Direct Line Group

peace of mind

now and in the future

ANNUAL REPORT & ACCOUNTS 2019

Our **vision** is to create a world where insurance is personal, inclusive and a force for good.

Our **purpose** is to help people carry on with their lives, giving them peace of mind now and in the future.

Protecting customers when it matters the most through our powerful **brands** offering a range of products.

Reaching customers **however** and **wherever** they shop.

We believe that by serving the needs of our customers we can **create value** for our people, our society, our planet and our shareholders.

2019 HIGHLIGHTS

Profit before tax
£509.7m
(2018: £580.5m)[2]

Return on tangible equity[1]
20.8%
(2018: 21.6%)[2]

Combined operating ratio[1,3]
92.2%
(2018: 91.6%)[2]

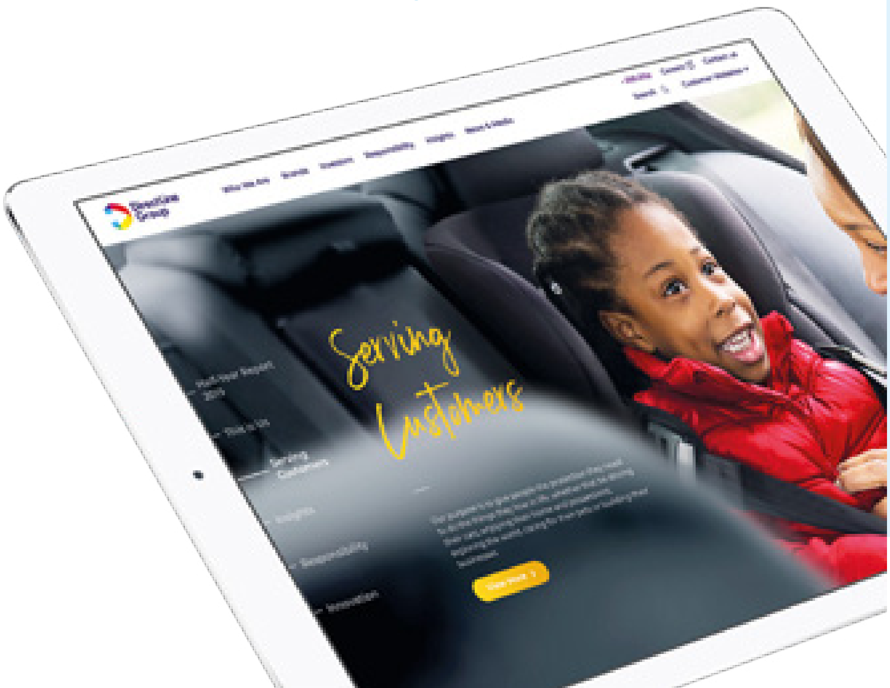
Solvency capital ratio[1,4]
165%
(2018: 170%)

Operating profit[1]
£546.9m
(2018: £606.4m)[2]

Capital returns[5]
£447.0m
(2018: £401.3m)

Notes:
1. See glossary on pages 222 to 224 for definitions and Appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.
2. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 ‘Leases’, see note 44.
3. 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 on page 222 for definitions.
4. Estimates based on the Group’s Solvency II partial internal model.
5. See page 35 for the dividend policy.
6. ESG refers to environmental, social and governance issues.

For more information please visit
www.directlinegroup.co.uk



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Protecting customers when it matters

We've built a new technology platform to better support customers who become ill on holiday, easily accessible through any device.

PLEASE SEE DETAILS ON PAGE 49.

We operate across four market segments, providing peace of mind to our customers through a range of products, supported by a caring team.

Motor

We are Britain's leading personal motor insurer measured by in-force policies[1], mainly represented through our well-known brands Direct Line, Churchill, Privilege, and our new Darwin brand, and also through our partners.

Home

We are one of Britain's leading personal home insurers measured by in-force policies[1]. We reach our customers by selling home insurance products through our brands Direct Line, Churchill and Privilege, and our partners RBS and NatWest.

Rescue and other personal lines

We are one of the leading providers of rescue, travel and pet insurance in the UK. Green Flag is the third largest roadside recovery provider[2]. We are also the second largest travel and the fourth largest pet insurer[3], as well as providing insurance for mid-to-high-net worth customers.

Commercial

We protect commercial businesses through our brands, NIG, Direct Line for Business and Churchill. NIG sell products exclusively through brokers operating across the UK, whilst Direct Line for Business sell insurance policies direct via phone and online and Churchill sell insurance policies direct via phone, online and through price comparison websites ("**PCWs**").

Notes:
1. Includes Direct Line, Churchill, Privilege, Darwin and partner brands: RBS, NatWest, © Ipsos MORI Financial Research Survey (FRS) six months ended January 2020, 13,999 adults interviewed for motor insurance and 12,749 for home insurance.
2. Mintel Vehicle Recovery – UK, September 2019.
3. Mintel Pet Insurance August 2019 & Mintel Travel Insurance February 2020.

Darwin, our first new personal lines brand in 25 years, uses innovative pricing technology to provide great value insurance for customers.

PLEASE SEE DETAILS ON PAGE 22.

Powerful brands,

well known and cutting-edge

Our strong brands, each with their own personality, enable our customers to choose the right cover to protect their cars, homes, holidays, businesses and pets.

Direct Line

Direct Line stands for hassle-free insurance that fixes problems like no other. Our insurance products are available by phone and online.

churchill

Churchill effortlessly takes care of real life problems, so customers can relax. Our insurance products are available by phone, online and through PCWs.

GREEN FLAG

Green Flag offers an award-winning service at a lower cost, using local garages across the UK to provide a smarter alternative solution for breakdown. Available direct, via our insurance brands and through PCWs.

direct line for business

Direct Line for Business keeps up with the changing business needs of small and medium-sized enterprises. Our business insurance products are available by phone and online.

Darwin.

Darwin is an evolution in motor insurance, smart and simple, the way it should be. Our motor insurance is available through PCWs.

Privilege.

Privilege offers quick and efficient insurance at the best price. Our insurance products are available direct and through PCWs.

DLG PARTNERSHIPS

DLG Partnerships specialises in providing personal insurance as well as roadside rescue and recovery products to some of the UK's most well-known brands.

DLG AUTO SERVICES

DLG Auto Services is our network of bodyshops across the UK, repairing more than 90,000 cars every year for our customers.

NIG

NIG are experts at commercial insurance. We sell via brokers across a number of specialisms including small and medium-sized enterprise, real estate and agriculture.

Reaching customers however it suits them

Consumers' buying behaviours are changing and we want to be everywhere our customers shop. That's why our insurance is offered through the four main routes to market.

Direct

We give our customers a reason to shop direct with our powerful brands and great propositions, because we want to deliver excellent value for our customers.

Price comparison websites

Strong brands and propositions are important but so are great prices. Our IT investment aims to improve our speed to market and enhance our pricing capabilities for customers.

Partnerships

We partner with big brands to offer insurance to their customers and look for ways to innovate to give people choice about how they insure the things they love.

Brokers

Many small and medium-sized commercial enterprises choose to arrange their insurance using brokers who understand their specific needs. We have an extensive, well-established broker network that offer our NIG insurance products to these customers.

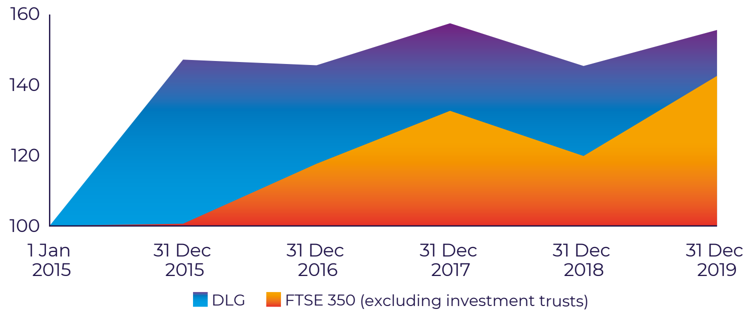
Our partnership with Starling Bank is reaching new customers through a simple digital system making it easy to apply for insurance.

PLEASE SEE DETAILS ON PAGE 23.

Proven Track record

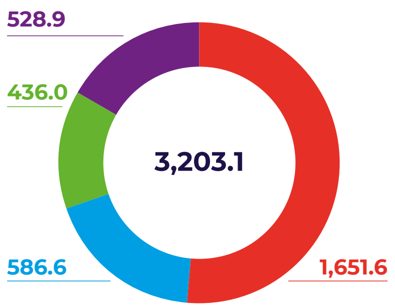
A strongly cash generative business

Total shareholder return (%)

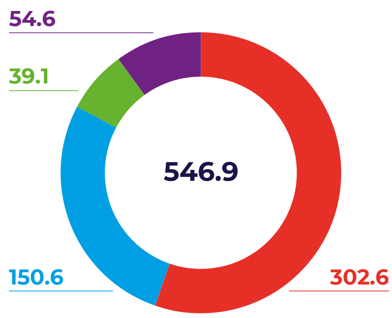


We have a track record of delivering strong returns to shareholders, having distributed £2.2 billion in dividends over the past five years. This together with our share price performance has delivered an attractive total shareholder return.

Gross written premium 2019 (£m)



Operating profit 2019 (£m)



Motor · Home · Rescue and other personal lines · Commercial

See page 182

Competitive advantage

Transforming to drive competitiveness

We are transforming our technology and changing the way we work to increase the competitiveness of our business. Our aim is to improve the quality of the earnings of the group, with a greater proportion coming from current-year business, reflecting the Group's improved competitiveness.

WE ARE DRIVING TO ACHIEVE THIS THROUGH OUR SIX NEW STRATEGIC OBJECTIVES:

- **Best at direct**
- **Win on price comparison websites**
- **Extend our reach**
- **Technical edge**
- **Nimble and cost efficient**
- **Great people**

See pages 15 and 21 to 23

OUR FINANCIAL TARGETS

Costs: Expense ratio[1] of 20% in 2023	Current-year operating profit[1]: At least 50% by 2021[3]	Combined operating ratio ("COR")[1]: Between 93-95% throughout the medium term[4]	Return on tangible equity ("RoTE")[1]: At least 15% per annum over the long term
2019: 23.2%[2]	2019: 39%	2019: 93.5%	2019: 20.8%

See page 10

Notes:
1. See glossary on pages 222 to 224 for definitions and Appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.
2. Applies to operating expenses excluding restructuring and one-off costs.
3. Excludes restructuring and one-off costs.
4. Normalised for weather and changes to the Ogden discount rate.

Transforming our business for the long term

2019 was an exciting year for Direct Line Group as we launched three major new IT platforms aimed at improving the service we provide to our customers, announced the next stage of our strategy at the Capital Markets Day in November 2019, redefined our vision and purpose, and continued to develop our five-pillar sustainability strategy.

Despite challenging trading conditions in the motor insurance market, our model of disciplined underwriting and cost reduction underpinned a combined operating ratio of 92.2% (93.5% adjusted for normal weather and Ogden discount rate changes) and enabled us to grow our final dividend 2.9% to 14.4 pence. Profit before tax was down 12.2% to £509.7 million (2018 restated[1]: £580.5 million). The effect of benign weather in 2019 was more than offset by lower reserve releases, in part due to the change in the Ogden discount rate, and restructuring and one-off costs in 2019. In addition, realised gains and property revaluations which benefited our investment result in 2018 were not repeated. As we announced on 3 March 2020, in line with our capital management approach of growing the regular dividend in line with business growth and distributing surplus capital, we are also returning up to £150 million of surplus capital by way of a share buyback programme. More information on the intended share buyback is provided on page 36.

"2019 was a year of delivering good results in a competitive environment and of building the capability to underpin the long-term sustainability of our business."

MIKE BIGGS
CHAIRMAN

Note:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.

New leadership and Board changes

2019 was also a significant year for leadership changes. After a decade leading the business, Paul Geddes stepped down as Chief Executive Officer ("**CEO**") and we welcomed Penny James as CEO following the Annual General Meeting ("**AGM**") in May 2019. Clare Thompson, former Independent Non-Executive Director ("**NED**"), also stepped down from the Board after the 2019 AGM.

In June 2019, Mike Holliday-Williams stepped down as an Executive Director. Responsibility for leading our Personal Lines businesses has been taken by three new Executive Committee members: Kate Syred as Managing Director of Household, Partnerships and Data; Gus Park as Managing Director of Motor, Pricing and Underwriting; and Mark Evans as Managing Director of Marketing and Digital. I would like to thank Paul, Clare and Mike for their exceptional contributions to the leadership of the Group.

Following a rigorous search process, the Group was also delighted to announce the appointment of Tim Harris as Chief Financial Officer ("**CFO**") and Board member in October 2019. I was delighted to welcome Tim as I believe we will benefit from his many years of experience as a leading director in the insurance industry.

In January 2020, Neil Manser, our Deputy CFO and previously Managing Director of NIG, was appointed as Chief Strategy Officer. Neil is a member of the Executive Committee and will lead the development of the Group's strategy and the alignment of priorities to help execute it.

After six years with the Group, our Human Resources Director, Simon Linares, will be retiring in March 2020. He will be succeeded by Vicky Wallis, who will join us from Santander UK in May 2020. I would like to thank Simon for his leadership in making Direct Line Group one of the best big companies to work for and wish him every success as he develops a career as a NED.

It has been my immense privilege to serve as your Chairman since before the Company's flotation in 2012. As I am approaching the ninth anniversary of my appointment, and as our new senior management team is now firmly established, I believe that the time is right for the Company to be searching for my successor. My fellow Directors, led by our Senior Independent Director ("**SID**"), Richard Ward, will carry out a thorough process in the coming months with the objective of identifying the right person to lead your Board, preserve this Group's enviable culture and support our talented people in the years to come.

Strategy

Direct Line Group's vision is to create a world where insurance is personal, inclusive and a force for good. Our purpose is to help people carry on with their lives, giving them peace of mind now and in the future. Our strategy recognises our strengths as a UK insurance expert with diversification of distribution and product and is defined by six strategic objectives. These are: being the best at direct; winning on price comparison websites; extending our reach; using our technical edge; being nimble and cost efficient; and empowering great people.

The Board continues to oversee the ambitious programme of investment in major IT systems, aimed at improving the Group's digital offering, pricing and underwriting capability, customer experience and operational efficiency. Whilst this new technology is beginning to be implemented, there is still much to do to transform our business. The Board continues to support our senior executives realising the potential of our business, by introducing more agile working practices, particularly in the areas of our business that are at the forefront of delivering change.

Dividend and capital management

The Group's solvency capital ratio as at 31 December 2019, prior to the proposed dividend and share buyback was 191%. This resulted from good capital generation from the business, supported by higher unrealised mark-to-market gains on the Group's available-for-sale investments, as credit spreads narrowed. This strong capital generation allowed us to continue to invest high levels of capital expenditure to support the Group's strategic objectives.

The Board has recommended a final dividend of 14.4 pence per share (2018: 14.0 pence), an increase of 0.4 pence per share (2.9%). If approved, the total regular dividend of 21.6 pence per share will represent a 2.9% growth on 2018's regular dividend (21.0 pence per share).

The Board has also approved a share buyback of up to £150 million which it expects to complete by the end of July 2020. After taking into account these dividends and share buybacks, the solvency capital ratio was 165% as at 31 December 2019. This reflects the Board's continued confidence in the Group's capital position and the sustainability of its earnings. In normal circumstances, the Board expects the Group to operate around the middle of its solvency capital ratio risk appetite range of 140% to 180%.

Brexit

We prepared for the possibility of a disruptive Brexit. As is well known, following the Government winning a significant House of Commons majority in the December 2019 general election, the UK left the EU on 31 January ("**Brexit**") with "a deal", so that essentially there have been no substantive changes in practice to the trading and other arrangements between the UK and the EU, at least during the "implementation period" which is due to last until 31 December 2020, unless extended. Nonetheless, the terms, if any, of any future trading relationship between the UK and the EU, and between the UK and other key countries, are not yet known and there remains uncertainty and at least the possibility of a disruptive end to the implementation period.

Although we are predominantly a UK business, we do, for example, have exposure to financial markets and import goods and services to fulfil insurance claims. We have been monitoring events carefully and have proactively taken steps to mitigate the likely impact on the Group to the extent we consider it to be appropriate and proportionate to do so, given the considerable uncertainties; however, in the event of a disruptive end to the implementation period the Group would not be immune.

Linking remuneration to performance

We remain focused on ensuring that executive pay is aligned with the Group's strategy of targeting sustainable shareholder and customer value. This is primarily achieved by the Annual Incentive Plan ("**AIP**") and Long-Term Incentive Plan ("**LTIP**") being aligned to performance measures shareholders consider important. This is underpinned by the delivery of a significant proportion of remuneration through shares and shareholding requirements.

The Company's share price on 31 December 2019 was 312.5 pence (2018: 318.7 pence). Total shareholder return ("**TSR**"), which includes dividend payments, was 7.0% for the year (2018: minus 7.7%). Since the Group's Capital Markets Day in November, the share price has responded positively. It has continued to perform strongly at the beginning of 2020 and has significantly outperformed the wider non-life insurance sector. Over the past five years, shareholders have received a TSR of 56% compared to the FTSE 350 (excluding investment trusts) of 43%. Since the 2012 Initial Public Offering ("**IPO**"), the Board has declared cumulative dividends, including special dividends, equivalent to approximately 118% of the IPO share price. More information on the Group's remuneration policy and share awards are disclosed in the Directors' remuneration report on pages 106 to 138.

A sustainable and responsible business and an inclusive and collaborative culture are critical to the Group's commercial success.

GOVERNANCE HIGHLIGHTS

Culture

Your Board recognises that culture and capability are key enablers for achieving the Company's strategic objectives and encourages an open and inclusive culture and an environment in which people can be themselves.

See pages 86 to 87

Effectiveness

The effectiveness of your Board's and its Committees' performance is considered annually in an effectiveness review.

See page 86

Culture and Sustainability

The Board believes that a sustainable and responsible business and an inclusive and collaborative culture are critical to making the Group more commercially successful. The Board encourages openness and an environment where people can be themselves. The Board promotes this culture through the Group's Code of Business Conduct which sets out for our employees the vision, purpose and values of the organisation and aims to preserve the Group's reputation for high standards of conduct.

Through our five-pillar sustainability strategy, we aim to deliver long-term sustainability for customers, our people and shareholders and other stakeholders and ensure that we have a positive impact on society and protect the environment. During the year, we sought views from a range of stakeholders including customers, suppliers, investors, commercial partners, non-governmental organisations and policymakers on what really matters to them. Further details of this exercise as well as progress on each of our sustainability pillars are shown on pages 59 to 71.

Among other things, this strategy has further assisted the Board in considering the interests of all of our stakeholders. The Strategic report includes a statement on how the Board promotes the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in section 172(1) of the Companies Act 2006. The Corporate Governance report contains examples of how the Board has engaged with and considered the interests of our stakeholders and the effect of doing so on principal decisions taken by the Company during the financial year.

Our Customers

Meeting the needs of our customers is central to the Group's corporate strategy. Along with its investment in IT capability to improve the efficiency and effectiveness of the business, the Board encourages a range of customer experience initiatives which are designed to deliver increased levels of customer satisfaction. The Board oversees the Group's conduct towards its customers, aiming to ensure that fair customer outcomes are achieved, and active and constructive dialogue with its insurance regulators on customer conduct matters.

Our People

We encourage a culture that celebrates difference and empowers people so that they can thrive. The Group's people are fundamental to the Group's success and sustainability and I would like to thank each of them for their hard work, initiative and commitment. Their positive energy, high levels of engagement, embodiment of the Group's values and dedication to serving our customers have helped our businesses progress and have put us in a strong position for the future.

I would also like to thank each member of the Board for their significant contribution, commitment and service, and I look forward to working with them in 2020, supporting management in the execution of the Group's ambitious strategy.

MIKE BIGGS
CHAIRMAN

Accountability

Your Board provides shareholders with an assessment of the Group's position and prospects. We monitor and review the effectiveness of the Group's risk management and internal control systems.

See pages 90 to 92

Remuneration

Your Remuneration Committee focuses on ensuring a close correlation between creating value for shareholders, and remunerating Executive Directors and senior executives appropriately.

See pages 106 to 138

Shareholder and stakeholder relations

Your Board maintains strong relationships and regular interaction with shareholders. Their continued support for the Group's strategic aims is important. Your Board also has regard to the interests of other stakeholders.

See pages 88 to 89

Laying the foundations for future success

Direct Line Group has amazing people, a passion for great customer service and leading brands. It is especially exciting to be part of a business that is putting in place a transformation programme that is firmly focused on laying the foundations for our future success. There have been many highlights this year, and I am thrilled that in the midst of significant business change, a highly competitive market and an evolving regulatory backdrop, we have delivered another good set of financial results, with improved quality, demonstrating our discipline and the value of our business model. Overall, I'm pleased with our progress against the strategic and financial targets we set out at our Capital Markets Day in November.

Core strengths that are hard to replicate

As a UK-focused company, we have the ability to be a deep specialist in a market unlike any other in the world, while the range of channels and products gives us real diversification and scale that many of our peers do not have. This lets us pivot as dynamics shift in the market and this flexibility has supported our track record of delivering good returns.

Across the business, we have a number of real strengths. First and foremost, we are a people business, which means we really care and have a passion to serve our customers. Secondly, we have a strong balance sheet with further opportunities to improve its effectiveness. And thirdly, we successfully combine strong brands and rich data because we are a direct player and have leading claims skills supported, for example, by our own accident repair centres. This combination is hard to replicate and we believe this provides a platform for real long-term value.

We have delivered another good set of financial results, with improved quality, demonstrating our discipline and the value of our business model.

PENNY JAMES
CHIEF EXECUTIVE OFFICER

Strategy to transform our business

The Group aims to create a world where insurance is personal, inclusive and a force for good. We'll do this by helping people carry on with their lives, giving them peace of mind, now and in the future. Because that's how we believe we will secure long-term sustainability in the changing world ahead.

Our six strategic objectives set out a clear path for us to realise our potential and are set out in the table below. The first three aim to ensure that our products are easy to use and available everywhere. The second three are underlying skills which are designed to help us deliver great value and an excellent customer experience.

Our 2020 priorities are all aligned to these six strategic objectives and in the first half of 2020 we will focus on continuing the development and roll out of our technology change. Our plans include moving towards launching Direct Line and Churchill motor new business onto our new platform, launching Darwin on two more PCWs, rolling out a new claims system for Green Flag and building Contractors into NIG's new Commercial Combined product. At the same time we are completing the re-engineering of our technology platform to support these new systems and enhance productivity.

STRATEGIC OBJECTIVES

	Why	Key drivers
Best at direct	A direct relationship with our customers provides an opportunity for profitable growth by meeting a broader set of customer needs, and the foundation for future product and service innovation.	– Strong brand power – Outstanding customer service – Valuable and differentiated propositions – Unique data insights
Win on price comparison websites	PCWs will continue to be the biggest market for new business and therefore our primary route for profitable growth.	– Strong brand recognition – Strong technical risk pricing – Fast modelling deployment – Fast and flexible use of primary and third-party data
Extend our reach	Our new platform makes it easier for us to onboard new books of business. We plan to use this to explore inorganic growth opportunities through partnerships and acquisitions.	– Ability to integrate data and customer journeys with partners – Flexible and scalable platforms to integrate portfolios – Excellent service and brands to support partner strategies
Technical edge	We aim to create a great experience for our customers and embed sustainable competitive advantage by leveraging our strengths in repair, data and claims insight and management.	– Real insight and expertise – Valuable and timely data – Control and delivery of the value chain
Nimble and cost efficient	We aim 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 better enable us to exploit our advantages within each product and channel.	– Increasing pace of change needed to respond to changes in our markets and consumer behaviour – Increasing demand for more simple, easy to use and flexible products
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.	– Importance of diverse skillsets required to win; for example, data and analytics, digital, technicians that can deal with evolving car technology

We are also heavily focused on improving efficiency in order to meet our cost targets. We have launched a consultation in our head office areas which aims to improve our speed of delivery at a lower cost by implementing more agile principles including moving to multi-disciplinary teams and away from working in functional silos. We are also looking to rationalise our site footprint over the next two years.

Whilst landing technology change and improving efficiency are key objectives in 2020, we are also continuing to drive our brand health with exciting plans for Direct Line and continuing to position Churchill as a PCW-first brand. These plans are all designed with fantastic customer experience and propositions at their heart.

Supporting our activities and central to the long-term sustainability of the business, we have deeply embedded and fundamental principles:

- Our values sit at the very heart of our everyday behaviours. They were created ground up and represent in full technicolour our identity.
- Our sustainability pillars bring environmental, social and governance factors into the heart of our strategic thinking, whether that's our customers, our people, our society, our planet, or the importance of strong governance – they all play central roles in delivering our business in a sustainable way.

Investing in technology and new ways of working

While these core strengths persist today, we recognise that to succeed in the future we need to continue to change and we are on an ambitious transformation journey to increase the competitiveness of our business.

Like many data driven consumer markets, ours is digitising fast and our success will be predicated on combining great customer-focused brands with a strong technology foundation. Our journey has three overlapping phases, with each of our different parts of the business moving through these phases at a different pace.

The first has been building the key technology blocks, which is characterised by high investment expenditure. The run costs are being managed alongside careful expenditure on organisational change and on existing systems that are set to be phased out.

That technology is beginning to land and although there is still much to do in this ambitious and complex programme, we are now moving into the second phase: our business transformation. From this phase, we plan to improve our cost position by reducing double run-costs and improving efficiency. We also aim to further increase the accuracy and speed of our pricing and underwriting; improve our competitiveness and responsiveness to change; and enhance our customer experience.

Through increased competitiveness and by increasingly adopting more agile working practices, particularly in the areas of our business that are at the forefront of delivering change, we believe we can realise the incredible potential of our business to innovate faster and grow. This is the third phase of our transformation.

To succeed in the future we need to continue to change.

External environment

We have continued to operate within a highly dynamic and evolving regulatory landscape, influenced by the views and initiatives from several parties, including the UK Government, the FCA and the PRA. During 2019, both the FCA and the PRA have been focused on Brexit preparations, amongst other activities.

Regulation

A main FCA focus has continued to be on pricing practices generally, including its Market Study on General insurance pricing practices. For some time we have been actively taking steps regarding pricing, as well as working with the ABI and holding proactive discussions with the FCA on potential remedies. We are supportive of the FCA Market Study, the outcomes of which are due for publication in June 2020. The FCA has also been focused on firms' culture and governance, operational resilience, management of regulatory change, the general insurance distribution chain, vulnerable customers, affordability as it relates to consumer credit, complaint handling and the appropriate establishment of customers' demands and needs as per the requirements under the Insurance Distribution Directive.

The PRA has continued to focus generally on the pillars of its financial risk framework, namely reserving, pricing, reinsurance and investments, as well as operational resilience, cyber underwriting risk and the financial risks arising from climate change.

Climate change

We are committed to playing our part in helping the UK become a sustainable, low carbon economy. We intend to set a challenging target to be carbon neutral as a business and aim to be compliant with the Taskforce on Climate-related Financial Disclosures ("**TCFD**") by the end of 2020. This year, our objective was to ensure that our investments in investment-grade bonds were tilted more towards companies with better environmental, social and governance ("**ESG**") credentials and we were delighted that relevant portfolios had an average ESG rating of 'A'. This represents 87% of the credit investments in the portfolio and 62% of our total investment portfolio. We also recycled 98% of our total waste and since 2014 have sourced 100% of our electricity from renewable sources. In order to achieve our goal of long-term sustainability it is important that we give back more to the planet than we take out.

Consumer trends

New products, new routes to market and technology, particularly in cars, are emerging. In response we are preparing for a shift in the risk pool and an increase in the importance of data and analytics. Our new brand Darwin is using new pricing technology for motor customers who purchase via the PCW channel and our new motor insurance platform is being rolled out to make customer journeys easier. In our accident repair centres we are preparing for the future by investing in specialist equipment to repair cars with advanced driver-assistance systems ("**ADAS**") technology, as well as supporting FiveAI's recent trial of autonomous vehicles and partnering with Europe's largest car-subscription service Drover.

Business performance

In 2019, we delivered £546.9 million of operating profit, a combined operating ratio of 92.2% and a return on tangible equity of 20.8%.

Direct own brands in-force policies grew by 1.4% to 7.3 million (2018 restated: 7.2 million) as Green Flag and Commercial direct own brands continued their strong growth, offset by lower volumes in Motor and Home. Total in-force policies were 1.9% lower than 2018, primarily due to lower Travel policies as lower packaged bank account volumes reduced and lower Motor and Home partner volumes reflecting previously announced partner exits.

Gross written premium was 0.3% lower than in 2018 (2019: £3,203.1 million, 2018: £3,211.9 million). The impact of lower average premiums in Motor and Home and lower partnership volumes were almost fully offset by strong growth in Green Flag and Commercial direct own brands. The second half of 2019 saw gross written premium increase by 3.4% compared to the first half of 2019 (H1 2019: £1,575.1 million; H2 2019: £1,628.0 million) as performance across Motor and Home direct own brands improved.

The current-year attritional loss ratio improved by 1.0 percentage point (2019: 71.6%, 2018 restated: 72.6%) with Home, Rescue and other personal lines and Commercial all improving and Motor remaining broadly steady. This demonstrates the benefits of our focus on underwriting discipline and claims management in a competitive market.

Claims related to large weather events totalled £6 million in 2019 compared with £75 million in 2018 and expectations of £65 million for both years. The results also include a £16.9 million charge arising from the change in the Ogden discount rate to minus 0.25%, from the assumed rate of 0% in the first half of 2019 (2018: release of £54.8 million).

We made good progress on costs in 2019, reducing operating expenses before restructuring and one-off costs by £24.5 million to £693.7 million. We aim to reduce operating expenses, excluding amortisation and depreciation charges, by £50 million from 2018 to 2021, and in 2019 we achieved £11 million of this target and aim to achieve the remaining £39m over the next two years. Lower operating expenses helped to maintain the expense ratio at 23.2% (2018 restated: 23.2%). Of the estimated £60 million restructuring and one-off costs announced at our Capital Markets Day, that we expect over 2019 and 2020, we incurred £11.2 million in 2019 (2018: £nil).

Overall, the combined operating ratio was 92.2%. When normalised for weather and Ogden discount rate changes the ratio was 93.5% (2018 restated: 93.3%), towards the lower end of our 93% to 95% medium term target range.

Profit before tax was down 12.2% to £509.7 million (2018 restated: £580.5 million). The impact of benign weather in 2019 was more than offset by lower reserve releases, in part Ogden discount rate-related, non-repeat of investment and property gains and restructuring and one-off costs in 2019.

We made further progress to improve the quality of our earnings; the current-year contribution to operating profit, normalised for weather and Ogden discount rate changes, increased by three percentage points to 39%[1], as the Group was more than able to offset lower investment gains and the £9.6 million one-off gain from the sale of our Bristol office in 2018. We continue to target the proportion from current-year to be more than 50% by the end of 2021.

Return on tangible equity was 20.8%, ahead of our 15% hurdle.

Our business transformation

We are on an ambitious transformation journey to increase the competitiveness of our business.

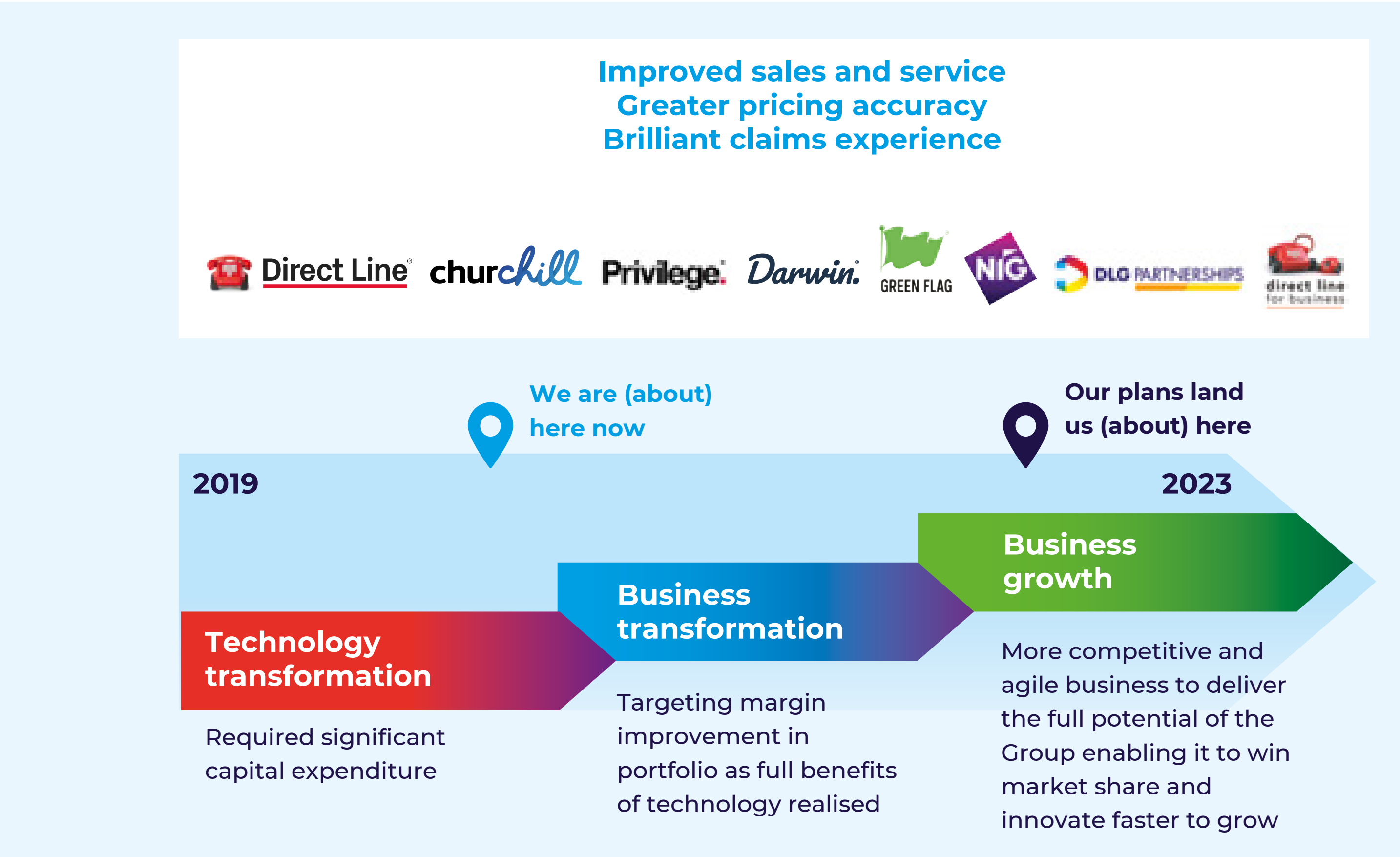
> We are aiming for a win for the customer in the creation of true value.

A company that cares

First and foremost, we are a people business, which means we really care and have a passion to serve our customers.

Find out more on page 61

Note:
1. See glossary on pages 222 to 224 for definitions and appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.



UK storms and Coronavirus

The recent storms, Ciara and Dennis, in February have shown how important it is to be with the right insurer and we are proud with how we supported our customers during these difficult times. We estimate that the claims costs of these storms will be in the region of £35 million, net of Flood Re recoveries, across our Home and Commercial businesses compared to an expected annual weather cost of around £64 million. It is too early to assess any additional claims from storm Jorge. In addition, the Coronavirus outbreak (specifically the disease COVID-19) has the potential to impact the 2020 result of our Travel business. We have Travel reinsurance protection to mitigate the cost of an event over a 28-day period to £1 million up to a limit of £10 million. The full coverage, if utilised, can be reinstated once on the same terms. Currently, incurred claims are around £1 million. Like all businesses, we are subject to the consequences of disruption to financial markets and global supply chains which, over time, could impact the performance of our investments and the cost and speed of fulfilling customers' claims.

Outlook

The Group targets a combined operating ratio of 93% to 95% for 2020 and over the medium term, normalised for weather. By the end of 2021, the Group aims to increase the annual proportionate contribution from current-year operating profit to more than half of the Group's total operating profit.

The targeted improvement in current-year underwriting profitability is supported by the significant investment the Group is making in building future capability. This investment aims to improve the current-year loss ratio by delivering additional pricing sophistication and supporting multiple initiatives to combat fraud. In addition, the Group is targeting improved efficiency through self-service and digitalisation and a reduction in operating expenses[1] by £50 million between 2018 and 2021 and we aim to improve our operating expense ratio to 20% by 2023. We reiterate our ongoing target of achieving at least a 15% return on tangible equity per annum.

Looking ahead to 2020 and beyond, we are aiming for a triple win:

- a win for the Group and those invested in its success – our shareholders and our people;
- a win for the customer in the creation of true value; and
- a win for society and the planet as we know our long-term success is intrinsically linked with the success of the community and environment around us.

Our fundamental strengths as a business continue to bring benefits and I'm proud that our transformation programme gives us the opportunity to further enhance the ability of the Group to offer value for customers and shareholders.

PENNY JAMES
CHIEF EXECUTIVE OFFICER

Note:
1. Excluding amortisation, depreciation and restructuring and one-off costs.

Long-term sustainability

Underpinning our vision, purpose and strategy are deeply embedded and fundamental principles which are central to how we make decisions and enable us to build our business for the long term.

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	To be the UK's leading direct insurer because we anticipate our customers' needs and develop services and products they want to buy.
Win on price comparison websites	To deliver a step change in our pricing and trading capability so that our leading PCW brands win customers from our competitors.
Extend our reach	To utilise the potential of our investments and capabilities to win more customers through acquisitions and brand partnerships.
Technical edge	To use our data, scale, skill and insight across claims, pricing and underwriting to deliver value to customers.
Nimble and cost efficient	To transform into an agile, cost effective business to drive efficiency and simplicity for us and our customers.
Great people	A home for empowered people who celebrate difference, and challenge the status quo to deliver for our customers.

See page 15

SUSTAINABILITY PILLARS

Customers

People

Society

Planet

Governance

See pages 59 to 71

VALUES

Do the right thing

Aim higher

Take ownership

Say it like it is

Work together

Bring all of yourself to work

See page 75

Transforming our business

We are transforming every part of our business to ensure that our products are easy to use and available everywhere. The 2019 transformation in action highlights demonstrate how we deliver great value and an excellent customer experience.

Win on price comparison websites

Churchill has had a makeover!

Our customers have always loved Churchie, the leading[1] PCW brand, but we know that our customers' expectations are changing. The original 'nodding dog' has been replaced by a CGI Churchie. The new ad aims to make life feel that little bit more effortless – as we believe it should do for all our customers allowing them to just... chill.

Great people

Building Darwin

We wanted to use our experience and expertise to shake things up by bringing in a team of data scientists and engineers to build Darwin from scratch as a 'start-up' within the business. The fusion created by having great people within the business and bringing in great people with different skills helped us to develop Darwin's machine learning algorithms on cloud-based technology. As a result, not only does Darwin have the capability to price individual risk much more efficiently, it also offers a full digital customer experience.

Technical edge

New travel system

Customers value convenience which is why we've built a technology platform that gives our customers a seamless digital experience on their travel insurance policy. Our customers can buy online, upgrade and renew from their smartphone, tablet or PC. There are two major benefits – we now offer an intuitive, full online medical screening, while using up to date medical risk scoring technology. We also offer customers the ability to submit their claims online allowing them to track and manage the progress of their claim, no matter what time of day.

Note:
1. Kantar Brand Power Share – H2 2019. Churchill ranked third in this index with the top two brands not sold via the PCW channel.

Best at Direct

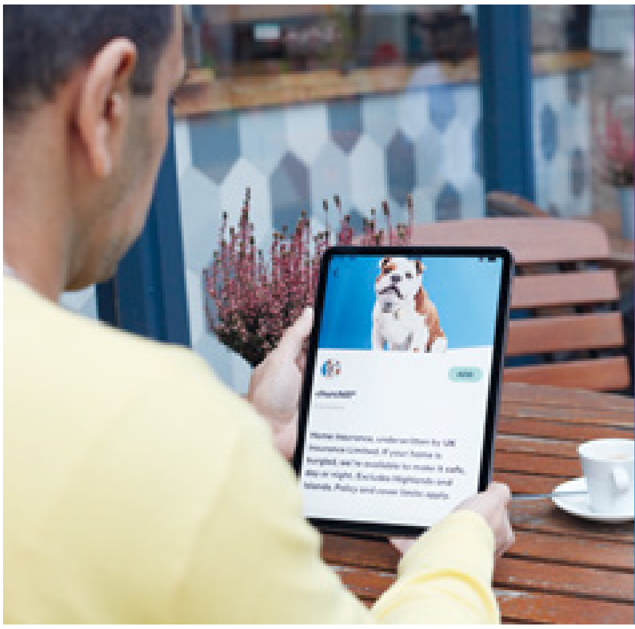
Enhancing the Direct Line proposition

Since relaunching in 2014, Direct Line has relentlessly pursued its goal of being Britain's greatest fixer. This year, it improved its onward travel process for motor insurance and cut the dispatch time for some home insurance replacements to within two hours of making a claim.

Nimble and cost efficient

Digitising our processes

Technology is overhauling the way we deliver greater efficiency. This year we've digitalised claims processes to create a more nimble journey for our customers and drive cost savings for us. Our robotics function processes 50,000 transactions a week, with capacity to expand and automate more processes.



Extend our reach

Starling Bank partnership launched

With more and more people managing their lives digitally, this year we partnered with Starling Bank, using their in-app Marketplace to offer banking customers Churchill home insurance. Using API (Application Programming Interface) technology customers are directed straight to the Churchill brand quote and buy system and can choose to have some of their details pre-populated.

Delivering for our stakeholders

We have unique strengths which allow us to deliver sustainable value for our stakeholders.

Our strengths

We have a number of incredible strengths, from strong brands to rich data to leading claims skills, that are hard to replicate and provide real long-term value.

People
We are a business that really cares, with people who have a passion to serve our customers.

Brands
We know how to build brand value and have some of the most loved brands in the UK.

Data and technology
We harness our brands to design more personalised products and services as well as easier customer journeys.

Capital strength
We have a strong balance sheet with further opportunities to improve its effectiveness.

This is how we make our money

+ Premiums

− Claims

− Costs

+ Investment return and other income

− Tax

= Surplus

REINVEST IN OUR BUSINESS

This is how we create value

- We have a number of the UK's most loved brands giving us a deep understanding of changing market dynamics and customer needs
- Our long-established position in the UK insurance market and vertically integrated business model gives us a platform to continually enhance our pricing capability
- Data analytics and digital capability power our counter-fraud capability meaning we can pin-point fraud cases and control claims costs
- As a leading motor insurer we benefit from running a network of 21 accident repair centres creating high operating efficiency
- Cost reduction targets are important to the sustainable success of the Group providing opportunities for greater business agility
- Our investment in technology aims to increase our competitiveness allowing digitalisation where customers can enjoy self-serve
- We invest in a diversified investment portfolio which aims to provide for current and future claims payments
- We pride ourselves on strong ESG credentials because we know sustainability and commercial success go hand in hand
- We manage our tax obligations responsibly contributing either directly or indirectly over £950 million in tax to the Exchequer this year
- As a major contributor of taxes we are proactive in working with HMRC to ensure that new tax legislation is appropriate and tax anomalies are identified
- Over the past five years we have consistently delivered strong shareholder returns having distributed £2.2 billion in dividends
- Investing in the business has enabled us to keep pace with changing customer needs, improve operational performance and create cutting-edge products and services

A Triple win

We aim to deliver a sustainable and thriving business that generates attractive shareholder returns.

We are aiming for a triple win:

A win for the Group

A win for the Group and those invested in its success – our shareholders and our people.

A win for the customer

A win for the customer in the creation of true value.

And a win for society and the planet

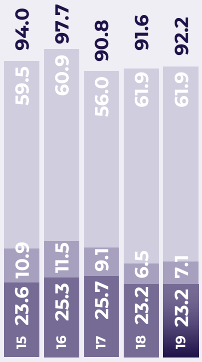
And a win for society and the planet as we know our long-term success is intrinsically linked with the success of the community and environment around us.

RETURNS TO SHAREHOLDERS

Strong performance

These key performance indicators assess our performance against our strategy.

Combined operating ratio[1,2] (%)



Definition
A measure of financial year underwriting profitability. A COR of less than 100% indicates profitable underwriting. The COR is the sum of claims, expense and commission ratios and compares the cost of doing business against net earned premium generated.

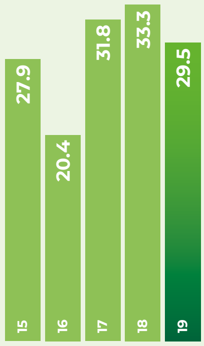
Aim
We aim to make an underwriting profit. The target in the medium term is a COR in the range of 93% to 95% normalised for weather.

Performance
See Finance review page 32

Remuneration
We base part of the AIP awards on profit before tax. COR is closely linked to this.

See pages 108 and 114

Basic earnings per share[1] (pence)



Definition
This is calculated by dividing the earnings attributable to shareholders less coupon payments in respect of Tier 1 notes by the weighted average numbers of Ordinary Shares in issue.

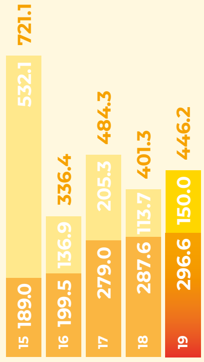
Aim
We have not set a target. However, growing earnings per share is considered an indicator of a healthy business.

Performance
See Finance review page 35

Remuneration
This is a broad measure of earnings and reflects the results of the Group after tax less Tier 1 coupon payments. We base part of the AIP awards on profit before tax.

See pages 108 and 114

Capital returns (£m[1])



Definition
The amount of cash paid in dividends to shareholders and amount of share buybacks funded from the Group's retained profits. (See page 29 for dividend breakdown).

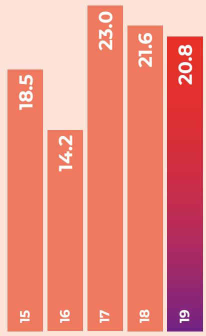
Aim
We aim to grow the regular dividend in line with business growth. Additionally, we look to return any capital to shareholders which is expected to be surplus to our requirements for a prolonged period.

Performance
See Finance review page 35

Remuneration
We base LTIP awards partly on relative total shareholder return performance, which includes dividends. Directors also receive dividends on their beneficial shareholdings and accrue these on unvested LTIP awards.

See pages 108 and 118

Return on tangible equity[1,2] (%)



Definition
The return generated on the capital that shareholders have in the business. This is calculated by dividing adjusted earnings by average tangible equity.

Aim
We aim to achieve at least a 15% RoTE per annum over the long term.

Performance
See Finance review page 35

Remuneration
We base the LTIP awards partly on adjusted RoTE over a three-year performance period.

See pages 108 and 118

Notes:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases', see note 44.
2. See glossary on pages 222 to 224 and Appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.
3. Estimates based on the Group's Solvency II partial internal model for 2016 to 2019. Solvency capital coverage based on the standard formula for 31 December 2015.

Changes to our KPIs in 2019

Our metrics are reviewed annually and updated as appropriate to ensure they remain an effective measure of delivery against our objectives. For 2019, the review of these metrics resulted in the following changes:

- Dividend per share has been replaced by capital returns which includes ordinary and special dividends and share buybacks.

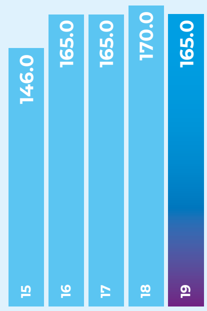
Key for Combined operating ratio

Expense ratio | Commission ratio | Loss ratio

Key for Capital returns

Ordinary | Special | Buybacks

Solvency capital ratio[3] (%)



A risk-based measure expressing the level of capital resources held as a percentage of the level of capital that is required under Solvency II.

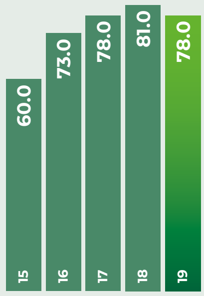
Under normal circumstances, the Group aims to maintain a solvency capital ratio around the middle of the risk appetite range of 140% to 180%.

See Finance review page 36

Risk management within our risk appetite, which includes an assessment of capital strength, acts as a gateway for the AIP awards and underpin for LTIP awards.

See page 108

Employee engagement (%)



Engagement is about being proud to work for Direct Line Group and helping us to succeed. It means that employees are not just happy or satisfied, but doing something to help us achieve our company goals.

To make the Group best for employees and best for our customers. We gauge employee engagement through our employee opinion survey and we aim for high employee engagement scores each year.

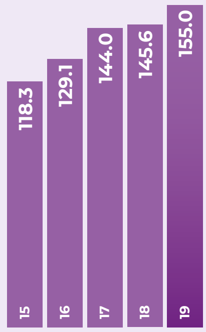
See People page 63

The AIP awards include a weighting to a balance of employee metrics, including engagement.

See pages 108 and 116

Net promoter score[4] (points)

Direct Line Brand



Net promoter score ("**NPS**") is an index that measures the willingness of customers to recommend products or services to others. It is used to gauge customers' overall experience with a product or service, and customers' loyalty to a brand.

We aim to increase our net promoter score over time.

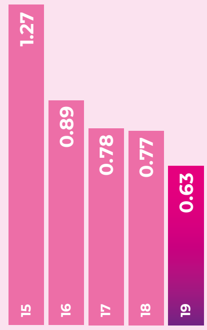
See Customers page 62

The AIP awards include a weighting to a balance of customer metrics, including NPS.

See pages 108 and 115

Customer complaints[5] (%)

Principal underwriter[6]



The number of complaints we received during the year as a proportion of the average number of in-force policies.

This measure indicates where our customer service has not met expectations to the extent that the customer has initiated a complaint. We aim to improve this over time.

See Customers page 61

The AIP awards include a weighting to a balance of customer metrics, including complaints.

See pages 108 and 115

4. On an aggregated 12-month rolling basis, with 2013 rebased to 100.
5. FCA complaints reporting requirements have changed for periods after 29 June 2016. Before 29 June 2016, only complaints resolved after two business days were classed as FCA reportable. From July 2016 all complaints resolved are classed as FCA reportable.
6. For the Group's principal underwriter, U K Insurance Limited.

Good results; buyback launched

Financial highlights

Grew direct own brand in-force policies by 1.4% with strong growth in Green Flag and Commercial direct own brands. Total in-force policies were lower as partnership volumes reduced.

Total Group gross written premium was broadly steady as underwriting discipline resulted in fewer Motor and Home policies and lower premiums which was largely offset by growth in Green Flag and Commercial direct own brands.

Operating expenses before restructuring and one-off costs of £693.7 million (2018 restated: £718.2 million) were in line with target of less than £700 million. Restructuring and one-off costs were £11.2 million (2018: £nil).

Combined operating ratio was 92.2%. Adjusting for normal weather and changes to the Ogden discount rate, the combined operating ratio of 93.5% (2018 restated: 93.3%) was towards the lower end of the Group's medium-term target range of 93% to 95%. The current-year Motor loss ratio was broadly stable.

Profit before tax was down 12.2% to £509.7 million (2018 restated: £580.5 million). The impact of benign weather in 2019 was more than offset by lower reserve releases, in part Ogden discount rate-related, non-repeat of investment and property gains and restructuring and one-off costs in 2019.

Proposed final ordinary dividend of 14.4 pence, an increase of 2.9% on 2018. Announcing a £150 million share buyback and awarding our people £500 of free shares each.

Strong capital position with a solvency capital ratio of 165% after proposed capital distributions (2018: 170%).

> We delivered a good result in 2019, trading well through a difficult market, while staying on track with our transformation and maintaining our balance sheet strength.

TIM HARRIS
CHIEF FINANCIAL OFFICER

	FY 2019 £m	FY 2018[1,2] £m
In-force policies (thousands)	**14,789**	15,073
Of which: direct own brands (thousands)	**7,290**	7,188
Gross written premium	**3,203.1**	3,211.9
Of which: direct own brands	**2,227.8**	2,228.9
Net earned premium	**2,984.9**	3,089.5
Underwriting profit	**232.1**	259.8
Instalment and other operating income	**180.2**	192.0
Investment return	**134.6**	154.6
Operating profit	**546.9**	606.4
Restructuring and other one-off costs	**(11.2)**	–
Operating profit after restructuring and one-off costs	**535.7**	606.4
Finance costs	**(26.0)**	(25.9)
Profit before tax	**509.7**	580.5
Tax	**(89.8)**	(108.5)
Profit after tax	**419.9**	472.0
Key metrics		
Current-year attritional loss ratio[3,4]	**71.6%**	72.6%
Loss ratio[3,4]	**61.9%**	61.9%
Commission ratio[3,4]	**7.1%**	6.5%
Expense ratio[3,4]	**23.2%**	23.2%
Combined operating ratio[3,4]	**92.2%**	91.6%
Return on tangible equity[4]	**20.8%**	21.6%
Investment income yield[4]	**2.4%**	2.5%
Net investment income yield[4]	**2.1%**	2.0%
Investment return yield[4]	**2.2%**	2.4%
Basic earnings per share (pence)	**29.5**	33.3
Diluted earnings per share (pence)	**29.2**	32.9
Return on equity	**15.5%**	17.3%
Dividend per share		
– interim (pence)	**7.2**	7.0
– final (pence)	**14.4**	14.0
– total ordinary (pence)	**21.6**	21.0
– special (pence)	**–**	8.3
	31 Dec 2019	31 Dec[1] 2018 Restated
Net asset value per share (pence)	**193.4**	187.5
Tangible net asset value per share (pence)	**142.0**	145.9
Solvency capital ratio post-dividends[5]	**165%**	170%

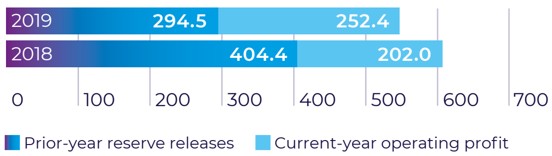
Notes:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.
2. In-force policies, including direct own brands, as at 31 December 2018 have been restated to included 41,000 policies omitted from the previously reported amounts.
3. 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 on pages 222 to 224 for definitions.
4. See glossary on pages 222 to 224 for definitions and appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.
5. See note 4 on page 1, reported after proposed dividends.

Performance

Operating profit[1]

	FY 2019 £m	FY 2018[2] Restated £m
Underwriting profit	**232.1**	259.8
Instalment and other operating income	**180.2**	192.0
Investment return	**134.6**	154.6
Total operating profit	**546.9**	606.4

Operating profit



Notes:
1. See glossary on pages 222 to 224 for definitions and appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.
2. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.

Underwriting profit decreased to £232.1 million (2018 restated: £259.8 million) as lower prior-year reserve releases of £294.5 million, including the effects of changes to the Ogden discount rate detailed below, were partially offset by lower operating expenses and reduced weather-related claims of £6 million (2018: £75 million weather-related claims).

The combined operating ratio was 92.2% (2018 restated: 91.6%). The current-year attritional loss ratio improved by 1.0 percentage point to 71.6% (2018 restated: 72.6%). Home, Rescue and other personal lines and Commercial all improved, and Motor remained broadly steady. The loss ratio relating to major weather events improved by 2.2 percentage points to 0.2%, partially offset by a 0.6 percentage point increase in the commission ratio. The expense ratio was stable as lower expenses were offset by a reduction in earned premium. Overall, the current-year combined operating ratio improved by 2.6 percentage points to 102.1%.

Instalment and other operating income decreased to £180.2 million (2018: £192.0 million), due primarily to the non-repeat of a £9.6 million property gain in 2018. Other income, including from our in-house accident repair network, remained broadly stable.

Investment return decreased to £134.6 million (2018: £154.6 million) as a result of a reduction in assets under management reducing investment income, the non-repeat of £13 million of fair value adjustments in 2018 and a reduction in realised gains.

Operating profit decreased by £59.5 million to £546.9 million (2018 restated: £606.4 million) as a result of reductions in underwriting profit, instalment and other operating income and investment return. Current-year operating profit, as a proportion of total operating profit, improved, making progress towards the Group's target of achieving more than half of the Group's annual operating profit from current-year earnings by the end of 2021.

Effect of Ogden discount rate changes on claims reserves net of reinsurance

	Motor £m	Commercial £m	FY 2019 Total £m	Motor £m	Commercial £m	FY 2018 Total £m
Prior year	**15.9**	**1.0**	**16.9**	(47.9)	(3.5)	(51.4)
Current year	**–**	**–**	–	(2.7)	(0.7)	(3.4)
Total claims reserve increase / (decrease)	**15.9**	**1.0**	**16.9**	(50.6)	(4.2)	(54.8)

The Civil Liability Act 2018 introduced a new framework for setting the personal injury Ogden discount rate, requiring the Government to reset the Ogden discount rate by reference to low risk rather than very low or zero risk investments. Following a Government review, as dictated by the terms of the Civil Liability Act 2018, on 15 July 2019 the Lord Chancellor announced a new Ogden discount rate of minus 0.25% to take effect from 5 August 2019. Compared to an assumed Ogden discount rate of 0% this resulted in a £16.9 million increase in reserves split across the Motor and Commercial segments. In 2018, following the granting of royal assent for the Act in December 2018, the Group reviewed the Ogden discount rate for reserves for large bodily injury claims and selected an assumed rate of 0% for reserving purposes as at 31 December 2018. This resulted in a reserves release of £54.8 million in 2018.

In-force policies and gross written premium

In-force policies (thousands)

At	31 Dec 2019	31 Dec 2018[1,2]
Direct own brands	**3,921**	3,950
Partnerships	**122**	144
Motor	**4,043**	4,094
Direct own brands	**1,765**	1,789
Partnerships	**829**	862
Home	**2,594**	2,651
Rescue	**3,450**	3,532
Travel	**3,648**	3,759
Pet	**157**	156
Other personal lines	**122**	126
Rescue and other personal lines	**7,377**	7,573
Of which: Green Flag direct	**1,063**	935
Direct own brands	**541**	514
NIG and other	**234**	241
Commercial	**775**	755
Total in-force policies	**14,789**	15,073
Of which: direct own brands	**7,290**	7,188

Notes:
1. Commercial direct own brands include Direct Line for Business and commercial products sold under the Churchill brand, the Churchill in-force policies were previously reported within NIG and other. Prior periods have been re-presented accordingly.
2. In-force policies, including direct own brands as at 31 December 2018 have been restated to include 41,000 policies previously omitted from previously reported amounts.

Total in-force policies reduced to 14.8 million (31 December 2018: 15.1 million), primarily due to lower volumes in policies attached to packaged bank accounts, small reductions in Motor and Home own brands, and reductions in Home partnerships as Prudential and Sainsbury's partnerships are closed to new business. Own brands in-force policies grew to 7.3 million (2018 restated: 7.2 million), with growth in Green Flag and Commercial direct own brands partly offsetting the overall reduction.

Gross written premium

	FY 2019 £m	FY 2018[1] £m
Direct own brands	**1,591.7**	1,608.8
Partnerships	**59.9**	62.4
Motor	**1,651.6**	1,671.2
Direct own brands	**407.7**	412.6
Partnerships	**178.9**	194.3
Home	**586.6**	606.9
Rescue	**167.5**	163.4
Travel	**151.3**	143.9
Pet	**72.6**	72.4
Other personal lines	**44.6**	43.1
Rescue and other personal lines	**436.0**	422.8
Of which: Green Flag direct	**79.0**	69.6
Direct own brands	**149.4**	137.9
NIG and other	**379.5**	373.1
Commercial	**528.9**	511.0
Total gross written premium	**3,203.1**	3,211.9
Of which: direct own brands	**2,227.8**	2,228.9

Note:
1. Commercial direct own brands includes Direct Line for Business and commercial products sold under the Churchill brand that we previously reported within NIG and other. Prior periods have been re-presented accordingly.

Gross written premium of £3,203.1 million (2018: £3,211.9 million) reduced slightly by 0.3% as modest declines in Motor and Home were partially offset by increases in Commercial and Rescue and other personal lines. Direct own brands gross written premium of £2,227.8 million (2018: £2,228.9 million) was broadly steady.

Underwriting profit and combined operating ratio

	FY 2019	FY 2018[1] restated
Underwriting profit (£ million)	**232.1**	259.8
Loss ratio	**61.9%**	61.9%
Commission ratio	**7.1%**	6.5%
Expense ratio	**23.2%**	23.2%
Combined operating ratio	**92.2%**	91.6%

Note:
1. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.

The Group's combined operating ratio of 92.2% (2018 restated: 91.6%) increased by 0.6 percentage points, primarily due to an increase in the commission ratio. Weather-related claims reduced in 2019 and there was no repeat of the weather-event related claims experienced in the first half of 2018. The resulting improvements to the Home loss ratio were largely offset by increases in the Motor loss ratio as the contribution from prior-year reserve releases reduced. Normalised for weather and the Ogden discount rate change, the combined operating ratio was approximately 93.5%[1], towards the lower end of the Group's medium-term target range of 93% to 95%. This includes a 0.6 percentage point impact from the Ogden discount rate change in July 2019.

The loss ratio was stable at 61.9% (2018 restated: 61.9%) as a number of factors offset each other. The current-year attritional loss ratio improved by 1.0 percentage point as the Group benefited from benign weather and this was offset by lower prior-year reserve releases in part due to Ogden discount rate changes.

The commission ratio has increased primarily as a result of increased profit-share payments and volume related payments to PCWs.

The expense ratio has remained steady at 23.2% as lower costs were fully offset by lower earned premium. Operating expenses excluding restructuring and one-off costs fell by £24.5 million to £693.7 million in 2019, with reductions across all major cost categories except for insurance levies.

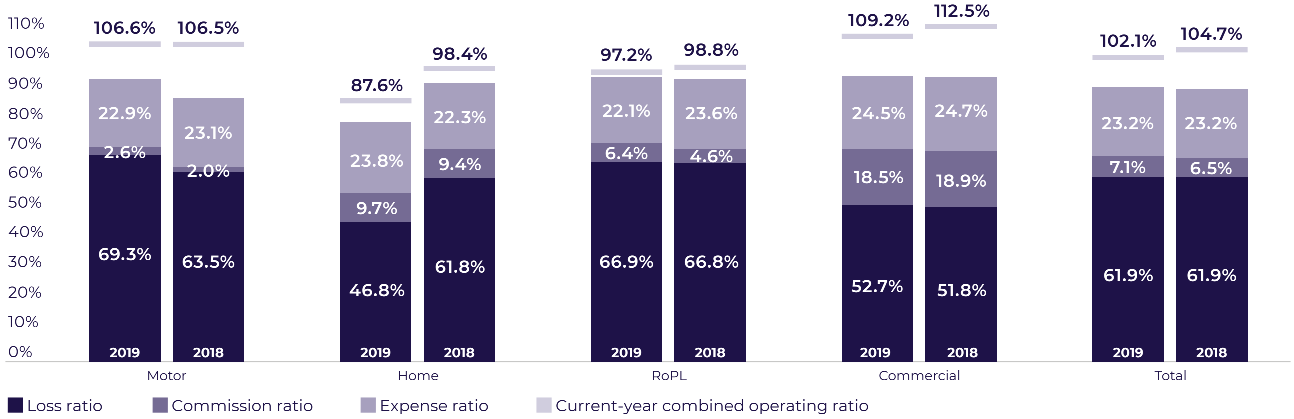
Note:
1. See glossary on pages 222 to 224 for definitions and appendix A – Alternative performance measures on pages 225 to 228 for reconciliation.

Ratio analysis by division

	Notes	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total Group £m
For the year ended 31 December 2019						
Net earned premium	4	**1,507.7**	**573.6**	**425.2**	**478.4**	**2,984.9**
Net insurance claims	4	**1,043.3**	**268.4**	**284.4**	**251.5**	**1,847.6**
Prior-year reserve releases	34	**180.5**	**41.4**	**7.6**	**65.0**	**294.5**
Major weather events		**n/a**	**(3.0)**	**n/a**	**(3.0)**	**(6.0)**
Attritional net insurance claims		**1,223.8**	**306.8**	**292.0**	**313.5**	**2,136.1**
Loss ratio – current-year attritional		**81.2%**	**53.5%**	**68.7%**	**65.6%**	**71.6%**
Loss ratio – prior-year reserve releases		**(11.9%)**	**(7.2%)**	**(1.8%)**	**(13.6%)**	**(9.9%)**
Loss ratio – major weather events[1]		**n/a**	**0.5%**	**n/a**	**0.7%**	**0.2%**
Loss ratio – reported	4	**69.3%**	**46.8%**	**66.9%**	**52.7%**	**61.9%**
Commission ratio	4	**2.6%**	**9.7%**	**6.4%**	**18.5%**	**7.1%**
Expense ratio	4	**22.9%**	**23.8%**	**22.1%**	**24.5%**	**23.2%**
Combined operating ratio	4	**94.8%**	**80.3%**	**95.4%**	**95.7%**	**92.2%**
Current-year combined operating ratio		**106.6%**	**87.6%**	**97.2%**	**109.2%**	**102.1%**
For the year ended 31 December 2018[2] (restated)						
Net earned premium	4	1,541.8	667.8	414.7	465.2	3,089.5
Net insurance claims	4	979.3	413.3	277.2	241.3	1,911.1
Prior-year reserve releases	34	276.3	32.6	16.1	79.4	404.4
Major weather events		n/a	(65.0)	n/a	(10.0)	(75.0)
Attritional net insurance claims		1,255.6	380.9	293.3	310.7	2,240.5
Loss ratio – current-year attritional		81.4%	57.0%	70.7%	66.8%	72.6%
Loss ratio – prior-year reserve releases		(17.9%)	(4.9%)	(3.9%)	(17.1%)	(13.1%)
Loss ratio – major weather events[1]		n/a	9.7%	n/a	2.1%	2.4%
Loss ratio – reported	4	63.5%	61.8%	66.8%	51.8%	61.9%
Commission ratio	4	2.0%	9.4%	4.6%	18.9%	6.5%
Expense ratio	4	23.1%	22.3%	23.6%	24.7%	23.2%
Combined operating ratio	4	88.6%	93.5%	95.0%	95.4%	91.6%
Current-year combined operating ratio		106.5%	98.4%	98.8%	112.5%	104.7%

Notes:
1. Home and Commercial claims for major weather events, including inland and coastal flooding and storms.
2. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.

Ratio analysis by division



The movement in the current-year attritional loss ratio is an indicator of underlying accident year performance as it excludes prior-year reserve releases and claims costs from major weather events. The Group's current-year attritional loss ratio of 71.6% improved by 1.0 percentage point compared to 2018, demonstrating good progress on the Group's target to improve current-year underwriting profitability. This was primarily due to improvements in escape of water claims in Home and small improvements across other divisions.

Prior-year reserve releases continued to be significant at £294.5 million (2018: £404.4 million), equivalent to 9.9% of net earned premium (2018: 13.1%) and were concentrated towards more recent accident years. In 2019, prior-year reserves increased by £16.9 million in relation to a change in the Ogden discount rate to minus 0.25% (2018: £54.8 million reserve release). Assuming current claims trends continue, prior-year reserve releases are expected to continue to reduce further in future years, although they are expected to remain a significant contribution to profits.

The Group's current-year combined operating ratio improved by 2.6 percentage points to 102.1% (2018 restated: 104.7%) as a 2.2 percentage point improvement in claims due to major weather events and a 1.0 percentage point improvement to the current-year attritional loss ratios were partially offset by a 0.6 percentage point increase in the commission ratio.

Operating expenses before restructuring and one-off costs

	Note	FY 2019 £m	FY 2018[1] £m restated
Staff costs[2]		**261.5**	269.9
IT and other operating expenses[2,3]		**158.0**	167.6
Marketing	10	**113.9**	121.2
Insurance levies[4]	10	**81.5**	67.6
Depreciation and amortisation[5,6]	10	**78.8**	91.9
Total operating expenses before restructuring and one-off costs		**693.7**	718.2

Notes:
1. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.
2. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
3. IT and other operating expenses include information technology costs, professional fees and property costs.
4. Insurance levies were previously reported in IT and other operating expenses. Comparative data for the year 31 December 2018 has been re-presented accordingly.
5. Depreciation and amortisation include a £1.3 million impairment charge for year ended 31 December 2019 (2018: £1.5 million), which relates to capitalised software development costs for ongoing IT projects primarily relating to development of new systems.
6. Includes depreciation on right-of-use assets of £14.2 million (31 December 2018: £14.1 million).

Operating expenses before restructuring and one-off costs reduced by £24.5 million to £693.7 million (2018 restated: £718.2 million), meeting the Group's 2019 target of reducing operating expenses to under £700 million. This resulted in an unchanged expense ratio of 23.2% (2018 restated: 23.2%). The Group saw reductions in all major cost categories with the exception of insurance levies, where there have been increases in both the Motor Insurers' Bureau and the Financial Services Compensation Scheme levies.

The Group has continued to invest in its technology transformation and other operational efficiency improvements. The core areas of focus include self-service and digitalisation, process improvement and automation, as well as reducing costs through targeted procurement activity.

Instalment and other operating income

	Note	FY 2019 £m	FY 2018 £m
Instalment income		**114.0**	119.9
Other operating income:			
Revenue from vehicle recovery and repair services[1]	7	**28.3**	25.1
Vehicle referral income	7	**19.1**	17.2
Legal services income	7	**11.3**	11.2
Other income[2,3]	7	**7.5**	18.6
Other operating income	7	**66.2**	72.1
Total instalment and other operating income		**180.2**	192.0

Notes:
1. Revenue from vehicle recovery and repair services includes salvage income previously reported in other income. Comparative data for the year ended 31 December 2018 has been re-presented accordingly.
2. Other income includes mainly fee income from insurance intermediary services.
3. In 2018 other income included a £9.6 million gain on the sale of a property.

Instalment and other operating income decreased by £11.8 million, primarily as a result of the non-repeat of a £9.6 million property gain in 2018.

Investment return

	Note	FY 2019 £m	FY 2018 £m
Investment income		**146.4**	159.2
Hedging to a sterling floating rate basis		**(22.1)**	(30.8)
Net investment income		**124.3**	128.4
Net realised and unrealised gains excluding hedging		**10.3**	26.2
Total investment return	6	**134.6**	154.6

Investment yields

	FY 2019	FY 2018
Investment income yield[1]	**2.4%**	2.5%
Net investment income yield[1]	**2.1%**	2.0%
Investment return yield[1]	**2.2%**	2.4%

Note:
1. See glossary on pages 222 to 224 for definitions and appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.

Total investment return decreased by £20.0 million to £134.6 million (2018: £154.6 million). This was due to a reduction in investment income, primarily as a result of lower assets under management, and a reduction in realised and unrealised gains excluding hedging, which was predominantly driven by investment property revaluations (2019: (£6.2) million, 2018: £12.7 million).

The investment income yield for 2019 reduced to 2.4% (2018: 2.5%). The net investment income yield was higher at 2.1% (2018: 2.0%) as a result of decreased hedging costs. In 2020, the Group expects a net investment income yield around 2.0%.

The Group's investment strategy aims to deliver several objectives, which are summarised below:

- to ensure there is sufficient liquidity available within the investment portfolio to meet stressed liquidity scenarios;
- to match periodic payment orders ("**PPO**") and non-PPO liabilities in an optimal manner; and
- to deliver a suitable risk-adjusted investment return commensurate with the Group's risk appetite.

Reconciliation of operating profit

	Note	FY 2019 £m	FY 2018[1] £m restated
Motor	4	**302.6**	418.1
Home	4	**150.6**	83.9
Rescue and other personal lines	4	**39.1**	44.0
Commercial	4	**54.6**	60.4
Operating profit	4	**546.9**	606.4
Restructuring and one-off costs		**(11.2)**	–
Operating profit after restructuring and one-off costs		**535.7**	–
Finance costs	4	**(26.0)**	(25.9)
Profit before tax	4	**509.7**	580.5
Tax		**(89.8)**	(108.5)
Profit after tax		**419.9**	472.0

Note:
1. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.

Operating profit by segment

All divisions contributed to profit in 2019, demonstrating the diversity of the Group's multi-product, multi-brand and multi-channel portfolio. Motor operating profit reduced, primarily due to the effects on prior-year reserve releases of Ogden discount rate changes in both 2018 and 2019. Home operating profit improved, primarily due to underwriting actions, claims indemnity initiatives and benign weather. Rescue operating profit of £45.1 million (2018 restated: £40.2 million) is included in the Rescue and other personal lines result.

Restructuring and one-off costs

In order to support its cost reduction targets, the Group announced approximately £60 million of restructuring and one-off costs across 2019 and 2020 at its Capital Markets Day in November. The Group incurred £11.2 million of restructuring and one-off costs in 2019 with the remainder expected to be incurred in 2020.

Finance costs

Finance costs were broadly steady at £26.0 million (2018 restated: £25.9 million) and include finance costs which were incurred on the Group's leased assets following the fully retrospective adoption of IFRS 16 'Leases' on 1 January 2019.

Effective corporation tax rate

The effective tax rate for 2019 was 17.6% (2018: 18.7%), which was lower than the standard UK corporation tax rate of 19.0% (2018: 19.0%) driven primarily by an increase in respect of prior-year over provisions, tax relief for the Tier 1 coupon payments offset by a reduction in disallowable expenses.

Profit for the year and return on tangible equity[1,2]

Profit for the year was £419.9 million (2018 restated: £472.0 million) in line with the reduction in operating profit.

Return on tangible equity decreased to 20.8% (2018 restated: 21.6%) due primarily to a £46.9 million decrease in adjusted[2] profit after tax to £408.5 million (2018 restated: £455.4 million). Profit after tax in 2019 was adjusted for restructuring and one-off costs. Profit after tax in both 2019 and 2018 was adjusted for coupon payments in respect of Tier 1 notes.

Notes:
1. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.
2. See glossary on pages 222 to 224 for definitions and appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.

Earnings per share[1]

Basic earnings per share decreased by 11.4% to 29.5 pence (2018 restated: 33.3 pence). Diluted earnings per share decreased by 11.2% to 29.2 pence (2018 restated: 32.9 pence) mainly reflecting the reduction in profit after tax.

Note:
1. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.

Cash flow

The Group's cash and cash equivalents decreased by £196.1 million (2018: £212.1 million decrease) to £896.3 million.

The Group generated operating cash flows before movements in working capital of £370.3 million (2018: £440.9 million), a reduction of £70.6 million due to the reduction in profit for the year adjusted for non-cash movements. After taking into account movements in working capital, the Group generated £182.4 million (2018: £125.2 million), an increase of £57.2 million. The Group has considerable assets under management, the cash generated from these reduced by £94.2 million to £373.9 million following reductions in the Group's assets under management, as a result of dividend payments, and proceeds from the maturity of AFS debt securities. Net cash generated from operating activities was £462.1 million (2018: 491.6 million).

The Group continued to invest significantly in its major IT programmes (2019: £175.7 million, 2018: £142.4 million). The Group paid out £420.7 million (2018: 503.8 million) in dividends in the year, comprising the 14.0 pence 2018 final dividend, the 8.3 pence 2018 special dividend and the 7.2 pence first interim dividend annual in the half-year results in 2019.

Net cash used in investing activities of £187.6 million and net cash used in financing activities of £470.6 million offset the £462.1 million generated from operating activities and resulted in a net decrease in cash and cash equivalents of £196.1 million (2018: £212.1 million decrease) to £896.3 million (2018: £1,092.4 million). The levels of cash and other highly liquid sources of funding that the Group holds to cover its claims obligations is continually monitored to ensure that the levels remain within the Group's risk appetite.

Net asset value

At 31 December	Note	2019 £m	2018[1] £m restated
Net assets[2]	16	**2,643.6**	2,558.2
Goodwill and other intangible assets	16	**(702.5)**	(566.8)
Tangible net assets	16	**1,941.1**	1,991.4
Closing number of Ordinary Shares (millions)	16	**1,366.6**	1,364.6
Net asset value per share (pence)	16	**193.4**	187.5
Tangible net asset value per share (pence)	16	**142.0**	145.9

Notes:
1. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.
2. See glossary on pages 222 to 224 for definitions and appendix A – Alternative performance measures on pages 225 to 228 for reconciliation to financial statement line items.

Net assets at 31 December 2019 increased to £2,643.6 million (31 December 2018 restated: £2,558.2 million) and tangible net assets decreased to £1,941.1 million (31 December 2018 restated: £1,991.4 million) reflecting the 2019 retained profit and, increases in available-for-sale reserves. This was offset by additional expenditure on intangible assets as the Group continued to invest in the business.

Balance sheet management

Capital management and dividend policy

The Group aims to manage its capital efficiently and generate long-term sustainable value for shareholders, while balancing operational, regulatory, rating agency and policyholder requirements.

The Group aims to grow its regular dividend in line with business growth.

Where the Board believes that the Group has capital which is expected to be surplus to the Group's requirements for a prolonged period, it would intend to return any surplus to shareholders. In normal circumstances, the Board expects that a solvency capital ratio around the middle of its risk appetite range of 140% to 180% of the Group's solvency capital requirement ("**SCR**") would be appropriate and it will therefore take this into account when considering the potential for special distributions.

In the normal course of events the Board will consider whether or not it is appropriate to distribute any surplus capital to shareholders once a year, alongside the full-year results.

The Group expects that one-third of the annual dividend will generally be paid in the third quarter as an interim dividend, and two-thirds will be paid as a final dividend in the second quarter of the following year. The Board may revise the dividend policy from time to time. The Company may consider a special dividend and/or a repurchase of its own shares to distribute surplus capital to shareholders.

The Board has recommended a final dividend of 14.4 pence per share (2018: 14.0 pence), an increase of 0.4 pence per share (2.9%). The Board has also approved a share buyback of up to £150 million which it expects to complete by the end of July 2020. This reflects the Board's continued confidence in the Group's capital position and the sustainability of its earnings. In normal circumstances, the Board expects the Group to operate around the middle of its solvency capital ratio risk appetite range of 140% to 180%.

The final dividend will be paid on 21 May 2020 to shareholders on the register on 14 April 2020. The ex-dividend date will be 9 April 2020.

Capital analysis

The Group is regulated under Solvency II requirements by the PRA on both a Group basis and for the Group's principal underwriter, U K Insurance Limited. In its results, the Group has estimated its Solvency II own funds, SCR and solvency capital ratio as at 31 December 2019.

Capital position

At 31 December 2019, the Group held a Solvency II capital surplus of £0.85 billion above its regulatory capital requirements, which was equivalent to an estimated solvency capital ratio of 165%, post capital distributions of proposed final dividends and share buyback.

The Group's SCR and solvency capital ratio are as follows:

At 31 December	2019	2018
Solvency capital requirement (£ billion)	**1.32**	1.26
Capital surplus above solvency capital requirement[1] (£ billion)	**0.85**	0.89
Solvency capital ratio post-capital distributions	**165%**	170%

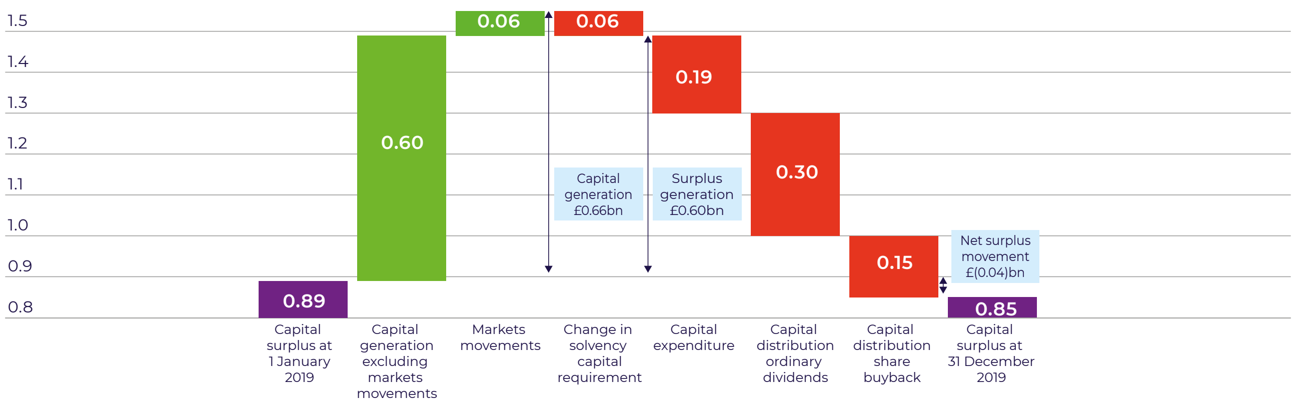
Movement in capital surplus

	2019 £bn	2018 £bn
Capital surplus at 1 January	**0.89**	0.91
Capital generation excluding market movements	**0.60**	0.47
Market movements	**0.06**	(0.06)
Capital generation	**0.66**	0.41
Change in solvency capital requirement	**(0.06)**	0.13
Surplus generation	**0.60**	0.54
Capital expenditure	**(0.19)**	(0.15)
Management capital action	**–**	–
Capital distribution – ordinary dividends[2]	**(0.30)**	(0.30)
Capital distribution – special dividends[2]	**–**	(0.11)
Capital distribution – share buyback	**(0.15)**	–
Net surplus movement	**(0.04)**	(0.02)
Capital surplus at 31 December	**0.85**	0.89

Note:
1. Foreseeable dividends included above are adjusted to exclude the expected dividend waivers in relation to shares held by the employee share trusts, which are held to meet obligations arising on the various share option awards.

In 2019, the Group generated £0.66 billion of Solvency II capital offset by £0.19 billion of capital expenditure and capital distribution of £0.45 billion for the 2019 dividend and share buyback. The increased capital expenditure

Movement in capital surplus (£bn)



reflects the significant investment the Group is making in building future capability including the development of the next generation core personal lines IT systems. In 2020, the level of expenditure is expected to be approximately £150 million. Thereafter, expenditure levels are expected to reduce to around £100 million from 2021.

Change in solvency capital requirement

	2019 £bn
Solvency capital requirement at 1 January	**1.26**
Model and parameter changes	**(0.07)**
Exposure changes	**0.13**
Solvency capital requirement at 31 December	**1.32**

The Group's SCR has increased by £0.06 billion in the year. Model and parameter changes reduced the SCR by £0.07 billion. Exposure changes, as a result of restructuring costs, Solvency II technical provisions movements and volume and mix changes of assets under management, led to an increase in the SCR of £0.13 billion.

Scenario and sensitivity analysis

The following table shows the impact on the Group's estimated solvency capital ratio in the event of the following scenarios as at 31 December 2019. The impact on the Group's solvency capital ratio arises from movements in both the Group's solvency capital requirement and own funds.

	Impact on solvency capital ratio	
Scenario	31 Dec 2019	31 Dec 2018
Motor small bodily injury deterioration equivalent to accident years 2008 and 2009	**(7pts)**	(7pts)
One-off catastrophe loss equivalent to the 1990 storm	**(9pts)**	(8pts)
One-off catastrophe loss based on extensive flooding of the River Thames	**(9pts)**	(8pts)
Change in reserving basis for PPOs to use a real discount rate of minus 1%[1]	**(8pts)**	(10pts)
100bps increase in credit spreads[2]	**(9pts)**	(11pts)
100bps decrease in interest rates with no change in the PPO real discount rate	**1pt**	(1pt)

Notes:
1. The PPO real discount rate used is an actuarial judgement which is reviewed annually based on the economic outlook for wage inflation relative to the EIOPA discount rate curve.
2. Only includes the impact on AFS assets (excludes illiquid assets such as infrastructure debt) and assumes no change to the SCR.

Own funds

The following table splits the Group's own funds by tier on a Solvency II basis.

At 31 December	2019 £bn	2018 £bn
Tier 1 capital before foreseeable capital distributions	**1.80**	1.76
Foreseeable capital distributions	**(0.35)**	(0.31)
Tier 1 capital – unrestricted	**1.45**	1.45
Tier 1 capital – restricted	**0.37**	0.35
Tier 1 capital	**1.82**	1.80
Tier 2 capital – subordinated debt	**0.26**	0.26
Tier 3 capital – deferred tax	**0.09**	0.09
Total own funds	**2.17**	2.15

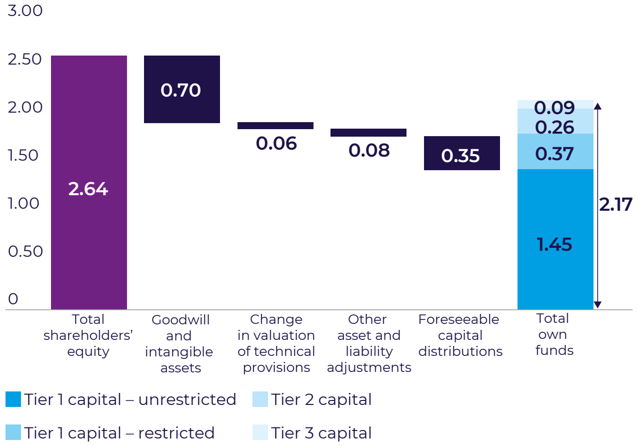
During 2019, the Group's own funds increased from £2.15 billion to £2.17 billion. Tier 1 capital after foreseeable capital distributions represents 84% of own funds and 138% of the estimated SCR. Tier 2 capital relates solely to the Group's £0.26 billion subordinated debt. The amount of Tier 2 and Tier 3 capital permitted under the Solvency II regulations is 50% of the Group's SCR and of Tier 3 alone is less than 15%. Therefore, the Group currently has no ineligible capital. The maximum amount of Restricted Tier 1 capital permitted as a proportion of total Tier 1 capital under the Solvency II regulations is 20%. Restricted Tier 1 capital relates solely to the Tier 1 notes issued in 2017.

Reconciliation of IFRS shareholders' equity to solvency II own funds

At 31 December	2019 £bn	2018 £bn
Total shareholders' equity	**2.64**	2.56
IFRS 16 'Leases' adjustment to remove restated equity movement[1]	**–**	0.01
Goodwill and intangible assets	**(0.70)**	(0.57)
Change in valuation of technical provisions	**(0.06)**	(0.15)
Other asset and liability adjustments	**(0.08)**	(0.09)
Foreseeable capital distributions	**(0.35)**	(0.31)
Tier 1 capital – unrestricted	**1.45**	1.45
Tier 1 capital – restricted	**0.37**	0.35
Tier 1 capital	**1.82**	1.80
Tier 2 capital – subordinated debt	**0.26**	0.26
Tier 3 capital – deferred tax	**0.09**	0.09
Total own funds	**2.17**	2.15

Note:
1. No adjustment has been made for IFRS 16 'Leases' in 2018 on a Solvency II basis.

Reconciliation of IFRS shareholders' equity to solvency II own funds (£bn)



Leverage

The Group's financial leverage decreased by 0.6 percentage points, and continued to remain conservative at 18.6% (2018 restated: 19.2%). The decrease was primarily due to the increase in shareholders' equity as a result of improvements to the valuation of the Group's AFS investments.

At 31 December	2019 £m	2018[1] £m restated
Shareholders' equity	**2,643.6**	2,558.2
Tier 1 notes	**346.5**	346.5
Financial debt – subordinated debt	**259.0**	259.5
Total capital employed	**3,249.1**	3,164.2
Financial-leverage ratio[2]	**18.6%**	19.2%

Notes:
1. Results for the period ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'. See note 44 to the consolidated financial statements.
2. Total IFRS financial debt and Tier 1 notes as a percentage of total IFRS capital employed.

Credit ratings

Moody's Investors Service provide insurance financial-strength ratings for U K Insurance Limited, the Group's principal underwriter. Moody's rate U K Insurance Limited as 'A1' for insurance financial strength (strong) with a stable outlook.

Reserving

The Group makes provision for the full cost of outstanding claims from its general insurance business at the balance sheet date, including claims estimated to have been incurred but not yet reported at that date and claims handling costs. The Group considers the class of business, the length of time to notify a claim, the validity of the claim against a policy, and the claim value. Claims reserves could settle across a range of outcomes, and settlement certainty increases over time. However, for bodily injury claims the uncertainty is greater due to the length of time taken to settle these claims. The possibility of annuity payments for injured parties also increases this uncertainty.

The Group seeks to adopt a conservative approach to assessing liabilities, as evidenced by the favourable development of historical claims reserves. Reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal actuarial best estimate. This margin is set by reference to various actuarial scenario assessments and reserve distribution percentiles. It also considers other short and long-term risks not reflected in the actuarial inputs, as well as management's view on the uncertainties in relation to the actuarial best estimate.

The most common method of settling bodily injury claims is by a lump sum. When this includes an element of indemnity for recurring costs, such as loss of earnings or ongoing medical care, the settlement calculations apply the statutory discount rate (known as the Ogden discount rate) to reflect the fact that payment is made on a one-off basis rather than periodically over time. The Ogden discount rate changed from 2.5% to minus 0.75% in 2017 in England, Wales and Scotland, reflecting the low interest rate environment, and case law holding that claimants were entitled to invest purely in zero risk investments, i.e. index-linked gilts. The Civil Liability Act 2018 changed the law in two ways: firstly, by requiring the Government to review the Ogden discount rate at least every five years, and secondly to do so by reference to low risk rather than very low or zero risk investments.

At year-end 2018, the Group decided that it was likely that the Ogden discount rate would change in 2019 and selected an estimate of 0% to value its lump sum bodily injury reserves. When the Ogden discount rate review process subsequently concluded in July 2019, the discount rate increased from minus 0.75% to minus 0.25% for England and Wales. The Ogden discount rate is a devolved matter in Scotland and Northern Ireland and it has remained at minus 0.75% in Scotland, and at 2.5% in Northern Ireland.

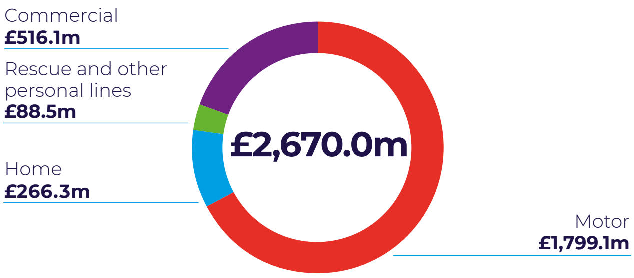
The Group reserves its large bodily injury claims at the relevant discount rate for each jurisdiction, with the overwhelming majority now reserved at minus 0.25% as most will be settled under the law in England and Wales. The Ogden discount rate will be reviewed again at the latest in 2024. There has been an ongoing reduction in large bodily injury exposures as a result of continued positive prior-year development of claims reserves, and a higher proportion of reserves being covered by reinsurance as a result of the decision to opt for a lower reinsurance attachment point from 2014 onwards.

If the claimant prefers, large bodily injury claims can be settled using a PPO. This is an alternative way to provide an indemnity for recurring costs, making regular payments, usually for the rest of the claimant's life. These claims are reserved for using an internal discount rate, which is progressively unwound over time. As it is likely to take time to establish whether a claimant will prefer a PPO or a lump sum, until a settlement method is agreed, the Group makes assumptions about the likelihood that claimants will opt for a PPO. This is known as the PPO propensity. In line with the Group's experience, and the negative Ogden discount rate, the assumed PPO propensity has reduced in 2019.

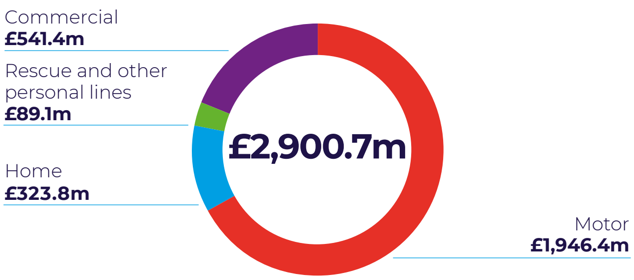
The Group's prior-year reserve releases were £294.5 million (2018: £404.4 million) with good experience in large and small bodily injury claims being a key contributor.

Looking forward, the Group expects to continue setting its initial management best estimate conservatively. Assuming current claims trends continue, the contribution from prior-year reserve releases will reduce over time, although it is expected to remain significant.

Claims reserves net of reinsurance 2019



Claims reserves net of reinsurance 2018



Sensitivity analysis – the discount rate used in relation to PPOs and changes in the assumed Ogden discount rate

The table below provides a sensitivity analysis of the potential net impact of a change in a single factor (the internal discount rate used for PPOs and separately the Ogden discount rate) with all other assumptions left unchanged. Other potential risks beyond the ones described could have additional financial impacts on the Group.

	Increase / (decrease) in profit before tax[1,2]	
At 31 December	**2019 £m**	2018 £m
PPOs[3]		
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	**48.5**	50.7
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(66.5)**	(70.1)
Ogden discount rate[4]		
Impact of the Group reserving at a discount rate of 0.75% compared to minus 0.25% (2018: 1% compared to 0%)	**53.3**	56.2
Impact of the Group reserving at a discount rate of minus 1.25% compared to minus 0.25% (2018: minus 1% compared to 0%)	**(75.0)**	(76.3)

Notes:
1. These sensitivities are net of reinsurance and exclude the impact of taxation.
2. These sensitivities reflect one-off impacts at 31 December and should not be interpreted as predictions.
3. The sensitivities relating to an increase or decrease in the real discount rate used for PPOs illustrate a movement in the time value of money from the assumed level of 0% for reserving. The PPO sensitivity has been calculated as the direct impact of the change in the real discount rate with all other factors remaining unchanged.
4. Ogden discount rate sensitivity has been calculated as the direct impact of a permanent change in the discount rate in England and Wales with all other factors remaining unchanged. The Group will consider the statutory discount rate when setting its reserves but not necessarily provide on this basis, as was the case at the year ended 31 December 2018. This is intended to ensure that reserves are appropriate for current and potential future developments.

The PPO sensitivity above is calculated on the basis of a change in the internal discount rate used for the actuarial best estimate reserves as at 31 December 2019. It does not take into account any second order impacts such as changes in PPO propensity or reinsurance bad debt assumptions.

Reinsurance

The objectives of the Group's reinsurance strategy are to reduce the volatility of earnings, facilitate effective capital management, and transfer risk outside the Group's risk appetite. This is achieved by transferring risk exposure through various reinsurance programmes:

- Catastrophe reinsurance to protect against an accumulation of claims arising from a natural perils event. The retained deductible is 15.6% of gross earned premium (£132.5 million at 31 December 2019) and cover is placed annually on 1 July up to a modelled 1-in-200 year loss event of 133.6% of gross earned premium (£1,132.5 million at 31 December 2019). At the last renewal, 1 July 2019, approximately 60% of the reinsurance programme was placed on a fixed price basis (reinsurers' rate on line) as the final year of a three-year contract.
- Motor reinsurance to protect against a single claim or an accumulation of large claims which renews on 1 January. The retained deductible is at an indexed level of £1 million per claim, providing a substantial level of protection against large motor bodily injury claims. This programme was renewed on 1 January 2020.
- Commercial property risk reinsurance to protect against large individual claims with a retained deductible of £4.0 million which renews annually on 1 July.

Investment portfolio

The investment strategy aims to deliver several objectives, which are summarised below:

- to ensure there is sufficient liquidity available within the investment portfolio to meet stressed liquidity scenarios
- to match PPO and non-PPO liabilities in an optimal manner
- to deliver a suitable risk-adjusted investment return commensurate with the Group's risk appetite

Asset and liability management

The following table summarises the Group's high-level approach to asset and liability management.

Liabilities	Assets	Characteristics
More than 10 years, for example PPOs	Property and infrastructure debt	Inflation linked or floating
Short and medium term – all other claims	Investment-grade credit, short-term high yield and subordinated financial debt	Key rate duration matched
Tier 1 equity	Investment-grade credit	Fixed
Tier 2 sub-debt (swapped fixed to floating)	Commercial real estate loans and cash	Floating
Surplus – tangible equity	Investment-grade credit, cash and government debt securities	Fixed or floating

Asset allocation and benchmarks – U K Insurance Limited

The current strategic asset benchmarks for U K Insurance Limited are detailed in the following table:

At 31 December	**Benchmark holding 2019**	**Actual holding 2019**	Benchmark holding 2018	Actual holding 2018
Investment-grade credit[1]	**65%**	**62.5%**	65%	61.3%
High yield	**6%**	**6.9%**	6%	6.7%
Investment-grade private placements	**3%**	**1.8%**	3%	1.7%
Credit	**74%**	**71.2%**	74%	69.7%
Sovereign	**5%**	**1.7%**	5%	2.6%
Total debt securities	**79%**	**72.9%**	79%	72.3%
Infrastructure debt	**5%**	**4.9%**	5%	5.0%
Commercial real estate loans	**4%**	**3.7%**	4%	3.4%
Cash and cash equivalents	**7%**	**13.4%**	7%	13.9%
Investment property	**5%**	**5.1%**	5%	5.4%
Total investment holdings	**100%**	**100.0%**	100%	100.0%

Investment holdings and yields – total Group

	2019			2018		
	Allocation (£m)	**Income (£m)**	**Yield (%)**	Allocation (£m)	Income (£m)	Yield (%)
Investment-grade credit[1]	**3,676.8**	**82.1**	**2.3%**	3,606.6	99.6	2.7%
High-yield	**390.8**	**21.2**	**5.4%**	393.9	18.8	4.8%
Investment-grade private placements	**104.0**	**2.8**	**2.6%**	101.0	2.8	2.7%
Credit	**4,171.6**	**106.1**	**2.3%**	4,101.5	121.2	2.9%
Sovereign	**99.8**	**2.3**	**1.8%**	156.9	2.8	1.5%
Total debt securities	**4,271.4**	**108.4**	**2.5%**	4,258.4	124.0	2.8%
Infrastructure debt	**278.1**	**7.0**	**2.5%**	289.6	6.9	2.3%
Commercial real estate loans	**205.7**	**6.9**	**3.4%**	201.6	6.2	3.7%
Cash and cash equivalents	**896.3**	**7.9**	**0.8%**	1,092.4	6.2	0.5%
Investment property	**291.7**	**16.2**	**5.3%**	322.1	15.9	5.1%
Total Group	**5,943.2**	**146.4**	**2.4%**	6,164.1	159.2	2.5%

Notes:
1. Asset allocation at 31 December 2019 includes investment portfolio derivatives, which have been included and have a mark-to-market asset value of £81.8 million included in investment grade credit (31 December 2018: mark-to-market asset value of £11.8 million). This excludes non-investment derivatives that have been used to hedge interest on subordinated debt and operational cash flows.
2. Net of bank overdrafts: includes cash at bank and in hand and money market funds.

At 31 December 2019, total investment holdings of £5,943.2 million were 3.6% lower than at the start of the year, primarily reflecting the cash paid in 2019 for dividends partially offset by an increase in fair value of debt securities. Total debt securities were £4,271.4 million (31 December 2018: £4,258.4 million), of which 2.8% were rated as 'AAA' and a further 58.6% were rated as 'AA' or 'A'. The average duration at 31 December 2019 of total debt securities was 2.5 years (31 December 2018: 2.5 years).

At 31 December 2019, total unrealised gains, net of tax, on available-for-sale ("**AFS**") investments were £47.5 million (31 December 2018: £36.8 million unrealised losses).

Tax Management

The Board recognises that the Group has an important responsibility to manage its tax position effectively. The Board has delegated day-to-day management of taxes to the Chief Financial Officer and oversight is provided by the Audit Committee.

These arrangements are intended to ensure that the Group: complies with applicable laws and regulations; meets its obligations as a contributor and a collector of taxes on behalf of the tax authorities; and manages its tax affairs efficiently, claiming reliefs and other incentives where appropriate.

Tax authorities

The Group has open and cooperative relationships with the tax authorities with whom it deals in the countries where the Group operates, namely the UK, the Republic of Ireland, South Africa and India.

Tax policy and governance

The Group's tax policy has been reviewed and approved by the Audit Committee in 2019. The Group Tax team supports the Chief Financial Officer in ensuring the policy is adhered to at an operational level.

For more information please see our published Group Tax policy on the Group's website at https://www.directlinegroup.co.uk/en/who-we-are/governance/other-policies.html.

Total tax contribution

The Group's direct and indirect tax contribution to the UK Exchequer is significantly higher than the UK corporation tax that the Group pays on its profits. The Group collects taxes relating to employees and customers on behalf of the UK Exchequer and other national governments. It also incurs a significant amount of irrecoverable value added tax relating to overheads and claims. Taxes borne and collected in other tax jurisdictions have not been included in this note as the amounts are minimal in the context of the wider UK Group.

During 2019 the sum of taxes either paid or collected across the Group was £956.6 million. The composition of this between the various taxes borne and collected by the Group is shown below.

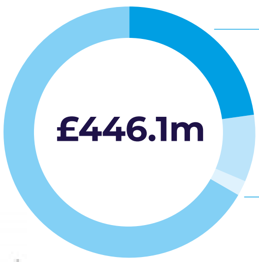
Total taxes borne

At 31 December	2019 £m
Current-year corporation tax charge	101.9
Irrecoverable value added tax incurred on overheads	102.8
Irrecoverable value added tax embedded within claims spend	193.8
Employer's national insurance contributions	39.2
Other taxes	8.4
Total	**446.1**

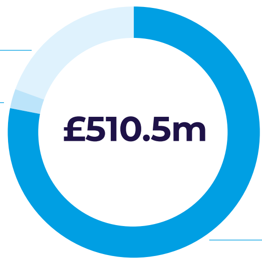
Total taxes collected

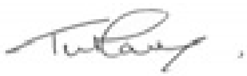
At 31 December	2019 £m
Insurance premium tax	398.9
Value added tax	13.2
Employee's pay as you earn and national insurance contributions	98.4
Total	**510.5**

Total taxes borne by tax type (£m)



Total taxes collected by tax type (£m)





TIM HARRIS
CHIEF FINANCIAL OFFICER

Market overview

Market changes and developing trends impact our customers. This year we examined our external environment, our internal capabilities and how to position ourselves for the long-term success of the business.

Distribution

Non-traditional competitors and intermediaries may change how products are accessed by customers.

Insurers extend their reach by using new capability to secure more customers through PCWs, acquisitions and partnerships.

See pages 22, 23 and 49

Our response

Our first three strategic objectives aim to ensure that our products are easy to use and available everywhere, all underpinned by data expertise, IT investment and business agility.

- New motor insurance platform launched for Privilege new business across all distribution channels including price comparison websites. We also became the first major insurer to partner with Starling Bank, using their accessible marketplace to offer Churchill home insurance.
- Launched our new travel system and migrated our RBS and NatWest customers onto the new platform which provides an end-to-end digital solution for over 1.6 million customers. It is fully optimised for tablet and mobile, provides online medical screening and self-service upgrades and is fully automated for certain claims.

Regulatory

The FCA Market Study on General insurance pricing practices may impact on how the market approaches pricing and contracts

Increased consumer, investor and regulatory focus on Brexit and wider market uncertainty.

See pages 56 and 61

Our aim is for customers to value the protection, service and security our products offer, being clear about pricing and ultimately giving people numerous reasons to stay with our brands.

- We are supportive of the FCA Market Study on General insurance pricing practices, building on the steps we have taken over the last five years. We want a level playing field so the industry can improve outcomes for long-standing customers.
- The Group has proactively considered a variety of possible implications of a disruptive end to the Brexit implementation period, taking into account the political and economic environment.

Technology and Consumers

New products, new routes to market and technology may emerge offering tailored products due to changing consumer expectations on ease, flexibility, sustainability and transparency.

Improving car technology may change the risk pool and increase the importance of data and analytics.

See pages 22 and 45

Future success will be predicated on combining great customer-focused brands with a strong technology foundation where new customer platforms can make it easier for us to onboard new books of business and gain new insight on claims trends.

- Our new brand Darwin is using new pricing technology for motor customers who purchase via the PCW channel and our new motor insurance platform is being rolled out to make customer journeys easier.
- We are preparing for the future by investing in specialist equipment to repair cars with ADAS technology, supported FiveAI's trial of autonomous vehicles and partnered with Europe's largest car-subscription service Drover.

Markets

Our response to the individual markets we operate in can be found on pages 44 to 51.

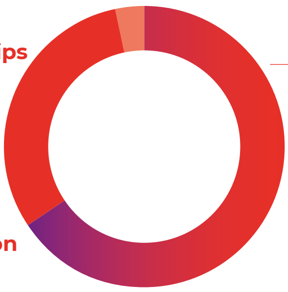
Motor

Own brand in-force policies reduced by 0.7%, with an overall reduction in in-force policies of 1.2% to 4.0 million.

Own brand gross written premium reduced by £17.1 million to £1,597.1 million, overall gross written premium reduced by 1.2%.

Operating profit of £302.6 million was £115.5 million lower than prior year, primarily due to lower prior-year reserve releases of Ogden discount rate changes in 2018 and 2019.

Gross written premium by channel



In-force policies ('000s)
4,043
(2018: 4,094)

Gross written premium
£1,651.6m
(2018: £1,671.2m)

Operating profit
£302.6m
(2018: £418.1m)

Combined operating ratio
94.8%
(2018: 88.6%)

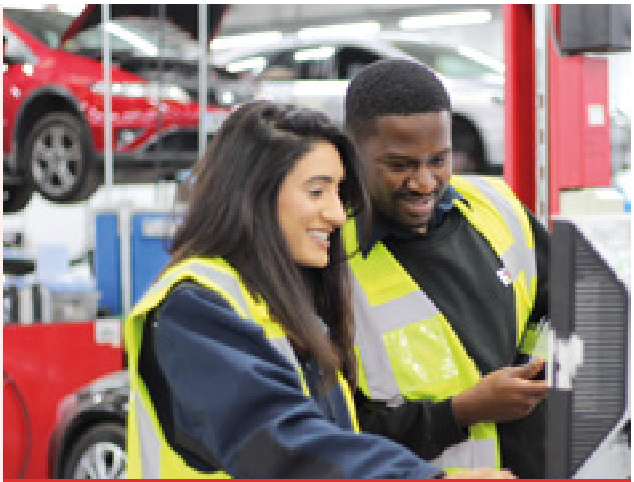
	2019	2018
In-force policies (thousands)	4,043	4,094
Of which direct own brands	3,921	3,950
Gross written premium	£1,651.6m	£1,671.2m
Loss ratio	69.3%	63.5%
Commission ratio	2.6%	2.0%
Expense ratio	22.9%	23.1%
Combined operating ratio	94.8%	88.6%
Operating profit	£302.6m	£418.1m

Overview

In 2019, the Group maintained a focus on underwriting discipline and indemnity management in a highly competitive market, and this strategy helped to deliver an improvement in the current-year attritional loss ratio to 81.2% (2018: 81.4%). Excluding the effect of changes to the Ogden discount rate in both 2018 and 2019, operating profit was down £49 million, primarily due to lower bodily injury reserve releases and lower investment returns.

The Group's Motor in-force policy count stabilised during the second half of the year as some signs of premium inflation returned to the market, with new business sales on price comparison websites strengthening during the last quarter. The Group began to expand its underwriting footprint with the introduction of its Darwin brand in 2019, and the deployment of the Group's next generation underwriting platform was completed for new business in its Privilege brand.

The Group continued to invest in its in-house vehicle repair network and other initiatives designed to help manage claims inflation. In 2019 the Group opened its twenty first site, in Weybridge, and completed more than 90,000 in-house repairs across the network during the year.



Preparing for the future

By 2025 40% of all vehicles are forecast to be fitted with some form of ADAS in the near future, changing the skills our people will need to fix the cars of the future. ADAS features, such as Autonomous Emergency Braking, rely on sensors to operate presenting challenges for our network of accident repair centres because the technology sits in some of the most collision intensive aspects of cars.

It will overhaul the bodyshop industry because ADAS technology requires calibration when accidents occur. The Group has invested in our specialist repair facility in Birmingham, acquiring calibration kits and recruiting technicians who have the expertise to assess and fix this technology. By anticipating this change the Group is investing in our people, adding to our skills base and maximising the prospects of delivering efficient repairs for our customers.

Performance

Motor in-force policies reduced by 1.2% to 4.0 million with gross written premium also reducing by 1.2% to £1,651.6 million as the Group continued to focus on maintaining target loss ratios in a highly competitive market.

Own brands in-force policies reduced slightly by 0.7%. Strong new business growth was achieved in Churchill following the brand's re-launch in October and a strengthened proposition for the price comparison website channel. Retention reduced slightly, but remained strong across direct own brands and partnerships.

A number of pricing initiatives have helped to support new business competitiveness. Motor risk-adjusted prices increased by 3.1% in 2019 while targeted changes to the risk mix reduced average premiums by 3.7%. This led to Motor average premium[1] falling slightly in 2019.

The current-year attritional loss ratio in Motor improved by 0.2 percentage points to 81.2% (2018: 81.4%). Claims severity experience was consistent through 2019 with underlying inflation at the upper end of the Group's long-term expectations of 3% to 5%. Frequency was lower as a result of improvements to risk mix, counter fraud initiatives as well as benign weather.

In total, prior-year reserve releases were £95.8 million lower year-on-year at £180.5 million and included an increase in reserves of £15.9 million as a result of the change in the Ogden discount rate to minus 0.25% from an assumed rate of 0% (2018: £47.9 million release). Bodily injury claims reserves continued to develop favourably.

Motor's reported combined operating ratio increased by 6.2 percentage points to 94.8% (2018 restated: 88.6%). Small improvements in the current-year attritional loss and expense ratios were offset by a 0.6 percentage point increase in the commission ratio, primarily due to increased volume related commission payments to price comparison websites, and a 6.0 percentage point reduction in prior-year reserve releases.

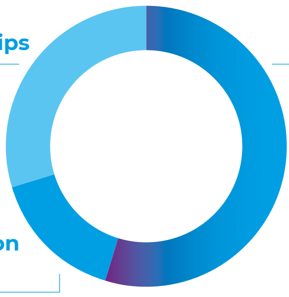
Note:
1. Average incepted written premium excluding IPT for Motor own brands (excluding Darwin and Privilege policies underwritten on the Group's new IT platform) for year-end 31 December 2019.

Home

Total in-force policies 2.2% lower at 2.6 million. Own brand in-force policies were 1.3% lower at 1.8 million.

Total gross written premium was 3.3% lower at £586.6 million as a number of partnership schemes continued to run-off. Own brand gross written premium was 1.2% lower.

Total operating profit was £66.7 million higher than 2018 reflecting improvements to escape of water claims and benign weather in 2019.



In-force policies ('000s)

2,594

(2018: 2,651)

Gross written premium

£586.6m

(2018: £606.9m)

Operating profit

£150.6m

(2018: £83.9m)

Combined operating ratio

80.3%

(2018: 93.5%)

	2019	2018
In-force policies (thousands)	2,594	2,651
Of which direct own brands	1,765	1,789
Gross written premium	£586.6m	£606.9m
Loss ratio	46.8%	61.8%
Commission ratio	9.7%	9.4%
Expense ratio	23.8%	22.3%
Combined operating ratio	80.3%	93.5%
Operating profit	£150.6m	£83.9m

Overview

In 2019, total Home and own brand policy counts fell slightly as the Group maintained underwriting discipline in a competitive market.

Home's current-year attritional loss ratio was 3.5 percentage points lower as pricing, underwriting and claims handling actions initiated in 2018 restored escape of water claims inflation to a level near the bottom end of historic long-term averages after a number of years of elevated inflation.

The shift in distribution of Home's business from partners to price comparison websites continued in 2019. The Group maintained strong retention rates across all brands. RBS Group Home in-force policies remained broadly flat, with an increase in the proportion of three-year fixed price policies. Run-off partnerships (Sainsbury's and Prudential) continued to perform in line with expectations. The Group also launched an affinity partnership with Starling Bank acting as an introducer to the Group's Churchill brand.

Peace of mind when it matters most

When taking out home insurance most customers hope they will not have to use it and it's normally during distressing situations that they find out the value of that purchase. The flooding in Lincolnshire in 2019 was that moment of truth for many of our customers, when we needed to help get their lives back on track. In the village of Wainfleet All Saints a state of emergency was declared, several hundred properties had to be evacuated and access to many others became impossible.

Our team were stationed in the local community centre and at Wainfleet market place to assist everyone in need and provide some peace of mind. Our emergency response vehicle was mobilised in the area to provide customers with a physical location where they could come and speak with us directly, have their queries answered and be reassured that we would take care of repairing the damage caused to their homes.

Performance

In-force policies for Home's own brands reduced by 1.3% in 2019 to 1.8 million policies due to a reduction in new business volumes. Partnership volumes reduced by 3.8%, Prudential and Sainsbury's partnerships are closed to new business and continued to run off in line with expectations.

Gross written premium was 3.3% lower than 2018, predominantly due to a reduction in partnership volume, as Prudential and Sainsburys continued to run off. Own brands gross written premium reduced by 1.2% primarily due to lower renewal premiums. Retention continued to be strong.

Home own brand risk-adjusted prices increased by 2.0% driven by new business, while pricing actions improved risk mix by 2.7% giving a small reduction in average premium[1] of 0.7%.

The current-year attritional loss ratio, excluding major weather event claims, improved by 3.5 percentage points to 53.5%, reflecting improvements to escape of water claims, disciplined underwriting and benign weather.

Home's 2019 experience was better than its long-term expectation of claims inflation which, excluding the impact of major weather events, remained at 3% to 5%.

The commission ratio of 9.7% was 0.3 percentage points higher compared to 2018 due to higher prior-year reserve releases and benign weather resulting in higher profit share payments to partners.

Home's combined operating ratio improvement was by 13.2 percentage points to 80.3% (2018 restated: 93.5%). This was driven primarily by a 9.2 percentage point improvement in claims relating to severe weather events, as 2019 had relatively benign weather and a 2.3 percentage point increase in prior-year releases due to favourable development on escape of water claims. Normalised for weather, the combined operating ratio was 4.7 percentage points better than 2018 at 86.9%[2] (2018 restated: 91.6%).

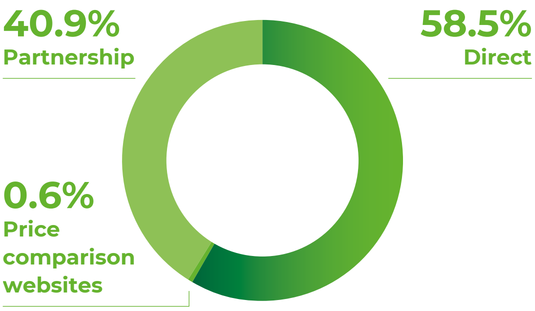
Notes:
1. Average incepted written premium excluding IPT for Home own brands for year ended 31 December 2019.
2. See glossary on pages 222 to 224 for definitions and appendix A – Alternative performance measures on pages 225 to 228 for reconciliation.

Rescue and other personal lines

Gross written premium grew 3.1% to £436.0 million supported by increases across all product lines.

In-force policy numbers reduced by 2.6% driven primarily by reductions in packaged bank customer volumes.

The Group's direct Rescue brand, Green Flag, grew in-force policies by 13.7%, to over 1 million policies, and gross written premium by 13.5% in the year.



Major milestone for Green Flag

Green Flag celebrated its 25th birthday as a brand this year by hitting the target of reaching one million direct customers after another year of double-digit growth. In another major milestone in its transformation it also provided customers with a more seamless experience by bringing best practice from its claims and sales & service teams to create "Centres of Excellence" in Leeds and Glasgow.

Green Flag was awarded Superbrand[1] status, in the latest annual ranking of the UK's strongest consumer brands. And its bold summer advertising campaign set out to show that it is a smarter, credible alternative to the competition, offering the same service for half the price.

Not content with challenging to be the number one breakdown brand, Green Flag wants to be famous for being a brand for motorists too. By building its online presence, it aims to attract new customers and further grow its business – all while providing an awesome experience for customers.

	2019	2018
In-force policies (thousands)	7,377	7,573
Of which Green Flag direct	1,063	935
Gross written premium	£436.0m	£422.8m
Of which: Rescue	£167.5m	£163.4m
Travel	£151.3m	£143.9m
Other personal lines	£117.2m	£115.5m
Loss ratio	66.9%	66.8%
Commission ratio	6.4%	4.6%
Expense ratio	22.1%	23.6%
Combined operating ratio	95.4%	95.0%
Operating profit	£39.1m	£44.0m

Note:
1. Visit www.superbrands.uk.com/2019superbrands for more information.

Overview

Rescue and other personal lines consists of Rescue products, including those sold through the Green Flag brand, and other personal lines insurance, including Travel, Pet and Creditor, which are sold through own brands and partnership arrangements.

Green Flag's ongoing transformation strategy, positioning itself as the market disrupter, gathered pace in 2019. Green Flag's direct in-force policy count passed 1 million in September and the Group has commenced building its next generation of underwriting and claims management platforms.

Travel launched its new policy and claims management platform in April 2019 with the migration of Ulster Bank, RBS and NatWest packaged current account customers. In 2019, the Group registered around 35,000 claims on the new system, with customers benefiting from faster settlement times and full online medical screening. The Group will continue to migrate its remaining partnership and own brand policies onto the new system.

Travel claims inflation remained in line with medium to long-term expectations during 2019. The Group did not see any adverse claims experience resulting from the collapse of Thomas Cook in September 2019. Brexit uncertainty remains a risk until the UK's implementation period ends, however, the possible withdrawal of the European Health Insurance Card ("**EHIC**") scheme may lead to customers relying more on travel insurance.

Performance

Rescue and other personal lines in-force policies reduced by 2.6% to 7.4 million. However, gross written premium increased by 3.1% to £436.0 million compared with 2018 as lower premium packaged bank account volume was replaced with higher premium own brand policies.

Green Flag Rescue continued to grow its higher average premium direct business during 2019, increasing in-force policies by 13.7% to 1.1 million. Gross written premium increased by 13.5% to £79.0 million.

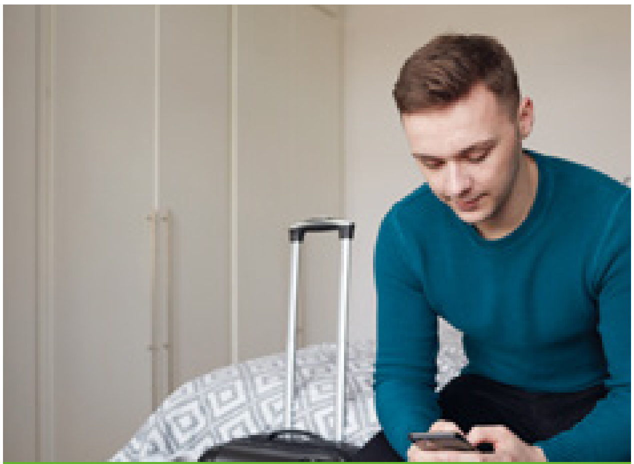
In-force policies for the Group's linked Rescue channel, where cover can be purchased with a Group Motor policy, reduced to 857,000, driven by the end of the Churchill "Free Rescue" campaign in July 2018. Rescue partnerships in-force policies reduced by 4.2%, where margins tend to be lower than for direct business, driven primarily by a reduction in packaged bank account volumes.

Total Other personal lines (comprising Travel, Pet and other) in-force policies reduced by 2.8% to 3.9 million primarily due to lower packaged bank account volumes in Travel. Pet in-force policies grew in 2019, reversing a period of lower volumes, and insurance packages tailored for UK Select Home and Motor customers saw strong growth in the year.

Gross written premium for total other personal lines increased by 3.5%.

The combined operating ratio for Rescue and other personal lines increased slightly by 0.4 percentage points to 95.4% (2018 restated: 95.0%) as a 1.5 percentage point improvement to the expense ratio was more than offset by an increase to the commission ratio. The loss ratio was broadly stable year-on-year.

Rescue's combined operating ratio of 81.5% was 3.5 percentage points better than 2018's ratio of 85.0%, as it benefited from lower claims frequency due to mild weather, the mix effects of own brand growth and lower expenses following front-line efficiency savings. Other personal lines combined operating ratio increased by 3.7 percentage points to 102.0%, due to lower prior-year reserve releases in UK Select and Travel, alongside additional headwinds in UK Select from higher large loss severity.



New Travel experience

Our new travel platform is enabling us to interact with customers through the channel that is most convenient for them. Online medical screening means customers can renew and update the level of cover they need without having to speak to a consultant, and our more intuitive risk rating features enables flexibility so that more competitive pricing is possible. There are now over 1.5 million live policies on the platform, and the enhanced capability allows us to process claims faster while regularly updating customers on the progress of their claim, so they know exactly what to expect.

36% of claims are for cancellation of a journey which can often be a stressful situation. We want to make it quick and painless by enabling customers to register their cancellation claim on the portal and easily upload any documents. We'll be able to tell them via email about the progress of their claim and pay them through BACS simply and efficiently.

This new digital capability complements our multilingual call centres and effective repatriation service, which is available for customers who have encountered more serious incidents while away.

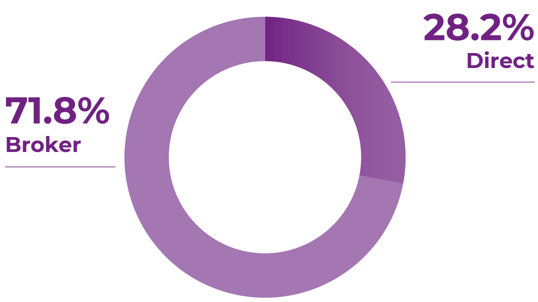
In addition, the Coronavirus outbreak (specifically the disease COVID-19) has the potential to impact the 2020 result of our Travel business. We have currently incurred claims of around £1 million, the majority for customer trips to regions where the Foreign & Commonwealth Office ("**FCO**") advise against all but essential travel. We ask customers to seek refunds or amendments to their trip from their travel provider in the first instance in line with FCO guidance. We have Travel reinsurance protection to mitigate the cost of an event over a 28 day period to £1 million up to a limit of £10 million. The full coverage, if utilised, can be reinstated once on the same terms.

Commercial

Total gross written premium increased by 3.5% with direct own brands increasing by 8.3%.

Strong performance in Direct Line for Business as it continued to roll out its new digital platform targeting small and micro businesses.

NIG focused on improving its technical pricing to support profitability.



Overview

The Commercial broker market continued to consolidate in 2019. Customers continued to seek cover in the direct market that was flexibly tailored to their individual needs and demonstrated knowledge of their trades. Against this backdrop, Commercial maintained underwriting discipline and grew its policy count. Commercial's current-year attritional loss ratio improved by 1.2 percentage points supported by pricing and underwriting initiatives.

Direct Line for Business continued to roll out its range of innovative propositions for small and micro businesses, including the launch of its Tradesperson insurance products. Its ongoing national marketing campaign enhanced awareness of both its traditional product offering and its newer micro business tailored propositions.

NIG exited less profitable relationships and targeted increased margins at the expense of policy count growth. The focus continued to be on profitability and delivering on its service proposition to be 'Effortless to Trade With'.

Commercial's broking and partnerships division signed six new partnerships including a referral agreement with American Express and two innovative partnerships with car-share start-up "YouMeCar" and flexible car leasing service, Drover.

	2019	2018[1]
In-force policies (thousands)	775	755
Of which: Commercial direct own brands	541	514
Gross written premium	£528.9m	£511.0m
Of which: Commercial direct own brands	£149.4m	£137.9m
NIG and other	£379.5m	£373.1m
Loss ratio	52.7%	51.8%
Commission ratio	18.5%	18.9%
Expense ratio	24.5%	24.7%
Combined operating ratio	95.7%	95.4%
Operating profit	£54.6m	£60.4m

Note:
1. Results for the year ended 31 December 2018 have been restated to reflect the fully retrospective adoption of IFRS 16 'Leases'.

Performance

Commercial in-force policies increased by 2.6% compared with 2018 to 775,000, reflecting strong growth in Commercial direct own brands with NIG and other broadly stable.

Commercial direct own brands grew in-force policies by 5.2% as it continued to grow in its traditionally well performing areas of Van and Landlord, together with strong growth across the small and micro business products on its new platform. Gross written premium increased by 8.3% to £149.4 million with increases across all product lines.

NIG and other in-force policies numbers were 2.9% lower and gross written premium grew by 1.7% to £379.5 million. This reflected NIG's focus on underwriting discipline and underwriting margins.

Landlord emergency cover – for when you can't be there yourself

Our Landlord emergency cover has been introduced as an optional add-on to Direct Line for Business Landlord insurance. It provides peace of mind when the worst does happen, through our 24-hour emergency claims line which sends out a certified contractor to secure or prevent further damage to the property.

The cover includes call out charges and costs for labour and materials. Landlords can rest assured in the knowledge that a plumber or electrician, among other tradesmen, could be at their property within hours, even when they're not able to be there themselves. Tenants can also be authorised to ring us directly so there is no need for landlords to take on the role of the middle man when reporting emergencies.

With one less thing to worry about, looking after your property just became a little easier for landlords, who are increasingly concerned with the long-term investment potential of their property rather than just the short-term income it can provide.

The current-year attritional loss ratio in Commercial improved by 1.2 percentage points to 65.6% as risk selection remained the priority. Prior-year reserve releases were £14.4 million lower at £65.0 million. This was primarily due to lower general liability reserve releases on older accident years. 2019's result included a £1.0 million strengthening of prior-year reserves as a result of the change in the Ogden discount rate to minus 0.25% from an assumed rate of 0.0% (2018: £3.5 million release).

The combined operating ratio for Commercial increased slightly by 0.3 percentage points to 95.7% (2018 restated: 95.4%) as an improvement in the current-year attritional loss ratio of 1.2 percentage points and a reduction in claims related to severe weather were offset by the reduction in prior-year reserve releases.

Managing our Risks

Our aim is to make risk management simple, well understood and embedded. We will provide oversight which is pragmatic and commercial to help the business make good risk-based decisions and to move quickly whilst understanding the risks.

Managing risk in line with our strategy

Our management team, with oversight from the Board, and the Board Risk Committee, are responsible for developing our strategy. Our Strategic Planning Process aims to ensure we have developed clear objectives and targets, and identified the actions needed to deliver them, including the management of risk.

A key aspect of any effective Strategic Planning Process is to understand and manage those risks appropriately. To achieve this, the Risk Function works closely with the business to help it to identify and assess risks, which is done through setting and achieving targets as well as through its review and challenge of business plans in the Strategic Planning Process.

The Group's risk strategy is aligned with the Group strategy and supports business decision-making through the proactive identification, assessment and management of risks.

Our risk governance framework

The Risk Function continues to lead transformation and cultural change to drive ownership of risks in the business, recognising the Group's changing risk profile and the maturing control and governance environment.

To begin with, the focus was on establishing standards and governance, articulating the Group's risk appetite and ensuring we had appropriate capability across its three lines of defence. We now have an embedded Enterprise Risk Management Framework ("**Risk Management Framework**") with clear accountabilities and risk ownership designed to ensure that we identify, manage, mitigate and report on all key risks and controls through the three lines of defence model:

- First line: Management is responsible for embedding risk management into business as usual and change processes whilst creating transparent reporting of risks and management actions.
- Second line: The Risk Function is responsible for the design and recommendation to the Board Risk Committee of the risk management framework, its implementation across the Group and the provision of proportionate oversight of risks, events and management actions throughout the Group.
- Third line: Group Audit is responsible and accountable for providing an independent and objective view of the adequacy and effectiveness of the Group's risk management, governance and internal control framework.

See page 90 for governance structure

Risk appetite statement

Overarching risk objective

The Group recognises that its long-term sustainability is dependent on having sufficient economic capital to meet its liabilities as they fall due, thus protecting its reputation and the integrity of its relationship with policyholders and other stakeholders. As part of this, its appetite is for general insurance risk, focusing on personal lines retail and small and medium-sized enterprise insurance in the United Kingdom. The Group has appetite for non-insurance risks, as appropriate, to enable and assist it to undertake its primary activity of insurance.

Three strategic risk objectives

1. Maintain capital adequacy

The Group seeks to hold capital resources in the range of 140%-180% of the internal model solvency capital requirement.

2. Stable/efficient access to funding and liquidity

The Group aims to meet both planned and unexpected cash outflow requirements, including those requirements that arise following a 1-in-200 year insurance, market or credit risk event.

3. Maintain stakeholder confidence

The Group has no appetite for material risks resulting in reputational damage, regulatory or legal censure, poor customer outcomes, fines or prosecutions and other types of nonbudgeted operational risk losses associated with the Group's conduct and activities. The Group will maintain a robust and proportionate internal control environment.

Risk appetite

Our risk appetite statements are an expression of the level of risk the Group is prepared to accept to achieve its business objectives. The statements are used to drive risk-aware decision-making by key business stakeholders.

Our risk appetite statements are documented in our policies and include:

- monitoring whether the business remains within risk appetite, among other information, using key risk indicators;
- deriving the key risk indicators from the risk appetite statements to drive and monitor risk-aware decision-making;
- both qualitative and quantitative risk statements which are forward and backward-looking; and
- we review our risk appetite statements and key risk indicators annually.

Our Enterprise Risk Management Strategy and Framework

The Enterprise Risk Management Strategy and Framework document sets out, at a high level, the Group's approach to setting risk strategy and managing risks to the strategic objectives and day-to-day operations of the business.

Aligned to the three lines of defence model, not only does the risk management framework articulate the high-level principles and practices needed to achieve appropriate risk management standards, but it also demonstrates the inter-relationships between components of the risk management framework.

Within this, the risk management process is a key element in the development and ongoing maintenance of an accurate risk profile. The objective of the risk management process is to identify, assess, manage and monitor the risks that the Group is exposed to. See our climate change document[1] for specific information on how the business identifies and assesses the risks associated with climate change.

Within the risk management framework, Policies address specific risk areas and are aligned to the Group's risk appetite. Policies, where appropriate, are supported by underlying Minimum Standards which interpret Policies into a set of risk and control requirements to be implemented across the Group.

Note:
1. www.directlinegroup.co.uk/content/dam/dlg/corporate/Documents/investor-pages/2020.03.13_Identification_and_assessment_of_climate_risk_FINAL.pdf

Our risk culture

Our risk culture underpins our business and decision-making, and helps us embed a robust approach to managing risk. Our Risk Function drives ownership of risks in the business and ensures that risk consideration is integral to all decision-making. It also provides expert advice and guidance to business areas, whilst also challenging the effectiveness of controls to manage risk and compliance.

The Board is committed to promoting a culture of high standards of corporate governance, business integrity, ethics and professionalism in all our activities. An annual assessment of risk behaviours and attitudes is undertaken jointly by the Risk Function and Group Audit and considers a range of factors influencing risk culture.

We also have an annual Risk Communications Plan which features activity to reinforce the message that risk is everyone's responsibility. The Plan features staff awareness campaigns, articles on the intranet and, this year, the delivery of the imaginative 'Risk Heroes' campaign. 'Risk Heroes' enabled members of staff to harness social media and mobile phone photograph filters; and enabled Risk to engage with colleagues about the importance of risk management in a unique and conversational way.

The 'Risk Heroes' campaign generated over 3,600 click-throughs and online interactions during the campaign period. The amount of interest in the campaign, as measured by click-throughs and online interactions, suggests that, as a result of the Risk Communications Plan, as well as business as usual activity, the Risk Function was able to raise its visibility, and increase staff understanding of risk across the Group.

See pages 52 to 58

Principal risks and uncertainties

We carefully assess the principal risks facing us. Principal risks are defined as having a residual risk impact of £40 million or more on a 1-in-200 years basis, taking into account customer, financial and reputational impacts.

Principal risks	Management and mitigation examples
Insurance risk is the risk of loss due to fluctuations in the timings, amount, frequency and severity of an insured event relative to the expectations at the time of underwriting. Key drivers of the outlook for insurance risk across our business plan include reserving, underwriting, distribution, pricing and reinsurance risks.	This year, motor market premium inflation has not matched expectations of claims inflation, which has led to a slowdown in customer shopping behaviour and a reduction in new business. Increases in vehicle technology are also beginning to cause an increase in claims inflation. In response we are developing our ability to distinguish this trend between vehicles to more accurately price risk. We've also launched Darwin (see page 22) using machine learning rating models with the aim of growing market share in areas where we have lower penetration. Changes to the Ogden discount rate have led to uncertainty in pricing and reserving. To help mitigate this, underwriting guidelines are set for all transacted business and pricing is refined by analysing comprehensive data. We invest in enhanced external data to analyse and mitigate our exposures and we set our reserves using the latest internal and external data and trends. The continued political uncertainty (including post-Brexit) could also have an impact on claims inflation and market behaviour (for example, recession affects customer behaviour) and we continue to monitor this closely. Finally, climate change presents a risk of more frequent extreme events and key risk indicators are in place to monitor related risks across Home and Motor. (See Planet pillar on pages 68 to 71.)
Market risk is the risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. Key drivers of market risk are the sensitivity of the values of our assets and investments to changes in credit spreads, and our exposure to losses as a result of changes in interest rate term structure or volatility.	Concerns about the impacts of Brexit remain, and continuing US-China tensions could impact equity and credit markets within the global economy and lead to credit spread increases. To address this, we have an investment strategy which is approved by the Board and includes limiting exposure to individual asset classes and the amount of illiquid investments we hold. We also use risk reduction techniques such as hedging foreign currency exposures with forward contracts.
Operational risk is the risk of loss due to inadequate or failed internal processes or systems, human error or from external events. The principal risks within this category are Cyber, Operational Resilience, Partnership Contractual Obligations, Change, Outsourcing and Technology and Infrastructure risks.	Operational risks can arise within all areas of the business and can become manifest through inadequate or failed internal processes or systems, human error or from external events. The key drivers for us include people, data, cyber, technology and infrastructure, resilience, partnership contractual obligations, change, and outsourcing and suppliers. Our approach is proactively to manage our operational risks to mitigate potential customer detriment, regulatory or legal censure, financial and reputational impacts. We have in place appropriate operational processes and systems, including prevention and detection measures. These include processes which seek to ensure we can absorb and/or adapt to internal or external occurrences that could disrupt business operations. We are continuing to work to improve performance of our IT systems while focusing on developing future systems capability. With significant strategic investment in train we are actively strengthening our change implementation controls to further mitigate potential impacts related to data management, IT systems stability, cyber security, and the wider internal control environment during transition.

Principal risks	Management and mitigation examples
Operational risk (continued)	We have a mature process in place designed to enable us to maintain the right number of capable and engaged people, supported by activities that cultivate a positive culture through robust employment practices. Alongside this, we operate a strong procurement and supply chain framework for the sourcing, appointment and ongoing management of our suppliers and outsource providers. Our risk management framework is designed to enable us to capture risk information in a complete and consistent way, including proactive trend analysis, root cause analysis and read across to enable early warnings and a 'learning' risk environment.
Regulatory and conduct risk describes the risks arising out of breaches of and/or changes to law, regulatory rules, policy or interpretation, or to supervisory expectations or approach that have an adverse operational and financial impact as a result of reputational damage, regulatory or legal censure, fines or prosecutions, and any other type of non-budgeted operational risk losses, associated with our conduct and activities.	We maintain a constructive and open relationship with our regulators and have a culture of delivering on our commitments to our customers (see pages 61 to 62). The issue of pricing practices within the general insurance market continues to be a focus of the FCA and it's an issue to which we have devoted a lot of attention. Our conduct risk management framework is designed to deliver fair outcomes to customers and minimise our risk exposure. It is supported by a set of conduct pricing principles to enable the fair pricing of business across our book. We continue to develop our approach to seek to anticipate developments and to ensure that we can continue to provide good outcomes for our customers. Finally, we carry out planned risk-based monitoring of customer processes as well as more targeted thematic reviews to help us manage the risk of unfair customer outcomes.
Credit risk is the risk of loss resulting from defaults in obligations due and/or changes in credit standing of either issuers of securities, counterparties or any debtors to which the Group is exposed.	To manage credit risk, we set credit limits for each counterparty and actively monitor credit exposures. In addition, we only purchase reinsurance from reinsurers with at least A- rating and, for liabilities with a relatively long period of time to settlement, this rating is at least A+. Finally, we also have well defined criteria to determine which customers are offered and granted credit.
Strategic risk is the risk of direct or indirect adverse effects resulting from strategies not being optimally chosen, implemented or adapted to changing conditions.	Strategic risk is influenced by external developments such as Brexit and motor market conditions. To manage our risks, we have taken the following steps: – we agree, monitor and manage performance against the Board-approved plan and targets; – the Board leads an annual strategy and five-year planning process which considers our performance, competitor positioning and strategic opportunities; – as part of the timetable for the Strategic Plan, the Risk Function carries out a risk review of the Plan which is documented in the Group's Own Risk and Solvency Assessment and presented to the Board; and – we identify and manage emerging risks using established governance processes and forums.

Potential effects of Brexit

The UK left the EU ("**Brexit**") on 31 January 2020. At the date of this report there remains uncertainty as to when the implementation period will end (it is due to end on 31 December 2020 but could yet be extended, albeit requiring a change to the law) and as to what, if any, trading agreement may or may not be agreed between the UK and EU to take effect subsequent to the implementation period. There is also uncertainty as to what trading agreements may or may not be agreed with key non-EU countries to supersede such arrangements previously subject to EU trade agreements. Accordingly, there remains uncertainty as to the effect of Brexit on the Group.

If there is a smooth end to the implementation period with an agreed future trading agreement between the UK and the EU (and other key countries), and accordingly without significant disruption to the UK economy and to business generally, then any adverse impact on the Group (if any) would also not be expected to be significant. If, however, trade discussions (or the failure of them) were to lead to significant disruption then the impact on the Group could correspondingly also be disruptive and potentially material.

Internal review

Following the EU referendum result in 2016, which saw the UK vote to leave the EU, the Group established a Brexit Working Group comprising representatives from across the Group. It was identified that there was a risk that the UK could enter a prolonged period of reduced growth due to Brexit, potentially reducing insurance sales and the value of our investment portfolio. Whilst our operations are based mainly in the UK, Brexit-related issues which could impact adversely on the Group could include: changes to the value of sterling which impact claims and non-claims supplier costs; inflation; impacts on credit spreads which in turn could impact on the Group's investments and capital; recession; recruitment and retention of people; impacts on the speed of delivery and cost of goods and services required by the business including for fulfilling insurance claims made by customers, for example because of delays at borders caused by increased border regulations and by additional costs caused by increased tariffs and devaluation of sterling; availability of reinsurers authorised to write business in the UK; data transfers; the removal of the EHIC leading to greater reliance on travel insurance; travel disruption; increased use of Green Cards (internationally recognised certificates that act as proof of insurance, including in the EU); potential changes to direct and indirect tax; and the regulatory impact on our capital position.

Possible implications

The Group has proactively considered a variety of possible implications of a disruptive end to existing trading and other arrangements between the UK and the EU, including of a financial and operational nature; for example:

The Group's investment portfolio

The impact on the Group's investment portfolio and in particular credit spreads related to its debt securities and therefore Group solvency: A sensitivity analysis relating to credit spreads is provided on page 37 and on page 177. The Group has also considered Brexit impacts in its Investment Committee, and further information is provided on the work of the Investment Committee on pages 104 to 105. A disruptive end to previous arrangements between the UK and EU could impact adversely on the Group's investments and therefore capital and the solvency capital coverage ratio and the appropriateness of paying dividends.

Procurement and supply chain

In particular as part of the Group's ability to deal with claims made under insurance policies, the Group needs to acquire a wide range of goods and services. A significant amount and spread of goods, for example such as car parts, are sourced from within the EU. The Group has been in discussion with principal suppliers who took steps to increase stocks within the UK in the event of a potential 'hard' Brexit leading to disruption at borders. However, in the event of a lack of appropriate trading arrangements with the EU (and other countries) following the implementation period and for example in the event of the imposition of tariffs and quotas, the Group's ability to deal with claims in its normal ordinary course of business manner could be adversely impacted and there could be delays and extra costs.

The Republic of Ireland

The Group has a small amount of business in the Republic of Ireland, servicing a small Irish part of a UK partner's wider business. The Group had obtained approval in principle from the Central Bank of Ireland for the establishment of a formal third country branch in the Republic of Ireland, in order to be able to continue with this business post a 'hard' no-deal Brexit, should that have become necessary. It remains to be seen whether similar arrangements will be needed at the end of the implementation period.

Crisis management

The Group has also been focusing on Brexit from a potential crisis management perspective, with the objective of maintaining operational resilience in the event of a disruptive Brexit and with a view to being able to react better to events as they unfold, including during and following the implementation period.

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Emerging risks

We define emerging risks as newly developing risks that are often difficult to quantify but may materially affect our business. Emerging risks are usually highly uncertain risks which are external to the Group and we take a proactive approach to the emerging risk management processes, with the objective of enabling us to:

- identify, manage and monitor a broad range of potential emerging risks; and
- mitigate the impact of emerging risks which could impact the delivery of the Plan.

We record each emerging risk within an Emerging Risk Register.

During 2019, the Risk Function has worked with subject matter experts from the business to enhance the quality and detail of emerging risk updates. Each risk is owned by a member of the Executive with subject matter experts in the Risk Function providing challenge and oversight; and emerging risks are monitored by the Risk Management Committee, Board Risk Committee and Board.

The emerging risk process is supplemented by deep dives on selected emerging risks which are reported to the Board Risk Committee for review and challenge.

Climate change

We recognise that climate change potentially poses material long-term financial risks to the business and is receiving increased scrutiny from regulators and investors. Climate change can be divided into three categories: physical, transition and liability risks, all of which can manifest themselves through a range of existing risks within the material risk register, including insurance, market, operational, strategic and reputational risks.

Physical risks

Physical risks are the direct risks which arise from weather-related events, including the potential to affect both the frequency and severity of natural catastrophes and other weather-related events in the UK. These are not only financial risks but also risks arising from the operational impacts of weather events; for example, vacating an office due to flooding, as happened to the Group in 2015.

Transitional risks

Transitional risks arise because efforts to mitigate climate change are driving a transition towards a lower-carbon economy, which creates risks and opportunities.

For example:

- Whilst insuring electric vehicles does not fundamentally change the business model, electric vehicles have their own unique risk profile, and pose different challenges to motor underwriters, accident repair centres, and to rescue products.
- Increased operating costs due to the potential increase in carbon costs and regulatory requirements are also likely to impact all participants in the industry. The Group monitors its own impact on the climate and has an established environmental management programme.
- Our business depends on the strength of its brands and its reputation with customers and distributors. As consumers become more aware and educated about climate change and environmental issues, research shows that they are putting their faith in brands that take their corporate responsibility seriously.

Liability risks

Liability risks arise when parties, who have suffered losses from climate change, seek to recover from those they believe may have been responsible. There is some potential exposure to liability risk through commercial liability insurance. There are two types of coverage that may have an elevated exposure to climate liability risk: insurance against the risks due to pollution on agricultural insurance policies, and professional indemnity covers. We have reinsured both of these risks.

In addition to the above risks, the impacts of potential physical, transition and liability risks arising in the wider economy can also have an indirect impact on the investment portfolio through their influence on the value of assets. Our largest asset portfolios are focused on corporate bonds. During 2018, we approved a significant new investment initiative which incorporates a greater focus on indices weighted by environmental, social and governance factors, which tilt the composition of the portfolio towards higher holdings and weightings of issuers with strong environmental, social and governance scores.

The risks and impacts of climate change are wide ranging. The Group is focusing increasingly on climate change, with related risk management activity including the monitoring of climate change through the Emerging Risk process, the formation of a Climate Change working group, and commencing the implementation of the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures. (see Planet pillar page 68).

Technological developments change consumer needs for insurance

In the near term, we expect data to emerge as a key area of innovation, as insurers learn to access and use new sources of customer data to improve their understanding of risk and improve customer journeys. We expect a greater focus on transparency and fairness and developments in new car technology, particularly automated driving and electric vehicles, are likely to be a new area for us to understand and compete in. We also expect price comparison websites to use digital technology and data to continue to build their role with customers. These changes could significantly affect the size and nature of the insurance market and the role of insurers. Our strategy is designed to help us transform our business and deliver insurance our customers want and need in the future.

Changes to traditional insurance business models

In the longer term (5 years+) potential disruption through the likes of major online retail organisations which have previously not been active in the insurance market and powerful new data sharing technologies, such as Open Banking and application programming interfaces ("**API**"), may create new and significant routes to market. We expect to see the lines between direct and intermediated distribution channels blend and blur – requiring new approaches to access the market. Our partnerships with Starling Bank, Tesla, and RBS and NatWest are helping us to develop new capabilities and provide new routes to market. Also connected technology and new ownership models may create demand for new types of insurance products to meet more specific needs, potentially combined with other services.

While the extent and timing of these changes are uncertain, our new strategy (pages 15 and 20 to 21) has been designed to help us respond to these and other market changes so that we can win in our chosen markets.

Viability Statement

In accordance with provision 31 of the 2018 UK Corporate Governance Code, the Directors have assessed the prospects of the Group for a period longer than the minimum 12 months required by the going concern statement.

The Strategic report, on pages 1 to 73 sets out the Group's financial performance, business environment, outlook and financial management strategies. It covers how the Group measures its regulatory and economic capital needs, and deploys capital. You can find discussion about the Group's principal risks and risk management in this section including how the Group has addressed the potential effects of Brexit. Note 3 to the consolidated financial statements starts on page 169 and sets out financial disclosures relating to the Group's principal risks. This covers insurance, market and credit risk, and the Group's approach to monitoring, managing and mitigating exposures to these risks.

Every year, the Board considers the strategic plan and an Own Risk and Solvency Assessment ("**ORSA**") for the Group. The plan makes certain assumptions in respect of the competitive markets in which the Group operates, and the delivery and implementation of the new customer systems. Appropriate aspects of the strategic plan are stress-tested to understand and help set capital and other requirements.

When reviewing the strategic plan, the Board considered the Group's prospects over the period that the plan covered and the conclusions of the ORSA, based on the Group's anticipated activities as set out in the strategic plan. This review included reviews of solvency, liquidity, assessment of principal risks, and risk management over a three-year period, with a further two years of indicative planning. The first year following approval of the strategic plan has greater certainty, so it was used to set detailed budgets across the Group. Outcomes for the subsequent years in the plan are less certain. However, the plan provides a robust planning tool for strategic decisions. The Board recognises that, in a strategic plan, uncertainty increases over time and, therefore, future outcomes cannot be guaranteed or accurately predicted.

Based on the results of these reviews, the Board has a reasonable expectation that the Company and the Group can continue in operation, and provide the appropriate degree of protection to those who are, or may become, policyholders or claimants in the period to 31 December 2023.

Understanding what matters most to our stakeholders

The Group's proud history gives it an established position in the UK general insurance market.

We've always been innovators from the moment we disrupted the market in the 1980s by giving people the opportunity to buy their insurance direct.

Our success comes from a breadth of expertise and relationships forged over many years. It rests on understanding the needs of the numerous individuals and organisations we interact with and how to respond to those needs. It also requires an open mind that forming new relationships and developing ways of doing things can improve how we operate.

The scale of our influence means it touches on a vast range of interests – everything from the service we offer customers, the support we provide our people, how we treat suppliers, how we deliver shareholder returns and our wider impact on society and the environment.

Our sustainability pillars

Customers
Earn our customers' trust by demonstrating how we are acting in their best interests.

People
Encourage a culture that celebrates difference and empowers people so that they can thrive.

Society
Use our expertise to improve outcomes for society and the communities we serve.

Planet
Protect our business from the impact of climate change and give back more to the planet than we take out.

Governance
Look to the long term for our stakeholders, build a reputation for high standards of business conduct and a sustainable business.

Listening to our stakeholders

How we act as a sustainable and responsible business is critical because we believe it will make us more commercially successful in the long term.

This year we've taken time to evaluate what really matters to our stakeholders. We've done this to understand what they value, the business impact it has on the Group and how we can use this insight to build a sustainable business for the future.

By using our five pillar ESG framework we asked stakeholders to prioritise a range of sustainability issues and then matched this against the priorities of the business.

We sought views from the business as well as a range of external stakeholders including customers, suppliers, investors, commercial partners, non-governmental organisations and policymakers that the business interacts with. Using in-depth interviews and surveys, we asked a series of questions around perceptions of responsible business, expectations including the most strategically important sustainability issues for the Group and future trends.

With this insight a business impact assessment was conducted where a robust assessment of risks, impacts and opportunities was considered and a significance rating was assigned for each topic.

The prioritisation exercise has highlighted the following priority areas:

1. Delivering great service to all customers
2. Communicating clearly and openly with customers
3. Investing in training and developing our people
4. Supporting employee wellbeing
5. Harnessing data and technology
6. Protecting customers' data
7. Upholding good labour standards

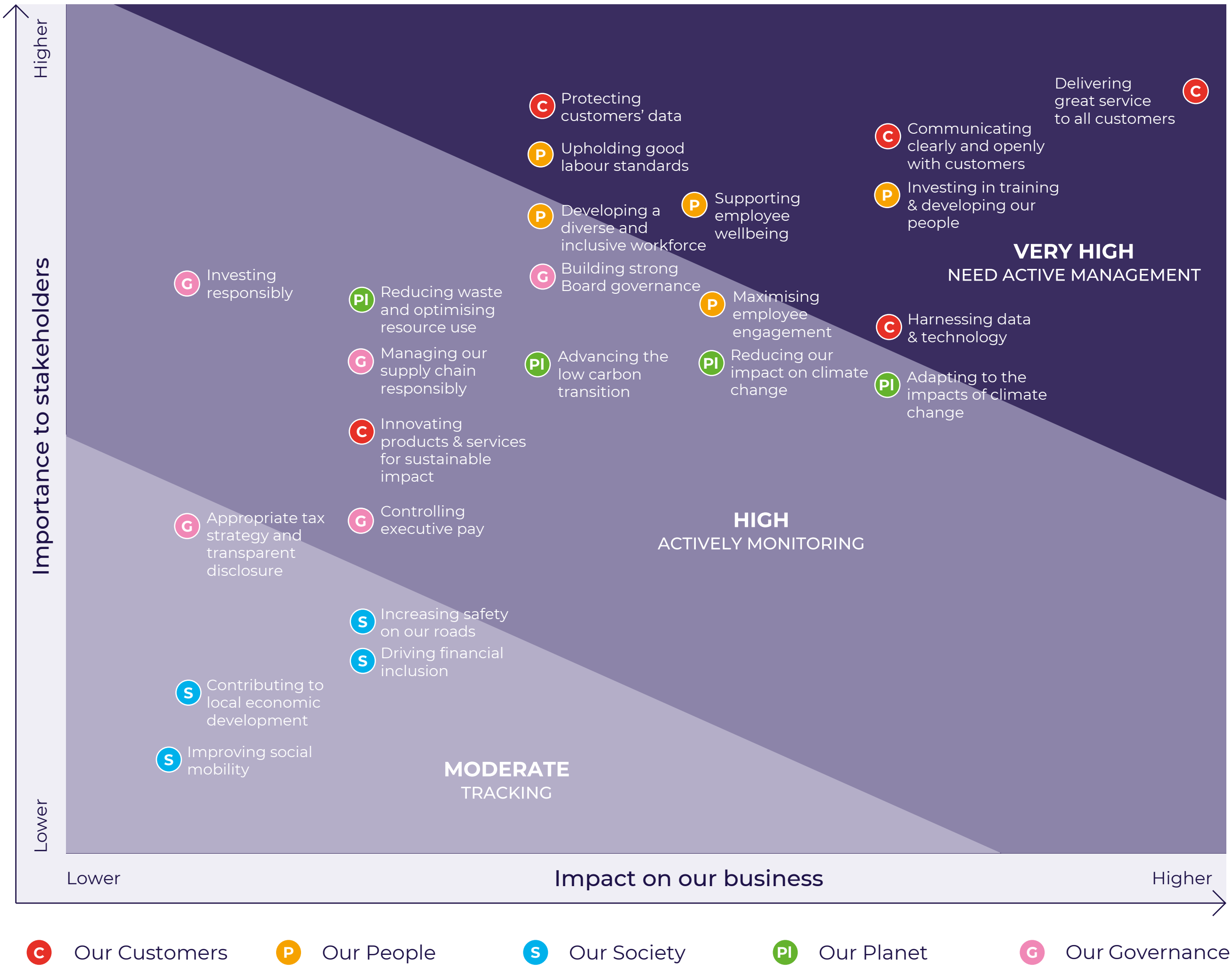
Taking a broader look at our matrix overleaf and at what our stakeholders told us, shows there are four important themes for the Group. These are:

– Meeting customer needs each and every day
– Investing in and supporting our great people
– Realising the potential of data and technology
– Understanding and managing the impact of climate change

We will now use this insight, alongside the other feedback we have received, to shape our five pillar ESG strategy and further inform those initiatives. Through this lens we can identify new opportunities helping to ensure future decision making of the running of our business reflects stakeholder views.

See pages 61 to 71

MATERIALITY MATRIX



Section 172(1) Statement

Direct Line Group is a leading motor, home and commercial insurer which depends on the trust and confidence of its stakeholders to operate sustainably in the long term. The Group seeks to put its customers' best interests first, invests in its employees, supports the communities in which it operates and strives to generate sustainable profits for shareholders.

The Directors of Direct Line Insurance Group plc have acted in accordance with their duties codified in law, which include their duty to act in the way in which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in section 172(1) of the Companies Act 2006.

Section 172 considerations are embedded in decision making at Board level and throughout the Group. Issues, factors and stakeholders which the Directors have considered when discharging their duty under section 172(1) are detailed on pages 61 to 73, 88 to 89 and throughout this Annual Report.

Our vision, purpose, sustainability pillars and values are set out in the Strategic report, as are the risks facing our organisation and the mitigating action we take, our environmental, social and governance practices, examples of stakeholder engagement and information about our engagement with employees, shareholders and suppliers. The Group's ESG activity, overseen by the Board, is described in the Strategic report on pages 59 to 73.

The Corporate Governance report contains examples of how the Directors have engaged and have had regard to our stakeholders and the effect of doing so on principal decisions taken by the Company during the financial year.

See pages 88-89

Customers

Earn our customers' trust by demonstrating how we are acting in their best interests.

Our people and their instinctive customer care drive real long-term value and is seriously difficult to replicate. We believe this gives us competitive advantage.

Customer Experience Pillars

Customer experience is at the heart of everything we do, and it is the central element that connects all our people regardless of role. This year we sent out over 1.5 million requests for customer feedback about their experiences with our brands. Our Executive Committee also attended a customer closeness workshop to hear first hand about what customers value and what they expect from us.

As a result we've developed our Customer Experience Pillars which provide a framework for the high-quality products and services we design and deliver for our customers. Using this customer framework, we hope to live our purpose of helping people carry on with their lives, giving them peace of mind now and in the future.

Feedback from our Customer Stories

"Direct Line has delivered, I want peace of mind and I've got that. With Direct Line I've got the trust." – Debbie

"They set really clear boundaries, they did what I would expect them to do." – Charlotte

Customer Pillars

Expectations
Manage and exceed my expectations

Ease
Make it as effortless as possible for me

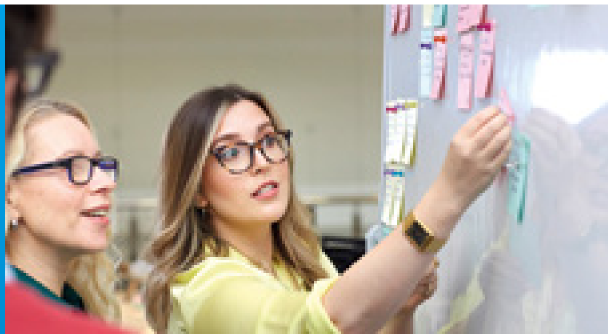
Personalisation
Treat me like a real person and not like a process

Fix-it
Identify the issue, own it and fix it

Trust
Earn my trust

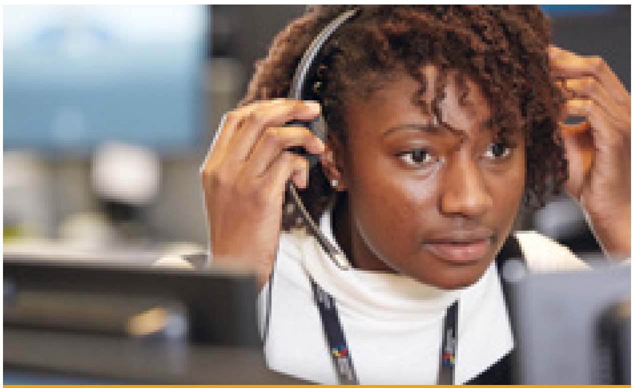
Empathy
Understand me and work hard to build a relationship

Taking action on pricing



While many customers shop around for insurance, we recognise that more needs to be done to promote competition in the market, particularly for long-standing customers. Prices should not keep rising for no reason. We want our customers to value the protection, service and security our products offer giving them reason to want to come back to us every year. The FCA Market Study on General insurance pricing practices Interim Report has proposed a number of remedies. Since establishing our own pricing review process in 2014 we have taken action to ensure we continue to earn our customers' trust:

- We have named Executives in place responsible for Group pricing.
- We've reviewed the premiums of customers who have been with us for five years or more resulting in inflation only, frozen or discounted prices.
- Our technology upgrade will provide greater transparency for customers.
- While auto-renewal is an important customer safeguard we believe that people should be able to opt-out easily.
- All our products are regularly reviewed to ensure that we continue to deliver value to all customers.



Bereavement Team

We recognise that customers sometimes need specialist support when experiencing difficult circumstances. We are proud of our new bereavement team who have undertaken specialist training to help customers during difficult circumstances. Those who have suffered a bereavement now have all of their queries dealt with in one place, while being supported through the process by our consultants who are experienced with the sensitive nature of these conversations.

"Pauline was extremely helpful and empathetic with my situation and ensured that the reason for my call was dealt with efficiently and completely, cannot commend her highly enough, please pass on my thanks."

"Very polite, courteous and professional during a very emotional time for me."

Health Assured

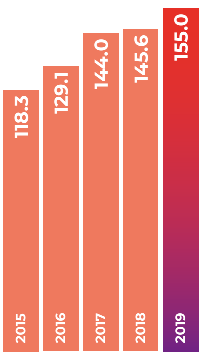
We are proud of our culture where we always aim to do the right thing by our customers. Given our internal focus on mental health our customer consultants told us they wanted to do more to support vulnerable customers who were finding it difficult to cope either because of their specific circumstances relating to their claim or in many cases because of personal issues. We have responded this year by testing an initiative aimed at assisting vulnerable customers. Some Claims colleagues have given Direct Line customers the option of a referral to Health Assured where they identify potential vulnerability during the conversation at the initial notification of loss. This will enable those customers who are struggling to receive the necessary support, through trained counsellors and a network of support organisations.

Customer satisfaction

Net promoter scores measure the willingness of customers to recommend our products and services. Driven by our customer pillars, our NPS scores are leading for any industry and have improved year-on-year. These scores drive real commercial benefits by helping us to attract and retain more customers, contributing to the one million new direct own brand policies we have added in the past five years.

Net promoter score

Direct Line Brand



Giving customers choice and flexibility

Like many data-driven consumer markets, ours is digitising fast and we believe our success will be predicated on combining customer focus and brand with a strong technology foundation.

We know customers value digital self-service which is why we have invested in new capability to give customers easier access to their documents making the whole journey simpler. We are providing greater product choice and flexibility at more accurate prices, achievable through our capacity to quickly adapt to market conditions and opportunities.

Behind the scenes we are transforming our processes, including policy administration and our claims system, making them more efficient so our consultants can focus on what matters most for customers.

"It was an honour to be one of the first consultants to use our new motor insurance platform which will transform our customers' experience." – Mary-Anne Hunter, Consultant, Customer Operations

People

Encourage a culture that celebrates difference and empowers people so that they can thrive.

We have nearly 11,000 people with a multitude of different skills, bringing their own diverse experiences and backgrounds into all that they do. We celebrate diversity from dress code to neurodiversity networks, from living our value of 'saying it like it is' to taking pride in our activity around mental health. We want all of our people to 'bring all of themselves to work' because that's how we'll continue to be a great place to work and attract and retain the best talent. That's why we continue to promote internal initiatives that recognise, support and applaud difference as well as support the things that matter to our people.

Listening to our people

Employee Representative Body

Our Employee Representative Body is comprised of elected representatives from across our business who are consulted on matters related to business strategy as well as future change programmes. The Employee Representative Body are a platform through which colleagues can share ideas and feedback progress.

Dialogue

Our engaged workforce reflects this with 88% of employees taking part in our employee opinion survey. This year 91% of respondents reported that they are proud to work for the Group, and we have retained the same high levels of employees reporting that they would tell others that Direct Line Group is a great place to work, at 85%. As of October 2019, our gross staff turnover rate was 17%.

Promoting diversity and inclusion

Our values sit at the very heart of our business. They were created ground up and represent in full technicolour our identity. Our people always want to 'aim higher' which is why we set up the Diversity and Network Alliance ("**DNA**") run by volunteers with action strands including gender, disability, working families, BAME, LGBT+ and social mobility. Led by our people, each strand represents the thoughts and needs of our people, helping to guide what we support externally and our people policies and strategy.

Our senior leadership team all have diversity and inclusion plans linked to their remuneration which helps support the promotion of diversity across the business.

We were one of the first ten companies to support the publication of our parental leave and flexible working policies on our external website. We are proud of our 'My Life' policies which includes up to 20 weeks full pay for co-parents on shared parental leave, as well as flexible working policies including up to 12 months unpaid lifestyle leave. While there is still progress to be made these policies embody our values and enable our people to bring all of themselves to work.

Thrive

Our women's network Thrive has continued to expand, giving more of our people the opportunity to benefit from the advice of external speakers to develop their skills. Covering issues such as imposter syndrome and securing your financial future, the network epitomises our 'say it like it is' value, encouraging people to be open about their career hopes and fears and what they can do to succeed. As a result, networking and mentoring has increased across the business.

Neuro-diversity

Neuro-diversity focuses on unleashing the potential of teams, as well as individuals, in the knowledge that our differences can stimulate bigger and better ideas, leveraging an untapped source of competitive advantage. Through our work with Auticon, who provide IT and data consultants on the autistic spectrum, we've been able to hire consultants into our pricing development team and ensure the right support network is in place for them to thrive.

Gender

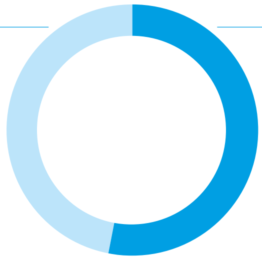
Women in Finance Charter

The Group set a target of 30% females in senior leadership positions by 2019 and we are proud to have achieved this through implementing measures including investment in female leadership programmes, utilising gender balanced shortlists and using gender decoders on our job advertisements to ensure the language is unbiased and attractive to all potential candidates .

Hampton Alexander Review

The Hampton Alexander Review set targets for FTSE 350 companies to have at least 33% women on their Board and in leadership positions by 2020. The Group is ranked 32nd in the FTSE 250 for female Board representation, with 40% of the Board being female. In senior management positions 31% are women.

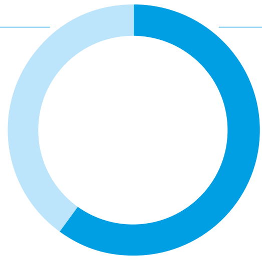
Gender diversity of all employees



5,030
(2018: 5,262)
Female

5,732
(2018: 5,967)
Male

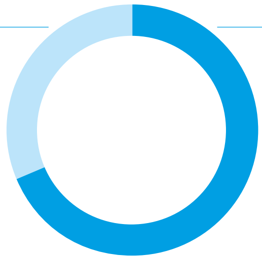
Gender diversity of Board of Directors



4
(2018: 5)
Female

6
(2018: 7)
Male

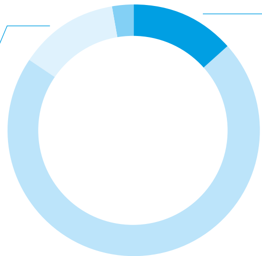
Gender diversity of senior managers



41
(2018: 39)
Female

90
(2018: 99)
Male

Age range of employees



274
(2018: 264)
61 & over

1,400
(2018: 1,323)
51 – 60

1,452
(2018: 1,787)
25 & under

7,636
(2018: 7,855)
26 – 50

Wellbeing through bringing your whole self to work

Mental health

We are determined to tackle the stigma associated with mental health, supporting everyone to be open about how they feel in and out of work. We have trained every people manager on dealing with mental health issues and have mental health first aiders on every floor of every site. This year we held our second mental health first aiders conference in Leeds with our remarkable people sharing learnings and best practice. Externally, we continue our partnerships with Mind, This Can Happen and supporting the Where's Your Head At campaign. We have also signed the One Mind at Work Charter which aims to develop and implement a gold standard for workplace mental health and wellbeing.

Financial health

Money can often be at the heart of many people's worries, but too often people are not comfortable talking about it or seeking help. This year we have launched a financial wellbeing initiative to assist our colleagues in gaining financial confidence through learning about savings accounts and wider financial education.

Pay

In April we increased the Group's company-wide minimum salary to £19,000 for full-time colleagues on 37.5 hours. This was 8% above the Living Wage Foundation rate outside London at the time, and 18% higher than the Government's national minimum wage.

Employee share incentive scheme

Nearly 80% of our people have shares in the company. All colleagues can benefit from the Group's Buy As You Earn share scheme where a free top up share is awarded for every two shares purchased. The Group's schemes are equivalent to an Employee Stock Purchase Plan and Employee Stock Ownership Plan in the US. Our 2019 performance saw colleagues receive £500 of free shares each. This builds on the four other free share awards the Group has issued since IPO which were worth approximately £1,400 (approximately £2,100 if all dividends had been reinvested) at 31 December 2019.

Annual Incentive Plan

Through our purpose of giving customers peace of mind now and in the future, the Group's Customer Experience agenda focuses on making the customer's journey as easy as possible whether they are taking out cover or making a claim. This is delivered through our people, and the Annual Incentive Plan ensures there is a strong link between pay and the Group's performance on these specific metrics. Our people are judged on their delivery for customers and awarded accordingly, as we know that a good experience will result in our customers valuing the service and security that our products offer and come back to us every year. Through regular engagement with our people we are closely tuned into the feedback we receive, and adapt our offering to align with it.

Human Rights

We have a range of policies and procedures that support our commitment to human rights. These include our :

- diversity policy (see page 63)
- wellbeing strategy (see page 64)
- Code of Business Conduct (see page 75)
- compliance with the Modern Slavery Act 2015 (see page 103)
- Ethical Code for Suppliers (see page 67)

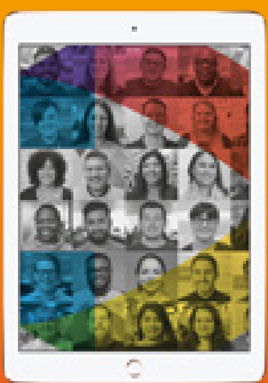
The page references above identify where more detail is provided on each of these important elements.

In many areas our employment policies and practices exceed those in the Universal Declaration of Human Rights. We have a vibrant wellbeing strategy which includes leading family related policies, and our diversity and inclusion practices are in line with the Universal Declaration of Human Rights. It is important to us that our people are fairly rewarded and our starting salaries are above those suggested by the Living Wage Foundation.

Proud to be here

We support our LGBT+ community through attendance at Pride events all over the UK. Through the LGBT+ strand, our people have worked together to organise events throughout the UK under the 'Proud to be here' Group banner. One of our values is 'bring all of yourself to work' and we welcome the opportunity to celebrate diversity amongst our people as well as supporting inclusion in business and society.

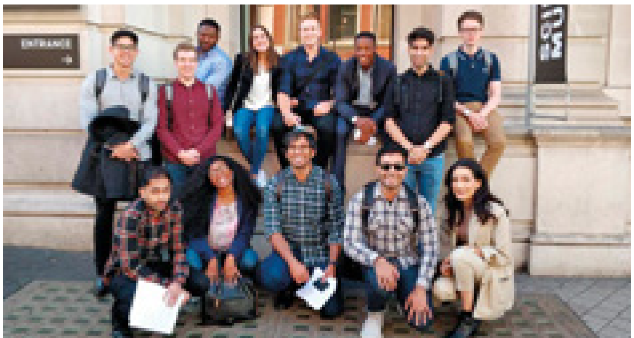
#ThisIsMe campaign



Through our #ThisIsMe campaign we created a platform to enable our people to share their stories about what makes them who they are using an enterprise social networking service and in a video shared internally and externally. By celebrating the diversity of all our people and encouraging conversation about what matters to them both within and outside of work, the campaign embodied our value of 'Bring All of Yourself to Work'.

Mental health first aiders

"Our mental health first aider programme has made it acceptable to talk about personal issues and made such a difference culturally. Because it matters to the business our mental health first aiders prioritise giving people support." – Alan Bint Conduct Regulatory Risk manager



Graduate and Apprenticeship programmes

We're delighted that our first cohort of graduates have completed our three-year programme and most have taken permanent roles within the business. The programme goes from strength to strength with over 80 graduates rotating across a variety of roles within the business. We also have over 220 apprentices developing technical expertise across various functions, while studying for vocational qualifications with over 160 apprentices having completed their programmes.

Society

Use our expertise to improve outcomes for society and the communities we serve.

We have always instinctively been there for society and the communities we serve but we are now consciously making this central to our strategic thinking.

Road safety

As a leading motor insurer, we see first hand the devastation that car accidents bring to those involved. That's why we make it our business to utilise our knowledge and experience with the aim of making the UK's roads safer for drivers and pedestrians alike. We do this through identifying issues to focus on and working with expert organisations to campaign for change.

Seat belt campaign

This year we worked with the Parliamentary Advisory Council for Transport Safety to conduct an analysis of seat belt wearing in the UK following the high number of deaths and serious injury among those not wearing seat belts. Through better enforcement, education and data collection there is the potential to increase seat belt wearing and ultimately reduce those numbers. Our aim is for the introduction of three penalty points for those flouting the law to form part of the Government's road safety plans.

Brake

As our partnership with the road safety charity Brake, continued this year, we have produced a series of reports analysing drivers' attitudes and behaviour towards speed as well as considering the value that drivers place on advanced driver assistance systems. We have also worked to increase awareness of campaigns aiming to make our roads safer and Brake's annual parliamentary reception celebrated the work of supporters and campaigners on road safety issues.

Community investment programme

We know that participating in fundraising and volunteering is linked to higher engagement levels amongst our people. That's why every one of our people can volunteer for 'One Day' during company time, with a charity of their choice and we run a network of Community and Social Committees across all of our sites. The Community and Social Committees receive central funding and support so they can enable our people to get involved in national appeals and create a bespoke programme of events, activities and fundraising to support the things that matter to everyone across the business.

StreetWise

Through the StreetWise consortium the Group has been working with FiveAI and TRL to trial autonomous vehicles on the streets of Bromley and Croydon. By testing the technology, analysing its performance in a complex environment with other road users and assessing passenger feedback we are gaining unique insight that will help to develop insurance solutions for new tech enabled mobility services.

The trials which took place throughout Autumn 2019 demonstrated how technology can be used to build a compelling automated, shared mobility solution that offers an alternative to the urban commuter and helps to reduce accident rates and lowers emissions.

Sprintathon

This year's Sprintathon took the form of a North versus South competition where colleagues from our Leeds offices and those based in Bromley competed in simultaneous sprint marathons to raise the largest amount of money for charities Stand Up To Cancer and Mind. Through this extraordinary group effort, in which over 600 of our people participated, more than £104,000 was raised. With so many people affected by cancer and mental health issues, Sprintathon brings together colleagues from across the business to fight for these significant causes.

Mind

Our people have raised over £170,000 for our corporate charity partner Mind, since starting our relationship. The effort and enthusiasm of our employees in raising money is making a profound contribution towards running Mind's Infoline which supports people to access the help they need. Our fundraising will enable around 33,000 more calls or four new Infoline advisers, a significant opportunity to help more people.

Million Makers

Direct Line for Business raised funds for The Prince's Trust as part of their Million Makers competition, which sees a number of businesses aim to raise £1 million to support young people in difficult situations.

Colleagues faced the challenge of raising as much money as possible by setting up an innovative small business venture. In a short period of time they turned £1,500 seed funding into an impressive £20,468.

Giving back to society

As a large UK company, we want to play our part in driving positive outcomes for society as a whole and we know that if we do business in the right way we can achieve this. Whether that's managing tax obligations responsibly, working with our local communities to support the things that matter to them, investing in training or treating our suppliers fairly.

Tax

We recognise the importance of managing our tax obligations responsibly and the Group's total tax contribution is £956.6 million which includes the Group's direct and indirect tax contribution. The diagram below reflects the Group's tax contribution. See the full tax contribution note and tax strategy on page 42.

Apprenticeships

A shortage of skills in the Body Repair Industry is making it increasingly difficult to attract young talent, impacting the sector as a whole. The Group has worked with the British Standards Institution and Thatcham to establish ways to support smaller body shops and repair centres who do not qualify for the apprenticeship levy. This year we've funded 33 new apprenticeships in our external network benefiting the industry and our business.

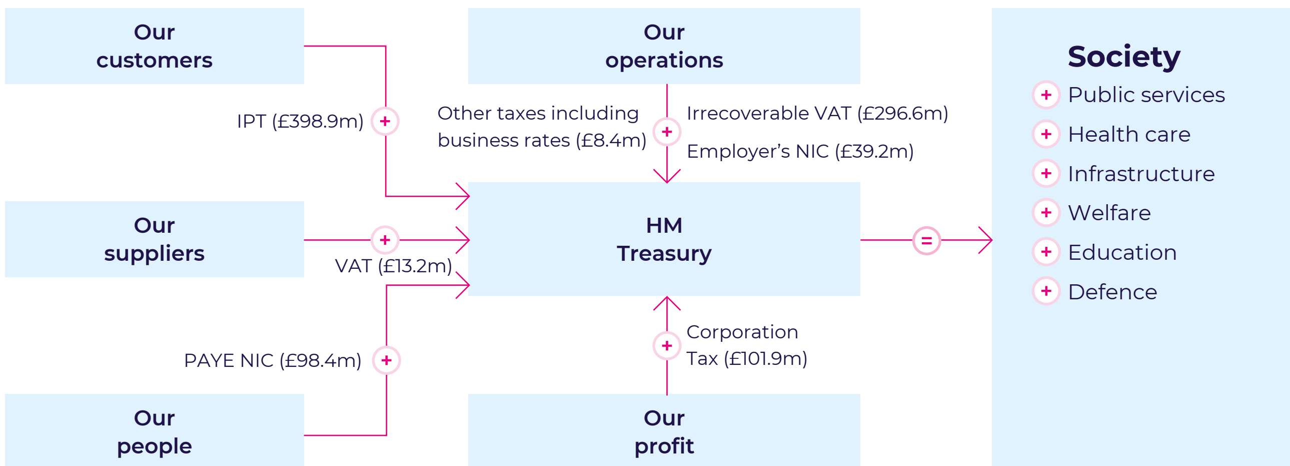
Social Mobility Pledge

We have taken time to consider how we could enhance our Diversity and inclusion strategy with a particular focus on promoting social mobility. We are proud to have signed the pledge and look forward to further embedding employee-led initiatives.

Suppliers

The Group is a long-standing signatory of the Prompt Payment Code which focuses on the requirement to ensure fair payment terms for our suppliers and partners. We acknowledge the importance of maintaining the highest standards of ethical conduct and behaviour in our business practices. We engage regularly with stakeholders to continue to refine and develop the processes that ensure compliance to our regulatory, legislative and social responsibilities.

Our Ethical Code for Suppliers requires that all our suppliers adhere to the core International Labour Organisation standards. The Modern Slavery Act 2015 is incorporated into our risk profiling and specific requirements are incorporated in our due diligence and assurance processes that align with the legislative requirements. We are committed to ensuring that modern slavery is not present in our supply chain.



See pages 42 in the Finance Review

Planet

Protect our business from the impact of climate change and give back more to the planet than we take out.

Fundamentally we believe that embracing sustainable practices leads to a better corporate culture, more reliable products and greater long-term profitability. We have long been conscious of our impact on the planet and have recently embedded the five sustainability pillars into the heart of our business strategy.

See page 59

Governance

The CEO has overall responsibility for climate change and environmental matters. The Chief Risk Officer who leads the Risk Function is responsible for overseeing the management of climate change-related financial risk to the Group and sponsors the 'Planet' pillar of the Group's sustainability framework. This includes the Risk Function's work in analysing and stress testing the potential future impact of climate change on the business.

These results are submitted, as part of the Group's Own Risk and Solvency Assessment ("**ORSA**"), to the Risk Management Committee, the Board Risk Committee and the Board.

Our Board Committees oversee the Group's environmental initiatives, climate-related disclosures and investment performance and are responsible for both assessing and managing climate-related risks and opportunities.

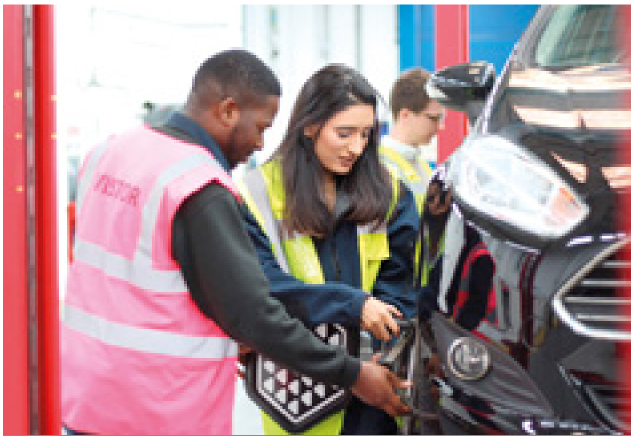
See page 57

Strategy

The UK is committed to the vision of a sustainable, low carbon economy which promotes green growth where individuals, businesses and wider society take advantage of new opportunities.

We are committed to playing our part in helping the UK become a sustainable, low carbon economy. Our ambition is to set a challenging but realistic target to be carbon neutral as a business. As part of our journey we aim to be TCFD compliant by the end of 2020 and drive change across the business by using technology, changing behaviours and maximising our investment power as a framework.

We are already making active choices in these three areas in order to reduce our carbon footprint.



Energy efficient repair centres

We have fitted new paint spray booths in three of our accident repair centres which is leading to operational energy efficiencies. Digital controls are allowing for more accuracy when painters are managing paint and bake cycles. We also have better capability in controlling how much power is driving air into the booths meaning we can reduce how much gas is used when jobs are not taking place. And because we now use automatic air recirculation we are using less power to draw in outside air. These actions could lead to savings in energy of up to 40%.

Technology

Technology is enabling the Group to maximise the opportunities to manage our environmental impact.

- **Full digital experience:** By providing customers with a full digital experience this will reduce the need to post and print policy documents.
- **Agile working:** Moving towards an agile working model is expected to reduce the footprint of the estate, require less energy and change the travel patterns for employees.
- **Cars of the future:** We are enhancing our understanding of electric vehicle adoption, including pricing risk, rescue products and our repair process. We have also invested in partnerships such as StreetWise and Move_UK to understand how autonomous vehicles and car sharing could reduce the number of vehicles on UK roads.

See page 58

2.1 million

pages of A4 saved in 2019

Behaviours

As a major UK employer, we believe it is important to support and encourage behavioural change outside and within our business. That's why we set up a network of Environmental Champions who have received accredited sustainability training to promote local awareness campaigns.

- **Investing in our estate:** We've continued to invest in our estate with new energy efficient boilers, LED lights, chillers and air conditioning units delivered across a range of sites.
- **Recycling coffee cups:** Following the success of our recycling partnership with SimplyCups in Bromley we have introduced the scheme to our Doncaster, Leeds, Manchester and Birmingham sites. In Bromley alone we recycled around 130,000 cups in 2019, so we are recycling an average of 11,000 cups per month.
- **Green incentives:** We have negotiated a catering contract offering a discount for colleagues who bring their own reusable cups saving nearly 14,000 disposable cups.
- **Plastic free catering solutions:** Through our partnership with Vegware, which provides fully compostable plant-based food containers, cutlery and cups, we have decreased waste from our onsite catering.

Investment

We actively choose what we invest in and our objective in 2019 was to ensure that our holdings in investment grade corporate bonds were tilted more towards companies with better ESG credentials. We delivered this by changing most portfolios to Bloomberg/MSCI ESG weighted benchmark indices and adding a new investment objective to all relevant guidelines, namely to achieve a minimum MSCI ESG rating of 'A' for the portfolio.

Our portfolio at a glance:

- At the end of 2019 100% of the investment-grade corporate bond portfolios had an average ESG rating of 'A'. This represents 87% of the credit investments in the portfolio and 62% of our total investment portfolio.
- Our investment policy is to encourage asset managers to invest in green bonds and at the end of 2019 1.5% of our bond portfolio was invested in green bonds, which is above the broad market weight.
- We invest £278 million in infrastructure loans which focus heavily on social infrastructure. At the end of 2019 89% of the portfolio was invested in hospitals, schools and other public service buildings.
- We hold a similar size commercial property portfolio. All assets in the portfolio must have an energy efficiency certificate of D or better which is one level above the government mandated level of E, or a plan and funds in place for achieving that level.

Risk Management

The Enterprise Risk Management strategy and framework sets out our approach to setting risk strategy and for managing risks to the strategic objectives and day-to-day operations of the business.

Within this, the risk management process is a key element in the development and ongoing maintenance of an accurate risk profile. The objective of the risk management process is to identify, assess, manage and monitor the risks that the directorate is exposed to.

Directorates are expected to follow the requirements set out in all applicable risk policies and minimum standards and report any notable control weaknesses in the Internal Risk and Control Assessment process.

The effects of climate change are wide-ranging, and the Group reflects the effects of climate change through the drivers of those risks which are defined in the Group Risk Taxonomy.

This has the effect of embedding the management of climate-related risks in normal processes for managing risks across our risk profile. Each directorate is required to have a clear understanding of Group risk appetite and how it cascades to their directorate, the risks that they are exposed to and the potential impacts of these risks.

We have defined the following time horizons for climate-related issues:

- Short (1 to 5 years)
- Medium (5 to 10 years)
- Long (10 years+)

As physical impacts from climate change and associated transition to a low carbon economy are likely to be gradual, there are limited impacts from physical risks directly attributable to climate change included in the financial plan. However, we are taking a number of steps to manage risks and take advantage of opportunities presented by climate change and the transition to a low carbon economy. Please see page 57 for further information.

Each year, business areas assess and identify all current and developing climate change-related risks and their likelihood of materialising either on an inherent or residual basis. These are rated using the Impact Classification Matrix allowing us to determine the relative significance of climate-related risks.

Weather-related events are modelled using the Group's Internal Economic Capital Model. These catastrophe models are regularly reviewed, using the latest scientific thinking, to ensure they align to our risk profile and to help ensure appropriate pricing. Large weather events are mitigated by our use of catastrophe reinsurance.

98.2%

of total waste recycled

Stress Test

The Group has participated in the PRA's 2019 insurance stress test which considered the impact of climate change on our business based on three hypothetical climate change scenarios:

- A rapid disorderly transition to a low carbon economy
- A slow more orderly transition that keeps global temperatures well within the Paris target of 2°C of warming
- A lack of action leading to warming in excess of 4°C by the end of the century

The exercise included the consideration of impacts to both liabilities (physical risk only) and investments (physical and transition risk) and the PRA specified high level assumptions for each scenario.

The next stage is for us to adapt these scenarios to match better to our own risk profile and use that as a basis for future climate change risk analysis, followed by the development of our own bespoke scenarios.

Metrics and targets

As part of our TCFD implementation plan we are developing our approach to reporting metrics and targets. This will include a challenging but realistic carbon neutral target for the business, alongside a long-term reporting framework, enabling us to track our performance against our sustainability strategy, as well as the financial impact of climate change-related risks and opportunities.

We currently target:

- A 57% reduction in Group-wide emissions and a 30% reduction in energy consumption by the end of 2020 against a 2013 like-for-like baseline. To date, the Group has achieved 53% and 29% respectively.
- As close to 100% of total waste being recycled or recovered for energy use.

We have also achieved the following:

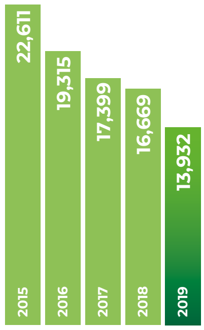
- **Recycling:** In 2019 the Group recycled 98.2% of its total waste compared to 98% in 2018. Excluding our paper, which is 100% recycled, the Group recycled 97.7% of its overall waste in 2019 as compared to 82.5% in 2018.
- **Electricity:** Since 2014 we have sourced 100% of our electricity from renewable sources.

CO_2 Emissions

We take pride in challenging ourselves to reduce emissions and energy consumption across the business. Being transparent about our energy use is a fundamental part of that challenge.

- We comply with the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013 and apply the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) which includes emissions associated with electricity consumption using both the Location-based Scope 2 and Market-based Scope 2 calculation methodologies.
- In 2019 our Scope 1 & 2 GHG emissions total were 13,932 tonnes meaning that over the last seven years we have achieved a 53% reduction in GHG emissions.
- We also continue to engage with the Carbon Disclosure Project (CDP) and received a 'B' rating for 2019.
- We also monitor the intensity metric of emissions per £ million of net earned premium and in 2019 this improved to 4.7 down from 5.4 for 2018. This is a measure of how efficiently insurance products are provided and allows us to compare our performance year-on-year and against other insurance companies.

Greenhouse gas emissions (tonnes)[1,3]



Emissions table

	Tonnes of CO_2e					
	2013[2]	2018 (restated)[3]		2019		% change (2013 to 2019)[5]
	Location-based	Location-based	Market-based[4,5]	Location-based	Market-based	
Scope 1	8,429	8,754	8,754	7,365	7,365	(13%)
Scope 2[6]	21,480	7,915	0	6,567	0	(69%)
Total (Scope 1 & 2) Intensity metric[7]	**29,909** 8.5	**16,669** 5.4	**8,754** 2.8	**13,932** **4.7**	**7,365** **2.5**	(53%) (45%)
Scope 3 (only transmission & distribution ("**T&D**") losses from electricity	1,774	675	675	558	558	(69%)
Total (Scope 1, 2 & 3 T&D losses) Intensity metric[7]	**31,683** 9.0	**17,344** 5.6	**9,429** 3.1	**14,489** 4.9	**7,923** **2.7**	(54%) (46%)
Scope 3 (T&D losses from electricity, commuting, paper, business travel & waste)[8]	N/A 2013	17,836	17,836	16,489	16,489	
TOTAL ALL Intensity metric[7]	N/A 2013	**34,505** 11.2	**26,590** 8.6	**30,421** 10.2	**23,854** 8.0	

Notes:
1. Scope 1 and Scope 2 Location-based.
2. 2013 baseline has been calculated using the Scope 2 Location-based methodology.
3. Historical Scope 1 direct emissions have been restated to include emmissions from leased vehicle mileage previously excluded.
4. Historical Scope 2 indirect emissions differ from previously reported figures as Scope 2 results have been recalculated to reflect the Group's purchase of low carbon electricity. The Group procures its energy under Green Tariff or Renewable Energy Guarantees or Origin scheme. The Renewable Energy Guarantees of Origin purchased are 100% renewable and therefore electricity consumption is calculated as zero carbon.
5. Scope 2 Location-based methodology is used for year-on-year comparisons.
6. We disclose emissions associated with electricity consumption using both Scope 2 Location-based and Scope 2 Market-based methodologies. All total calculations follow GHG protocol.
7. Intensity metric is calculated using tonnes CO_2e divided by £m net earned premium.
8. Scope 3 total has been expanded for 2018 and 2019 to include a small amount of emissions associated with plug-in hybrid vehicles. Scope 3 total for 2019 also includes waste emissions.

Long-term success

The Board believes that a business model that is sustainable in the long term is key for discharging the responsibility to promote the success of the Group. We pride ourselves on a proactive sustainability strategy and the table below shows where information can be found in this Annual Report & Accounts containing our ESG disclosures, our external ratings, as well as information on how we govern and how we think about the future.

Our ESG disclosures

Our external ratings

External ratings

Our performance is assessed externally by Environmental, Social, Governance (ESG) rating agencies where we score highly.

SUSTAINALYTICS

In September 2019 the Group was rated as an ESG leader within property and casualty insurance ranking first out of 81 companies.

MSCI ESG RATINGS A

CCC | B | BB | BBB | A | AA | AAA

In October 2019, the Group received an A rating highlighting our Corporate Governance as a strength in the Company's performance.

CDP DISCLOSURE INSIGHT ACTION

The Carbon Disclosure Project is a globally recognised platform measuring reporting performance and in 2019 the Group received a CDP rating of B.

Non-financial information statement

The cross references below set out where stakeholders can find information in our Strategic report that relates to non-financial matters, as required under the new regulations[1] on reporting non-financial information.

Note:
1. The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016, SI 2016 No 1245.

How we govern

ESG Oversight

Board

The Board oversees all of the Group's ESG activity. It has delegated particular aspects of this supervision to its Committees.

The **Remuneration Committee** determines remuneration for senior management and reviews workforce remuneration.

The **Corporate Responsibility Committee** focuses on the Group's responsibility for the environment, the community and the wellbeing and engagement of its people.

The **Investment Committee** considers the strategy for incorporating ESG factors into the Group's investment management.

The **Board Risk Committee** oversees all aspects of financial, regulatory and operational risk, including the long-term risk to the Group of climate change.

The **Audit Committee** focuses on sustainability in the Group's financial disclosures.

The **Nomination and Governance Committee** monitors developments in governance and investor ESG expectations, as well as being responsible for Board succession planning.

More information about the activities of each of the Committees can be found in the Committees' reports on pages 93 to 109

How we think about the future

Thinking ahead for the long term

We are always looking for new commercial opportunities where changing consumer trends and expectations are altering the way markets work.

Car sharing is an emerging trend that could have wide-ranging implications for insurers. In the future people may want to use products and services periodically, rather than making a big outlay in spending. It is part of a broader desire for products that are easy to use, easy to access and ultimately personal to individual needs. That's why this year we signed up to two new partnerships because we recognise that subscription-based services could alter the way insurance models work:

- Drover has created a new way to "own" a car by providing individuals and private hire drivers with flexible vehicle subscriptions where users pay a recurring fee for the right to use a car with insurance, maintenance, tax, MOT and breakdown cover.
- YouMe.Car has launched a Car Share scheme where a customer accesses a brand new car at minimal cost and then shares the vehicle between a self-selected community of friends and neighbours who can hire the car via an app and pay for the number of hours hired.

Providing the insurance for these two exciting partnerships enables us to learn more about car ownership models and what consumers want and need.

Statement of the Directors in respect of the Strategic report

The Board reviewed and approved the Strategic report on pages 1 to 73 on 2 March 2020.

By order of the Board

PENNY JAMES
CHIEF EXECUTIVE OFFICER

2 March 2020

TIM HARRIS
CHIEF FINANCIAL OFFICER

2 March 2020