalised for weather	**n/a**	**86.9%**	**n/a**	**99.2%**	**93.5%**

Direct Line Group

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

Glossary of terms

Term	Definition
Actuarial best estimate (“ABE”)	The probability-weighted average of all future claims and cost scenarios. It is calculated using historical data, actuarial methods and judgement. A best estimate of reserves will therefore normally include no margin for optimism or, conversely, caution.
Assets under management (“AUM”)	This represents all assets management or administered by or on behalf of the Group, including those assets managed by third parties.
Available-for-sale (“AFS”) Investment	Available-for-sale investments are non-derivative financial assets that designated as such, or are not classified as loans and receivables, held to maturity, or financial assets at fair value through profit or loss.
Average written premium	The total written premium at inception divided by the number of policies.
Capital	The funds invested in the Group, including funds invested by shareholders and Tier 1 notes. In addition, subordinated loan capital in the Group’s balance sheet is classified as Tier 2 capital for Solvency II purposes.
Claims frequency	The number of claims divided by the number of policies per year.
Combined operating ratio	The sum of the loss, commission and expense ratios. The ratio measures the amount of claims costs, commission and operating expenses, compared to net earned premium generated. A ratio of less than 100% indicates profitable underwriting. **Normalised combined operating ratio** adjusts loss and commission ratios for weather and changes to the Ogden discount rate.
Commission expenses	Payments to brokers, partners and price comparison websites for generating business.
Commission ratio	The ratio of commission expense divided by net earned premium.
Company	Direct Line Insurance Group plc.
Current-year attritional loss ratio	The loss ratio for the current accident year, excluding the movement of claims reserves relating to previous accident years and claims relating to major weather events.
Current-year combined operating ratio	This is calculated using the combined operating ratio less movement in prior-year reserves.

Glossary of terms

Term	Definition
Current-year operating profit	This is calculated by total operating profit less movement in prior-year reserves.
Direct own brands	Direct own brands include Home and Motor under the Direct Line, Churchill, Darwin and Privilege brands, Rescue under the Green Flag brand and Commercial under the Direct Line for Business and Churchill brands.
Earnings per share	The amount of the Group's profit after deduction of the Tier 1 coupon payments allocated to each Ordinary Share of the Company.
Expense ratio	The ratio of operating expenses divided by net earned premium.
Finance costs	The cost of servicing the Group's external borrowings and includes the interest on ROU assets.
Financial Conduct Authority ("FCA")	An independent body responsible for regulating the UK's financial services industry.
Financial leverage ratio	Tier 1 notes and financial debt (subordinated Tier 2 notes) as a percentage of total capital employed.
Gross written premium	The total premiums from contracts that were incepted during the period.
Group	Direct Line Insurance Group plc and its subsidiaries.
In-force policies	The number of policies on a given date that are active and against which the Group will pay, following a valid insurance claim.
Insurance liabilities	This comprises insurance claims reserves and claims handling provision, which the Group maintains to meet current and future claims.
International Accounting Standards Board ("IASB")	A not-for-profit public interest organisation that is overseen by a monitoring board of public authorities. It develops IFRS standards that aim to make worldwide markets transparent, accountable and efficient.
Investment income yield	The income earned from the investment portfolio, recognised through the income statement during the period (excluding unrealised and realised gains and losses, impairments and fair value adjustments) divided by the average assets under management ("**AUM**"). The average AUM derives from the period's opening and closing balances for the total Group.
Investment return	The investment return earned from the investment portfolio, including unrealised and realised gains and losses, impairments and fair value adjustments.

Glossary of terms

Term	Definition
Investment return yield	The return divided by the average AUM. The average AUM derives from the period's opening and closing balances.
Loss ratio	Net insurance claims divided by net earned premium.
Management's best estimate	These reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal ABE.
Net asset value	The difference between the Group's total assets and total liabilities, calculated by subtracting total liabilities (including Tier 1 notes) from total assets.
Net earned premium	The element of gross earned premium less reinsurance premium ceded for the period where insurance cover has already been provided.
Net insurance claims	The cost of claims incurred in the period less any claims costs recovered under reinsurance contracts. It includes claims payments and movements in claims reserves.
Net investment income yield	This is calculated in the same way as investment income yield but includes the cost of hedging.
Ogden discount rate	The discount rate set by the Lord Chancellor and used by courts to calculate lump sum awards in bodily injury cases.
Operating expenses	These are the expenses relating to business activities excluding restructuring and one-off costs.
Operating profit	The pre-tax profit that the Group's activities generate, including insurance and investment activity but excluding finance costs, restructuring and one-off costs.
Periodic payment order ("PPO")	These are claims payments as awarded under the Courts Act 2003. PPOs are used to settle some large personal injury claims. They generally provide a lump-sum award plus inflation-linked annual payments to claimants who require long-term care.
Prudential Regulation Authority ("PRA")	The PRA is a part of the Bank of England. It is responsible for regulating and supervising insurers and financial institutions in the UK.
Reinsurance	Contractual arrangements where the Group transfers part or all of the accepted insurance risk to another insurer.

Glossary of terms

Term	Definition
Reserves	Funds that have been set aside to meet outstanding insurance claims and IBNR claims.
Restructuring costs	These are costs incurred in respect of the business activities where the Group has a constructive obligation to restructure its activities.
Return on equity	This is calculated by dividing the profit attributable to the owners of the Company after deduction of the Tier 1 coupon payments by average shareholders' equity for the period.
Return on tangible equity ("RoTE")	This is adjusted profit after tax divided by the Group's average shareholders' equity less goodwill and other intangible assets. Profit after tax is adjusted to exclude restructuring and one-off costs and to include the Tier 1 coupon payments dividend. It is stated after charging tax using the UK standard rate of 19%.
Solvency II	The capital adequacy regime for the European insurance industry, which became effective on 1 January 2016. It establishes capital requirements and risk management standards. It comprises three pillars: Pillar I, which sets out capital requirements for an insurer; Pillar II, which focuses on systems of governance; and Pillar III, which deals with disclosure requirements.
Solvency capital ratio	The ratio of Solvency II own funds to the solvency capital requirement.
Tangible equity	This shows the equity excluding Tier 1 notes and intangible assets (for comparability with companies who have not acquired businesses or capitalised intangible assets).
Tangible net assets per share	This shows the amount of tangible equity allocated to each ordinary share (for comparability with companies who have not acquired businesses or capitalised intangible assets).
Underwriting result profit / (loss)	The profit or loss from operational activities, excluding investment return and other operating income. It is calculated as net earned premium less net insurance claims and total expenses, excluding restructuring and other one-off costs.

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", "will" or "would" 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 reductions, reductions in expense and commission ratios, investment income yield, net realised and unrealised gains, capital expenditure and risk appetite range. By their nature, all forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and/or are beyond the Group's control. Forward-looking statements are not guaranteeing future performance.

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

- United Kingdom ("**UK**") domestic and global economic business conditions;
- the direct and indirect impacts and implications of the coronavirus Covid-19 pandemic on the economy, nationally and internationally, on the Group, its operations and prospects, and on the Group's customers and their behaviours and expectations;
- the Trade and Co-operation Agreement between the UK and the European Union ("**EU**") regarding the terms, following the end of the Brexit transition period, of the trading relationships between the UK and the EU and its implementation, and any subsequent trading and other relationship arrangements between the UK and the EU and their implementation;
- the terms of trading and other relationships between the UK and other countries following Brexit;
- the impact of the FCA pricing practices report and any new rules and regulations arising as a result of that report and of responses by insurers, customers and other third parties;
- market-related risks such as fluctuations in interest rates, exchange rates and credit spreads;
- the policies and actions and/or new principles, rules and/or changes to, or changes to interpretations of existing principles, rules and/or regulations, of regulatory authorities and bodies (including changes related to capital and solvency requirements or to the Ogden discount rate or rates or in response to the Covid-19 pandemic and its impact on the economy and customers) and changes to law and/or understandings of law and/or legal interpretation following the decisions and judgements of courts;
- the impact of competition, currency changes, inflation and deflation;
- the timing, impact and other uncertainties of future acquisitions, disposals, partnership arrangements, joint ventures or combinations within relevant industries; and
- the impact of tax and other legislation and other regulation and of regulator expectations, interventions and requirements and of court, arbitration, regulatory or ombudsman decisions and judgements (including in any of the foregoing in connection with the Covid-19 pandemic) in the jurisdictions in which the Group and its affiliates operate.

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

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

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