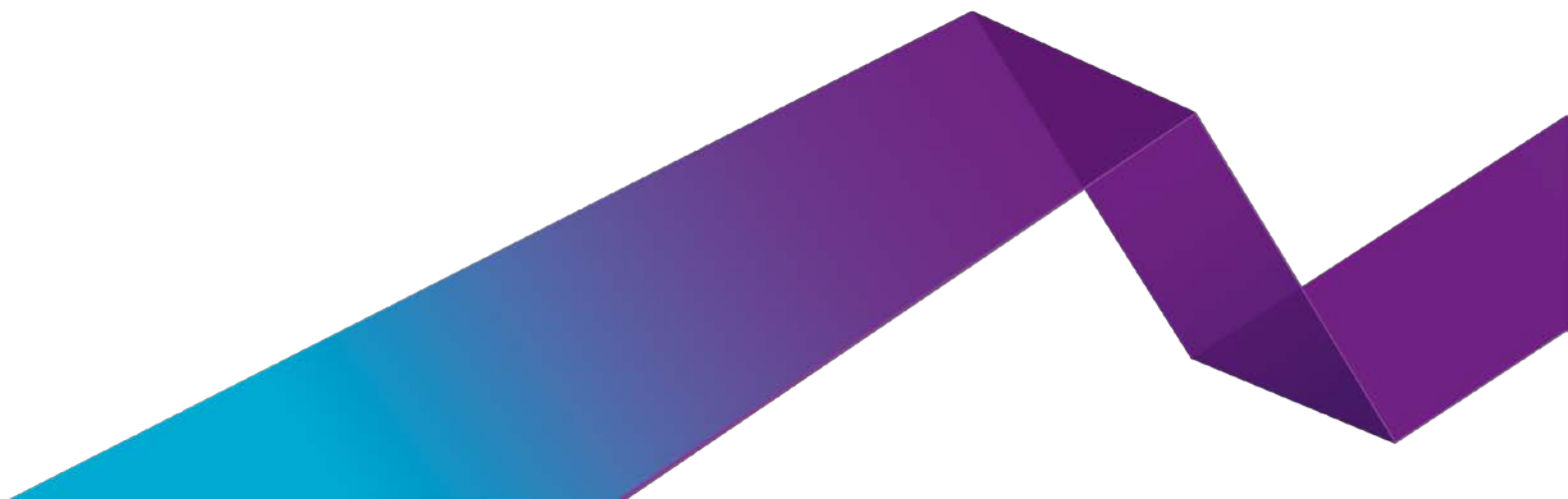


# 2018 INTERIM RESULTS

2 August 2018



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This presentation may contain 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. Generally, words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "aim", "outlook", "believe", "plan", "seek", "continue" or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control, including amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities (including changes related to capital and solvency requirements), the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation or regulations in the jurisdictions in which the Group and its affiliates operate. As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Group's forward-looking statements. Forward-looking statements in this presentation are current only as of the date on which such statements are made. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Nothing in this presentation should be construed as a profit forecast.

**Basis of presentation**

This presentation uses alternative performance measures, including certain underlying measures, to help explain business performance and financial position. Further information on these is set out in the 2018 Interim results announcement.

# AGENDA

- 1 Introduction
- 2 Strategy & business improvement actions
- 3 Regional update
- 4 2018 Interim results
- 5 Q&A

# INTRODUCTION

# 2018 INTERIM RESULTS HIGHLIGHTS

- 1 Strategy & balance sheet as we want it
- 2 EPS up 18%; Interim dividend up 11%; ROTE 16%
- 3 Underlying EPS down 10% due to impact of adverse weather on underwriting result (up ex. weather)
- 4 Business progressing to plan (ex. natural volatility) although top line sacrifice needed where profitability threatened
- 5 Focused on drive towards best-in-class performance levels – customer service, underwriting, costs

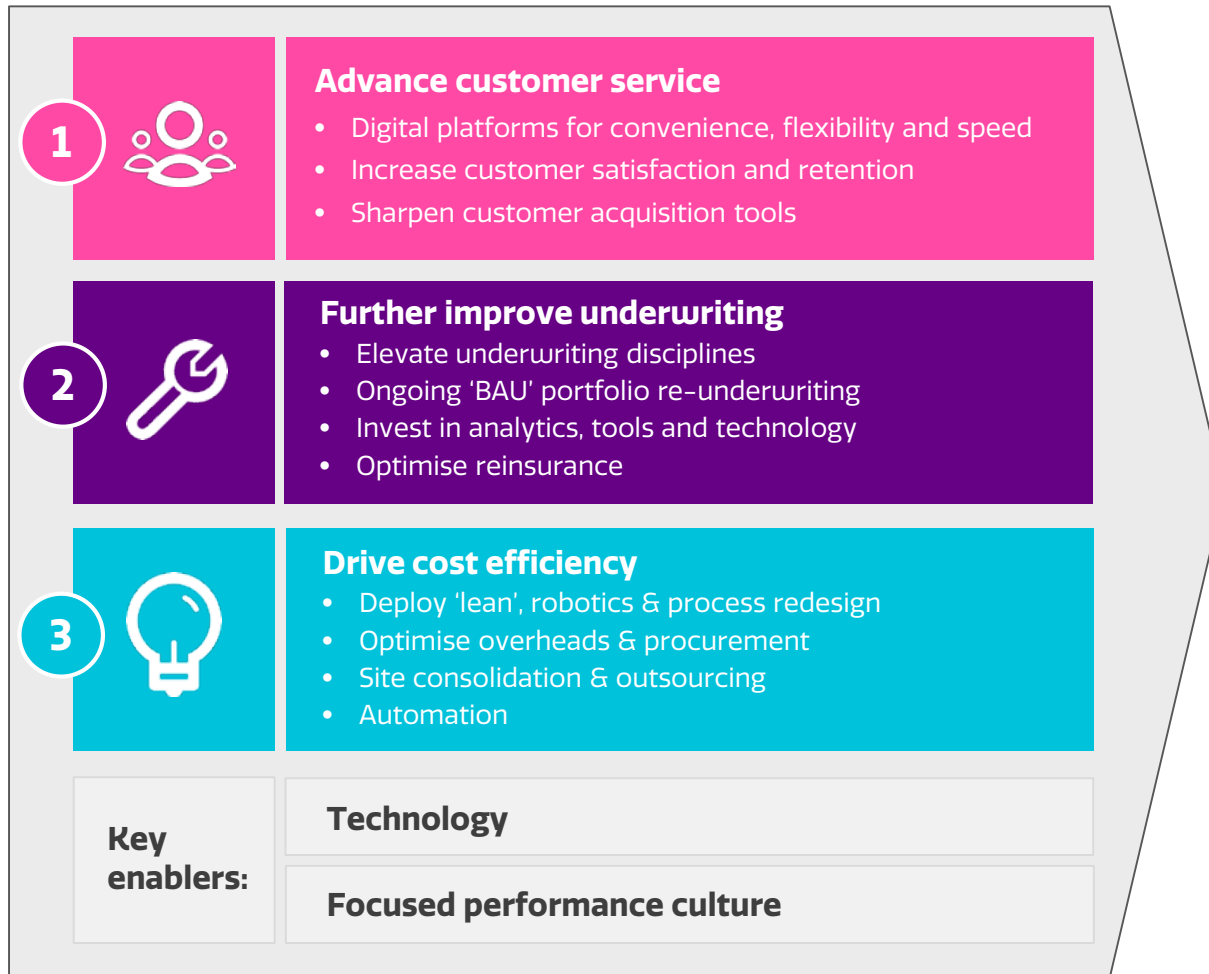
# **STRATEGY & BUSINESS IMPROVEMENT ACTIONS**

# PURSUIT OF OUTPERFORMANCE

- 1 Strong customer franchises**
- 2 Disciplined strategy, focused on strengths, seeking to avoid mistakes**
- 3 A balance sheet that protects customers and the company**
- 4 Intense and accomplished operational delivery – improving customer service, underwriting and costs**

**Seeking to win for customers and for shareholders**

# PERFORMANCE IMPROVEMENT AMBITIONS



## Targets

### 'Best-in-class' COR ambitions

- Scandinavia <85%
- UK & International <94%
- Canada <94%



### Earnings

- High quality, repeatable earnings
- Attractive EPS increases
- ROTE **13-17%** or better



### Dividend

- Regular payout **40-50%**, plus additional payouts as available and prudent

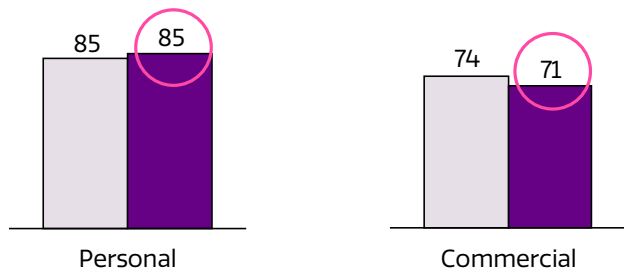
**Underpinned by strong balance sheet and capital management**



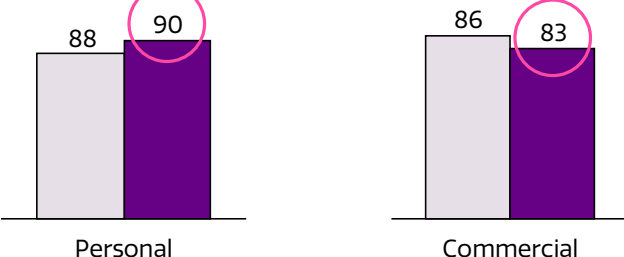
# CUSTOMER METRICS STABLE OR IMPROVING EXCEPT WHERE IMPACTED BY UNDERWRITING ACTIONS

## Customer retention (%)

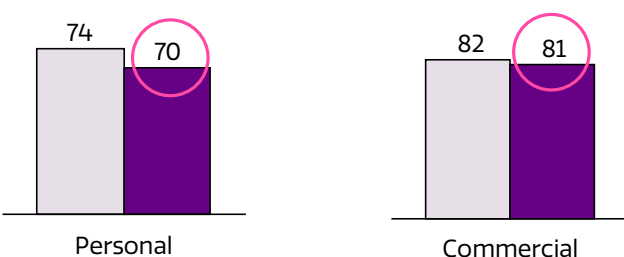
### Scandinavia



### Canada



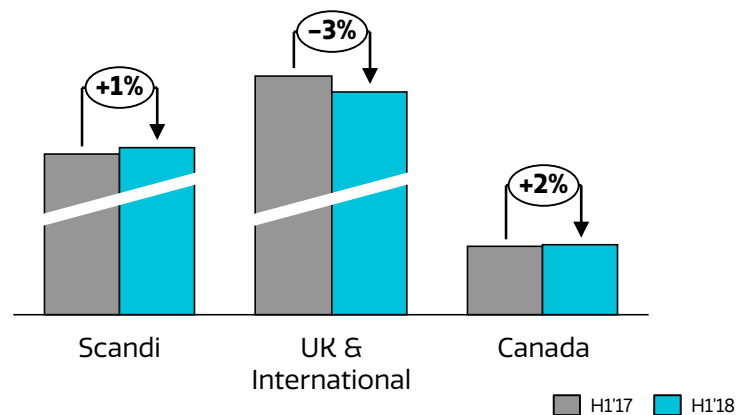
### UK & International



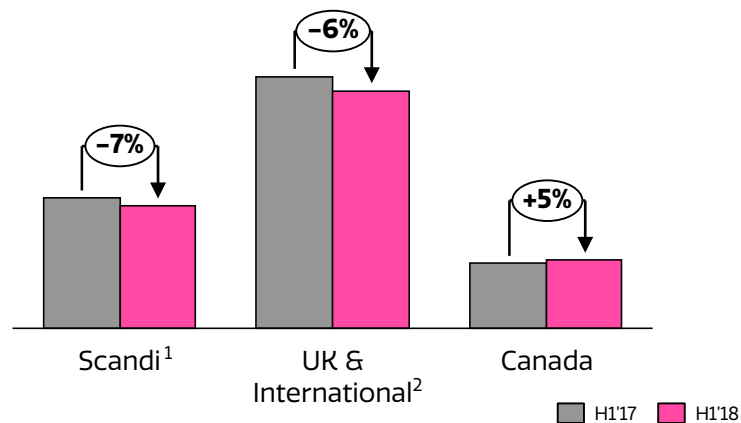
■ H1'17 ■ H1'18

<sup>1</sup> Ex. Norway  
<sup>2</sup> Ex. schemes exited in the UK

## Personal Lines – Policies in force



## Commercial Lines – Volumes



# CUSTOMER INITIATIVES – EXAMPLES

## Growth opportunities in Canada Personal Lines – Johnson



### D. L. Deeks Insurance Services



- Circa \$50m in premium
- Opportunity to build large national faith-based affinity program
- Strong history of profitability

### Scotiabank



- 10 year contract as exclusive provider of Home and Auto insurance products; starting Q1 2019
- Expansion into bancassurance channel

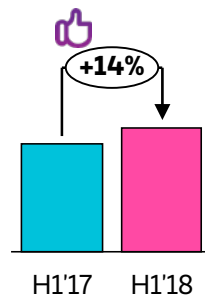
## Growth in Swedish Personal Lines



Three factors behind new business growth trajectory:

- 1 Competitive pricing driven by analytics and enhanced pricing capability
- 2 Improved online sales capabilities, with online sales **+74%** vs. H1 2017
- 3 Maximising customer base and customer lifetime value through cross-selling and retention activities

PL New Business



## UK Personal Lines platform update



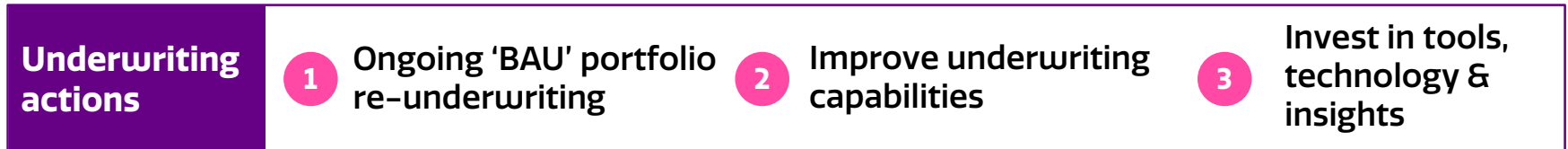
New platform launched in December 2017 for the Nationwide book and now live in More Th>n Motor

Performance statistics for Nationwide:

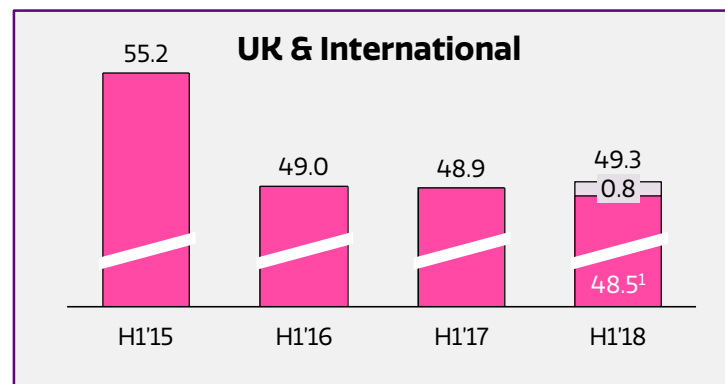
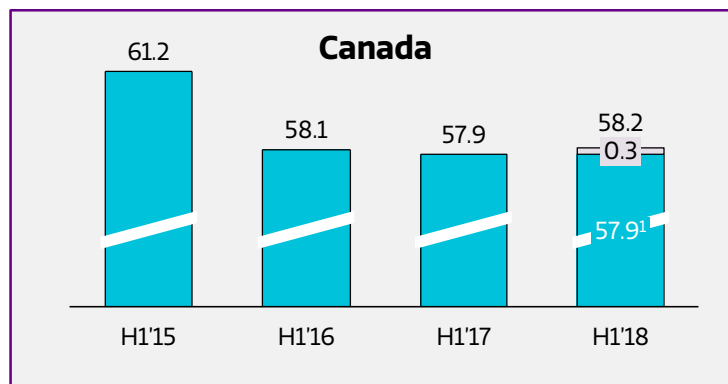
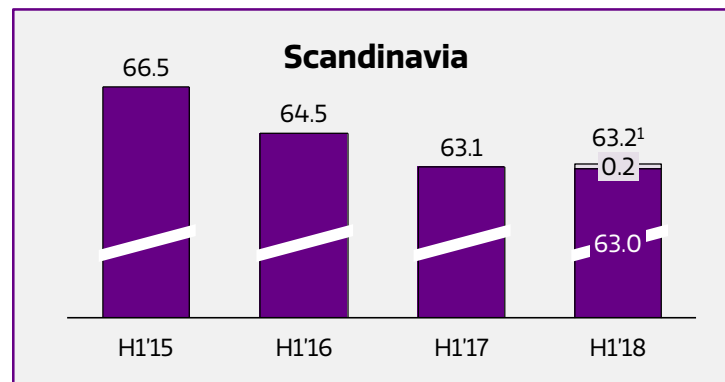
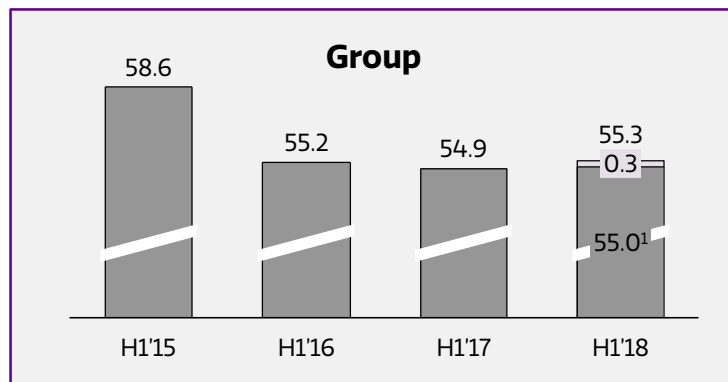
- ✓ **75%** of policies migrated
- ✓ Strong **retention rate of 87%**
- ✓ **NPS** at **+68** for claims and **+64** for sales and service

More Th>n Motor: Positive customer feedback 6 weeks into go-live

# ATTRITIONAL LOSS RATIO STEADY



Attritional loss ratio (%)



# LOSS RATIO ACTIONS TAKING HOLD

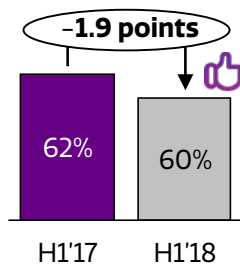


## Scandinavia

### Actions

#### 1 Improve profitability in Commercial Lines

- **1.9 points** improvement in Danish CL attritional ratio driven by rating actions, portfolio pruning and claims savings initiatives



#### 2 Expand Personal Lines profitably

- Encouraging growth in Sweden, both new business (+14%) and policy counts (+2%)
- Positive trend growth mainly driven by Motor
- Danish Personal Lines premiums +3%

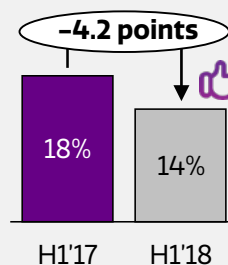


## Canada

### Actions

#### 1 Reduce Commercial large losses

- Managing exposures through large loss propensity tool to predict frequency of losses in Property
- **4.2 points** improvement in large loss ratio versus H1 2017



#### 2 Improve profitability in Motor

- Rate actions continue given pressure on claims inflation and challenging market conditions
- > 10% rate applied; effects will earn through in H2 2018 and 2019
- Claims initiatives include 'Auto Express' process which fast-tracks high volume low value claims

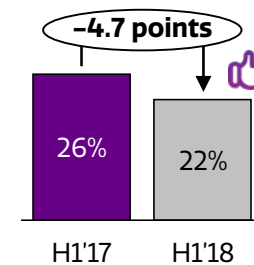


## UK

### Actions

#### 1 Reduce Commercial large losses

- **4.7 points** reduction in large loss ratio following underwriting discipline actions (circa £18m of NWP exited)
- Active portfolio management

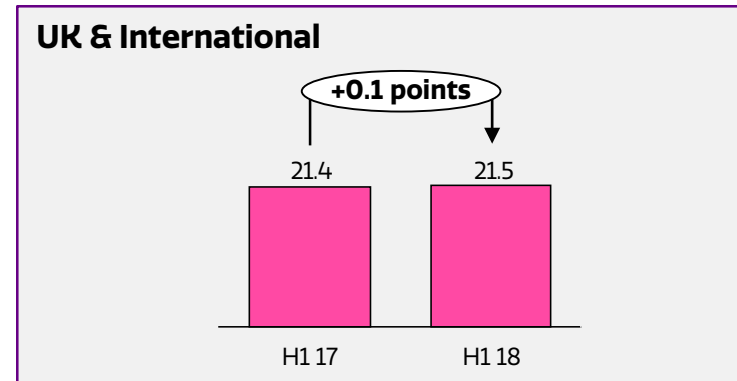
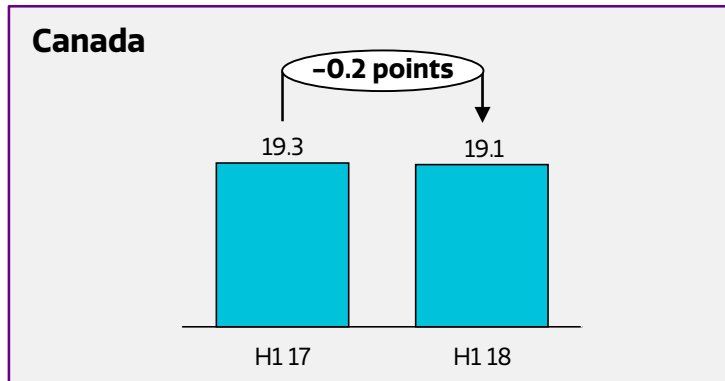
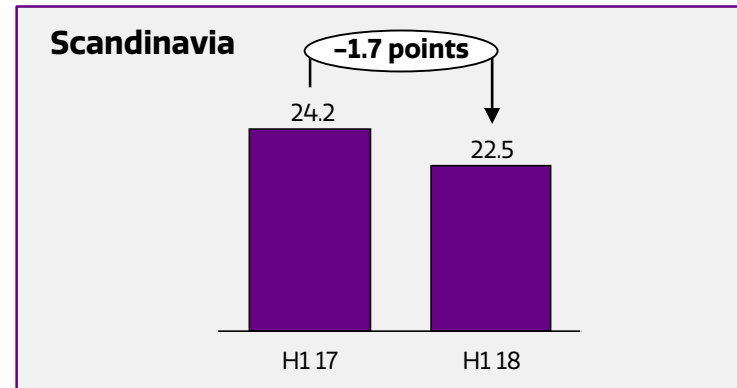
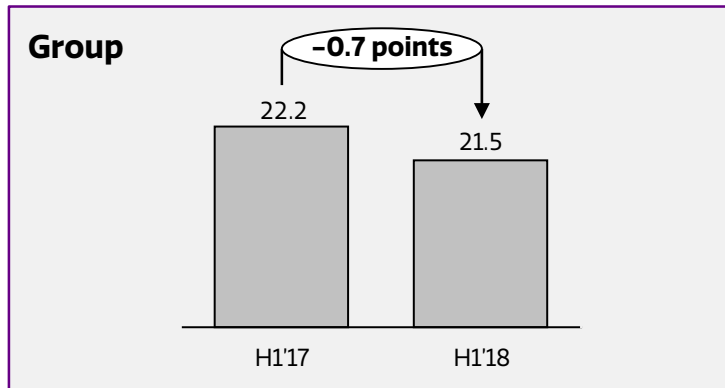


#### 2 Combat inflationary pressure in Personal Lines

- Improved Household attritional loss ratio (-3.2 points versus FY 2017) following rating and claims indemnity actions
- Rate increase of +13% in Motor in the last 12 months
- Volume sacrifice expected to moderate in 2019

# COST EFFECTIVENESS REMAINS A PRIMARY STRATEGY

Goal is controllable cost ratios below 20% in every business



# REGIONAL UPDATE

# SCANDINAVIA

Progress	H1'17	H1'18	Ambition
COR	81.9%	<b>87.6%</b>	<b>&lt;85%</b>
Current year COR	86.6%	<b>89.3%</b>	
Attritional loss ratio	63.1%	<b>63.0%</b>	
Controllable expense ratio <sup>1</sup>	24.2%	<b>22.5%</b>	<b>&lt;20%</b>

## Key points

- Happy with underlying progress
- Net written premiums of £1,057m up 1%<sup>2</sup> driven by Sweden
- COR of 87.6% – 5.7 points higher, 3 points due to more normal prior year development
- Elevated large losses also contributed (up 2.2 points); one Property fire accounted for 1 point but also saw increased volatility
- Attritional loss ratio of 63% was slightly better than H1 2017; good progress in Denmark offset by pressure in Norway
- Customer metrics are developing well in Personal Lines
- Controllable expense ratio improved again (8% gross cost reduction); Denmark's ratio was 4.2 points better
- Sweden and Denmark progressing well; Norway a challenge but 7% of total Scandinavia

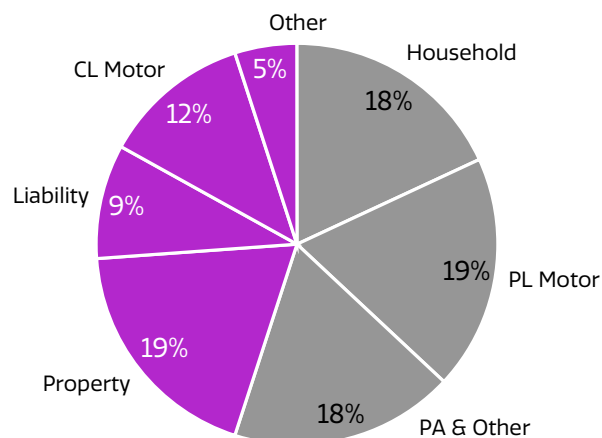
**£1.1bn**

H1'18 Scandi  
NWP



**-1% v H1'17**  
**+1% at CFX**

## Split of Scandinavia NWP



# CANADA

Progress	H1'17	H1'18	Ambition
COR	94.8%	<b>100.5%</b>	<b>&lt;94%</b>
Current year COR	97.6%	<b>103.8%</b>	
Attritional loss ratio	57.9%	<b>58.2%</b> <sup>3</sup>	
Controllable expense ratio <sup>1</sup>	19.3%	<b>19.1%</b>	<b>&lt;20%</b>

## Key points

- Happy with underlying progress, although cautious on weather loads
- Net written premiums of £729m up 5%<sup>2</sup>
- COR of 100.5% impacted by a 7.3 point increase in the weather costs versus a benign H1 2017
- Large losses back to plan ranges
- Retention is performing particularly well, with both Johnson and Personal broker improving over the last year to 90% and 88% respectively
- Controllable expense ratio improved again, despite the costs of capability investments coming through
- Positive growth outlook with Deeks and Scotiabank deal

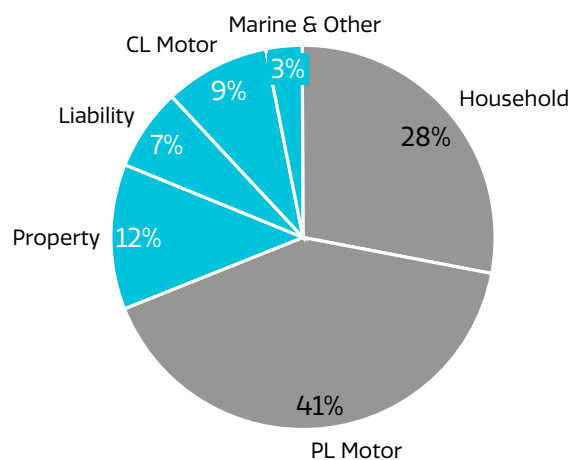
**£729m**

H1'18 Canada  
NWP



**Flat v H1'17**  
**+5% at CFX**

## Split of Canada NWP





# UK & INTERNATIONAL

Progress	H1'17	H1'18	Ambition
COR	98.0%	<b>95.3%</b>	<b>&lt;94%</b>
Current year COR	98.6%	<b>98.2%</b>	
Attritional loss ratio	48.9%	<b>49.3%<sup>3</sup></b>	
Controllable expense ratio <sup>1</sup>	21.3%	<b>21.5%</b>	<b>&lt;20%</b>

## Key points

- Priority was to improve on 2017 through underwriting actions
- Underwriting profit up 142%<sup>2</sup>:
  - COR 95.3%
  - Ireland and Middle East stand out performance
  - UK COR 97.0% (H1 2017: 98.7%)
- Soft UK market increased top line impacts
- Weather 3.7 points worse than previous year; large losses 4 points better, as planned
- Attritional 0.4 points better<sup>3</sup> than 2017 as actions start to earn through; more targeted for H2
- Cost ratio of 21.5%; gross cost savings 3%; top line softness will create strain
- Significant core systems investment continuing to 2020

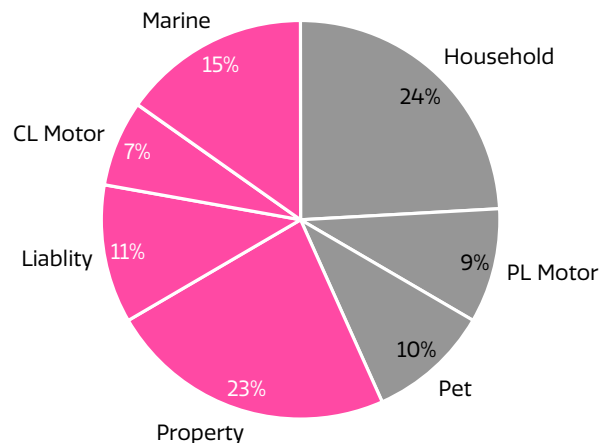
**£1.5bn**

H1'18 UK & International NWP



**-6% v H1'17**

## Split of UK NWP



# 2018 INTERIM RESULTS HIGHLIGHTS

- 1 Strategy & balance sheet as we want it
- 2 EPS up 18%; Interim dividend up 11%; ROTE 16%
- 3 Underlying EPS down 10% due to impact of adverse weather on underwriting result (up ex. weather)
- 4 Business progressing to plan (ex. natural volatility) although top line sacrifice needed where profitability threatened
- 5 Focused on drive towards best-in-class performance levels – customer service, underwriting, costs

# 2018 INTERIM RESULTS

# PERFORMANCE SUMMARY – EPS up 18%; ROTE 16%

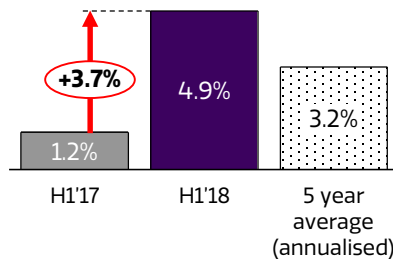
£m (unless stated)		H1'18	H1'17	Key comments
Net Written Premiums	①	<b>3,219</b>	3,449	
Underwriting result	②	<b>171</b>	222	
COR (%)		<b>94.7%</b>	93.2%	
Operating profit	③	<b>304</b>	360	
Profit before tax		<b>296</b>	263	
Profit after tax	④	<b>245</b>	206	
EPS	⑤	<b>21.8p</b>	18.4p	
Underlying EPS		<b>21.0p</b>	23.3p	
ROTE, annualised	⑥	<b>16.2%</b>	13.1%	
Interim dividend	⑦	<b>7.3p</b>	6.6p	
		<b>H1'18</b>	<b>H1'17</b>	
Tangible net asset value	⑧	<b>£2.9bn</b>	£2.8bn	

# WEATHER THE MAIN IMPACT ON H1 RESULTS

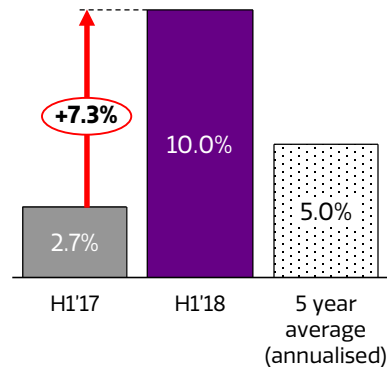
## Key comments

- Group weather loss ratio of 4.9% was 3.7 points higher than H1 last year and 1.7 points higher than the five year average
- Canada most impacted with a weather ratio of 10% (5 year average: 5%)
- Industry estimates > \$500m for Ontario & Quebec windstorm of early May, likely to be most costly insured event since 2013<sup>1</sup>. April ice-storm and severe spring flooding also impacted
- UK and Ireland hit by Storms Eleanor and Emma in Q1, albeit attritional weather low. Emma cost an estimated £47m

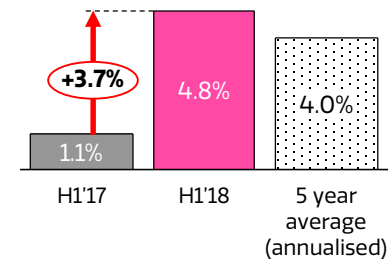
### Group



### Canada



### UK & International



# PREMIUMS (ex. reinsurance changes)<sup>1</sup>

## Premiums

Group Net Written Premiums flat at constant exchange

## Growth

Growth in Personal Lines in Sweden, Denmark and the UK and growth in all lines in Canada

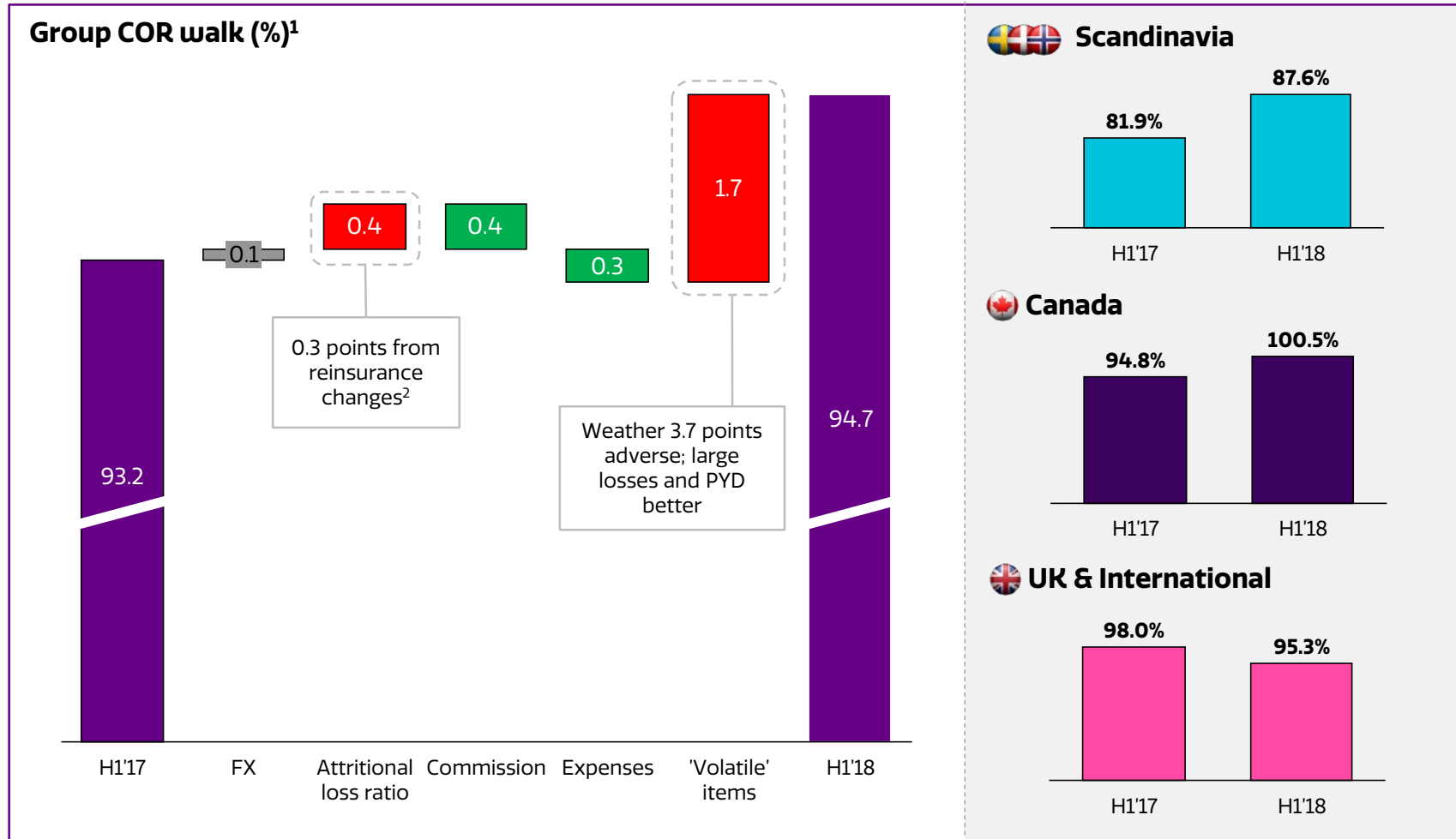
## Retention

Retention up in Scandinavia and Canada Personal Lines; down in UK & International Personal Lines and in Commercial Lines in all regions

At constant exchange	Personal Lines		Commercial Lines	
	Premium growth	Policy count growth	Premium growth	Volume growth <sup>2</sup>
<b>1 Scandinavia</b>	<b>7%</b>	<b>1%</b>	<b>(7)%</b>	<b>(10)%</b>
<b>2 Canada</b>	<b>4%</b>	<b>2%</b>	<b>10%</b>	<b>5%</b>
<b>3 UK</b>	<b>4%</b>	<b>(3)%</b>	<b>(7)%</b>	<b>(10)%</b>

- 1** Personal Lines growth in Sweden (premiums up 10%<sup>3</sup>) and Denmark (premiums up 3%<sup>3</sup>), partly offset by underwriting action in Commercial Lines in Denmark and Norway (impacted by two large scheme exits)
- 2** Both Johnson and Personal broker grew premiums by 4%<sup>3</sup>; carrying rate in Commercial Lines
- 3** Underwriting and rating action (including scheme exits) impacting renewals and new business

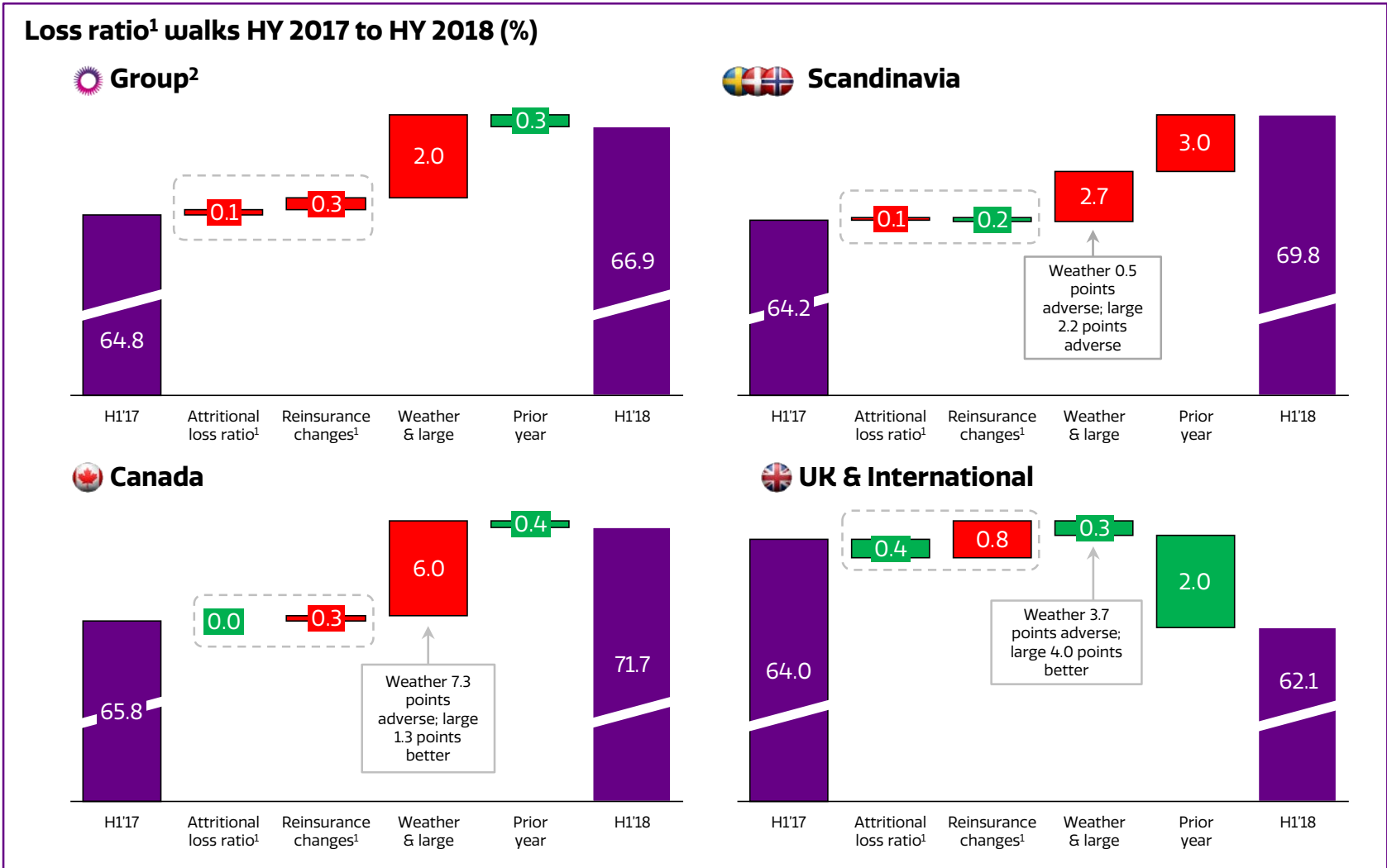
# UNDERWRITING RESULTS



<sup>1</sup> Ratio movements at CFX

<sup>2</sup> Headline premiums dampened by c.£180m of budgeted reinsurance costs, primarily for the triennial GVC renewal (improves/ protects large & weather)

# LOSS RATIOS





# UPDATE ON UK HOUSEHOLD CLAIMS INFLATION

## Key comments

- At FY 2017, we reported higher market-wide claims inflation, driven by 'escape of water'
- Strong action taken in two areas, namely **claims** and **pricing**
- Retention and new business impacted by rate in excess of market rate
- Actions take time to earn through and will not be fully reflected in the numbers until 2019



### Claims

Claims management process improved, from initial assessment to resolution. 1,300 claims > £10,000 have been through the new process and initial results show:

- ✓ Average time to start of drying – down 47%
- ✓ Average drying time – down 25%
- ✓ Average repair time – down 21%



### Pricing

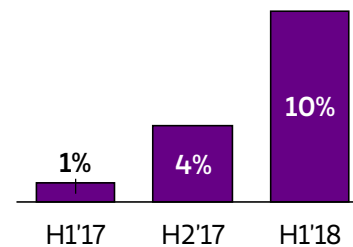
Rate of between +4% and +17% applied to the book in H1<sup>1</sup>, building on 2017 increases



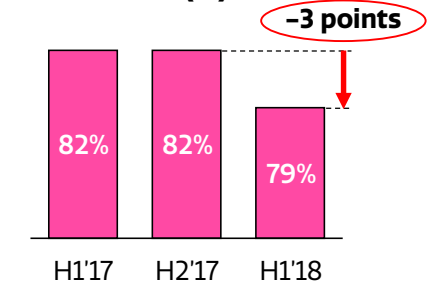
### Attritional loss ratio

As can be seen opposite, the loss ratio is beginning to respond to our actions

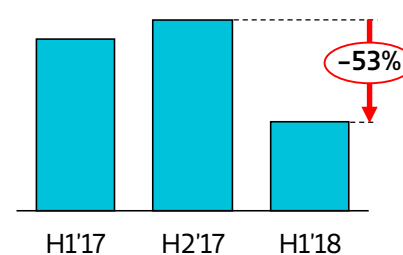
### Rate (%)<sup>1</sup>



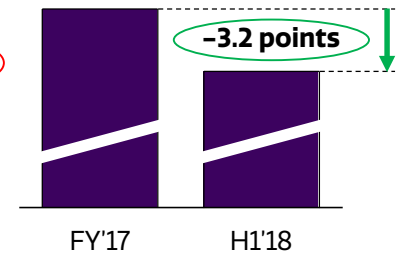
### Retention (%)



### New business (£)



### Attritional loss ratio (%)



# 'VOLATILE' UNDERWRITING ITEMS

## Weather

Weather the dominant feature of H1 2018 versus a benign H1 2017

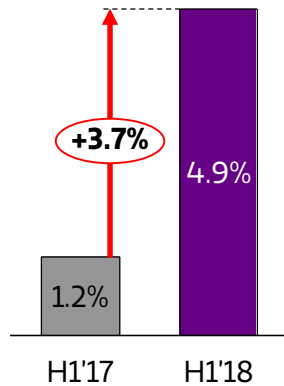
## Large losses

Canada and UK & International reported improved loss ratios after an elevated H1 2017; large losses increased in Scandinavia

## Prior year

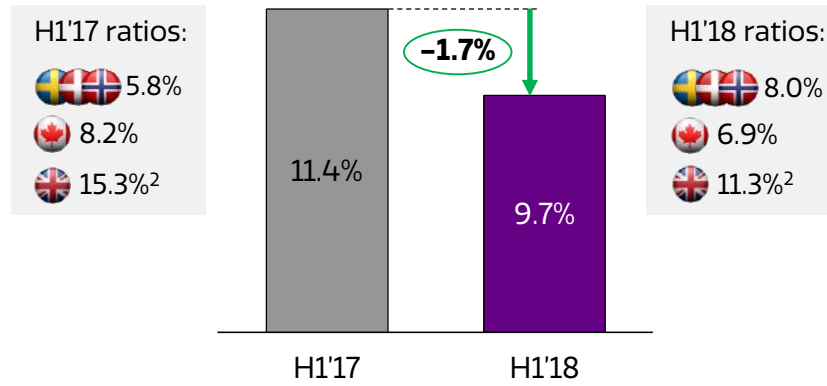
All regions contributed to positive development, widely spread across accident years

### Weather ratio



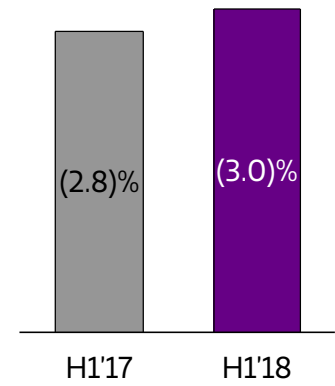
• 5 year average: 3.2%<sup>1</sup>

### Large loss ratios



• 5 year average: 9.0%<sup>1</sup>

### Prior year ratio



• Reserve margin 5%

# COST SAVINGS

## 2018 savings

Controllable cost savings of **4% (gross)** with ratio down 0.6 points versus H1 2017<sup>1</sup>

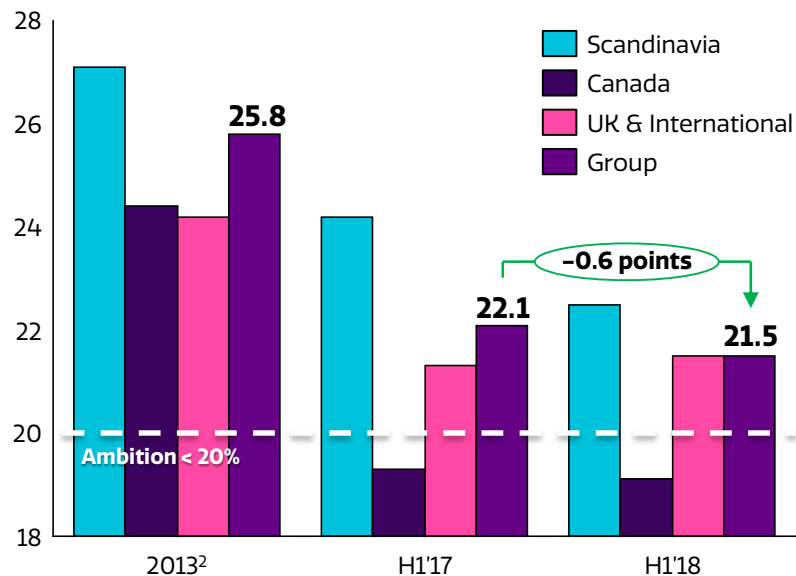
## Regional view

Scandinavia and Canada down versus H1 2017; UK & International slightly up (impacted by reinsurance changes and top line contraction)

## 5 year view

Controllable expense ratio now **down > 4 points since 2013**

### Earned controllable expense ratio (%)

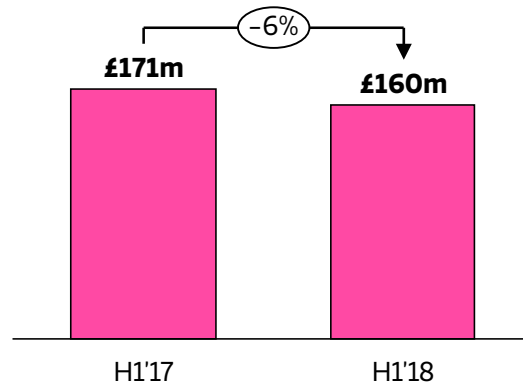


### Regional update (all at constant FX)

- ✓ Scandinavia controllable expense ratio down 1.7 points versus H1 2017; Denmark down > 4 points
- ✓ Canada controllable expense ratio down 0.2 points versus H1 2017 and well below target ambition
- ✓ UK & International controllable ratio flat; premium contraction due to underwriting and pricing actions impacting trend

# INVESTMENT INCOME

## Investment income H1 2017 versus H1 2018



### Key comments

- Investment strategy unchanged: High quality, low risk fixed income portfolio
- Average income yield on bond portfolios in H1 2018 of 2.3% (H1 2017: 2.4%)
- Average reinvestment rate on bond portfolios of 1.5%
- Unrealised gains of £361m (£326m relating to bonds) reduced by £67m or 16% in H1 2018, driven by bond pull-to-par (c.£50m) and higher yields

## Investment income guidance

£m	2018 guidance
Investment income	c.£300-310m

### Key comments

- Guidance based on forward yields and FX
- Bond pull-to-par element of unrealised gains should largely unwind over the next 2½ years. Capital impact less than £50m in H2 2018. Guidance for 2019 and 2020 unchanged

# STATUTORY PROFIT AFTER TAX £245M, UP 19%

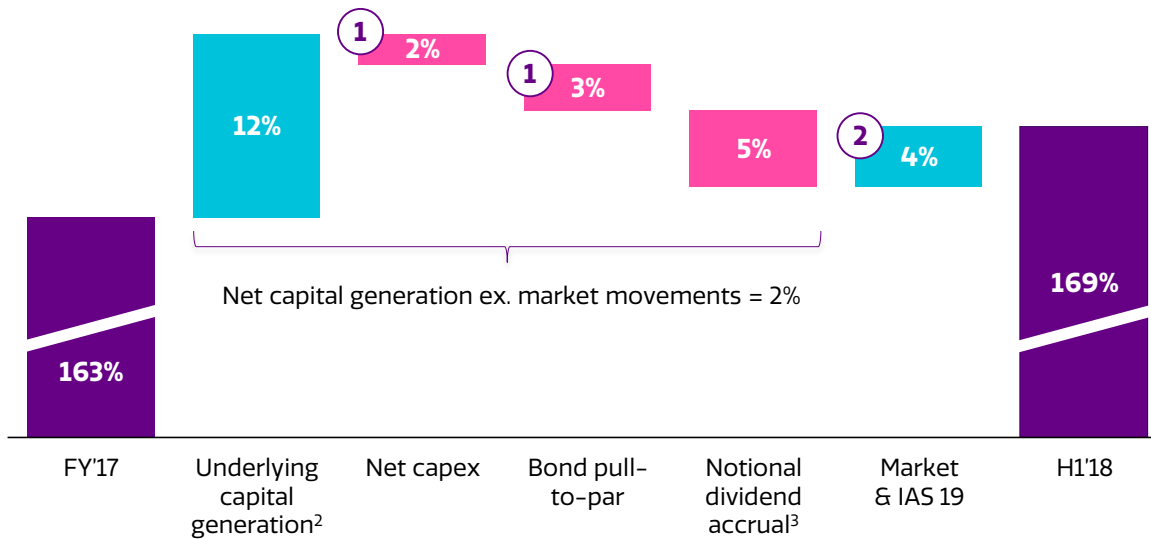
£m	H1'18	H1'17
<b>Operating profit</b>	<b>304</b>	<b>360</b>
Interest	① (13)	(30)
Other non-operating charges	③ 5	(67)
<b>Profit before tax</b>	<b>296</b>	<b>263</b>
Tax	④ (51)	(57)
<b>Statutory profit after tax</b>	<b>245</b>	<b>206</b>
Non-controlling interest	(10)	(10)
Other equity costs	② (12)	(8)
<b>Net attributable profit</b>	<b>223</b>	<b>188</b>

## Key comments

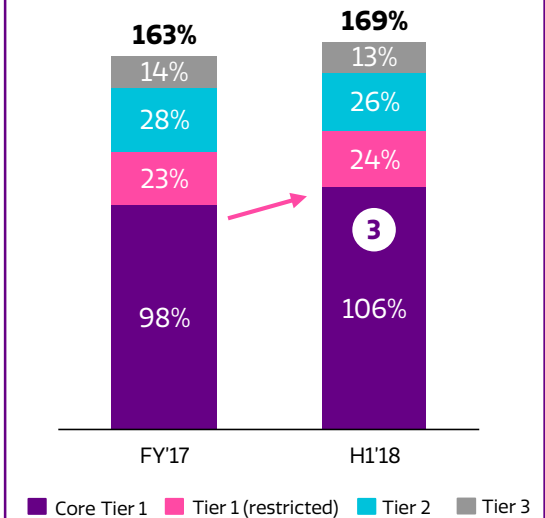
- ① Interest expense halved following debt restructuring actions taken in 2016 and 2017; 2018 run-rate c.£25m
- ② Includes £7m coupon costs on £300m Restricted Tier 1 debt, reflected directly in equity, and £5m preference dividend
- ③ Non-operating charges have largely fallen away as planned<sup>1</sup>
- ④ Effective tax rate 17% (H1 2017: 22%) and underlying tax rate 19% (H1 2017: 22%)

# SOLVENCY II POSITION

## Movement in Solvency II coverage ratio<sup>1</sup> (%)



## Solvency II coverage by tier



## Uses of capital consistent with our guidance

Generated underlying capital of 12 points in H1 2018:

- 1 Net capex and bond pull-to-par of £50m accounted for 5 points or c.45% of capital generated
- 2 Market movements, including IAS 19, generated 4 points
- 3 Capital quality improved and Core Tier 1 increased by 8 points to 106%

**Target range 130–160%: Prefer to operate towards top end of range**

# TO CONCLUDE...

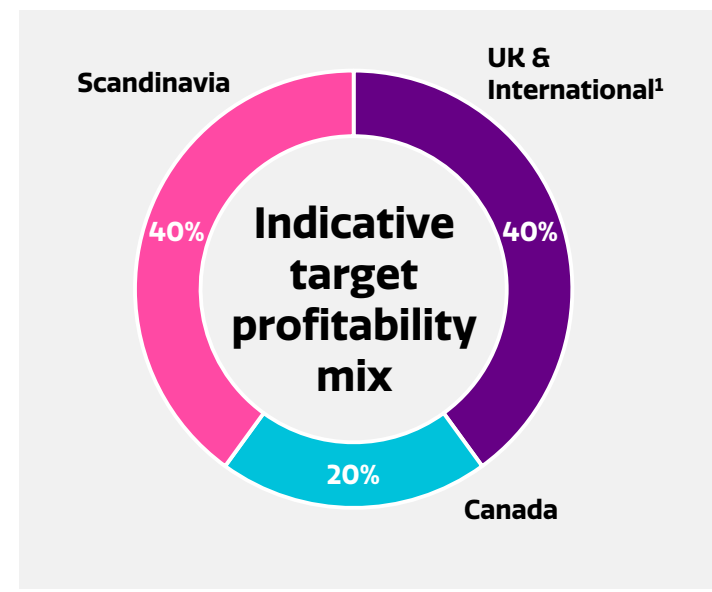
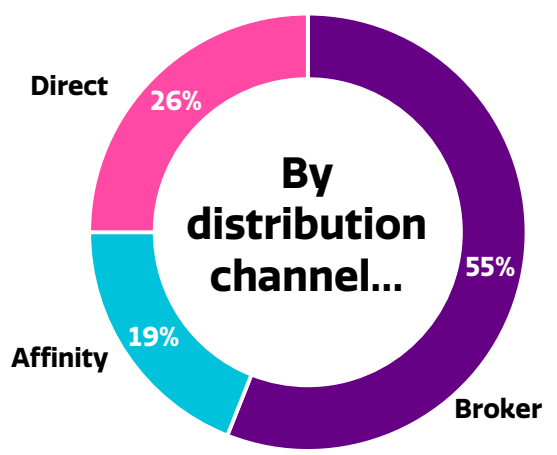
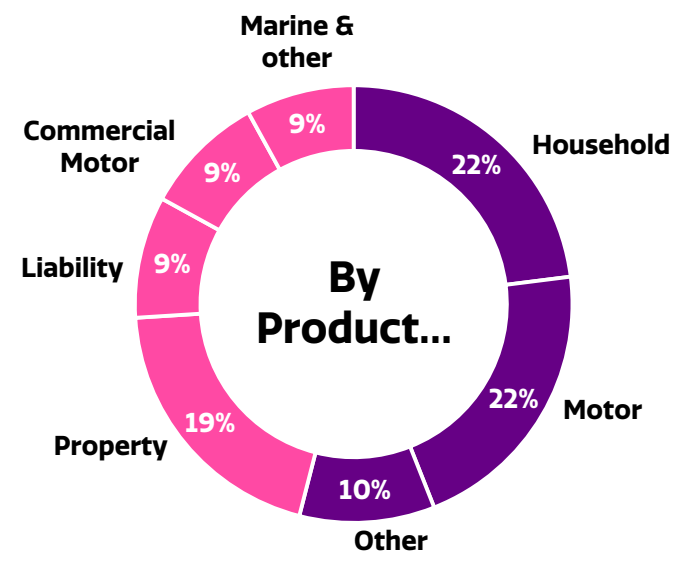
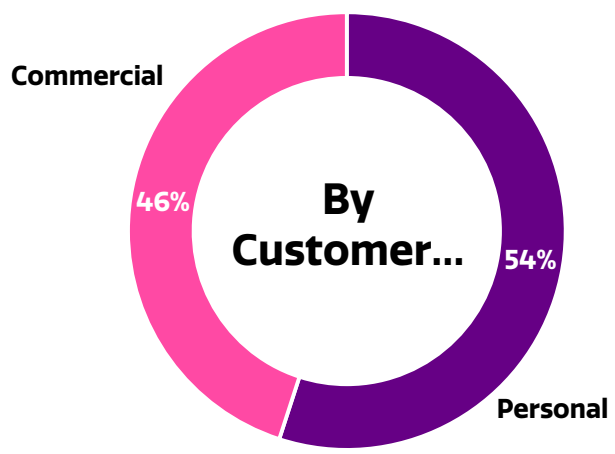
- ① Adverse weather the main impact on H1 2018 results
- ② Underlying profit drivers tracking in line with our plans
- ③ The H2 plan calls for improvement over H1
- ④ Focused on operational delivery – customer service, underwriting effectiveness and costs
- ⑤ Overall, we aim to deliver an attractive full year 2018 performance

**Q&A**



# APPENDIX

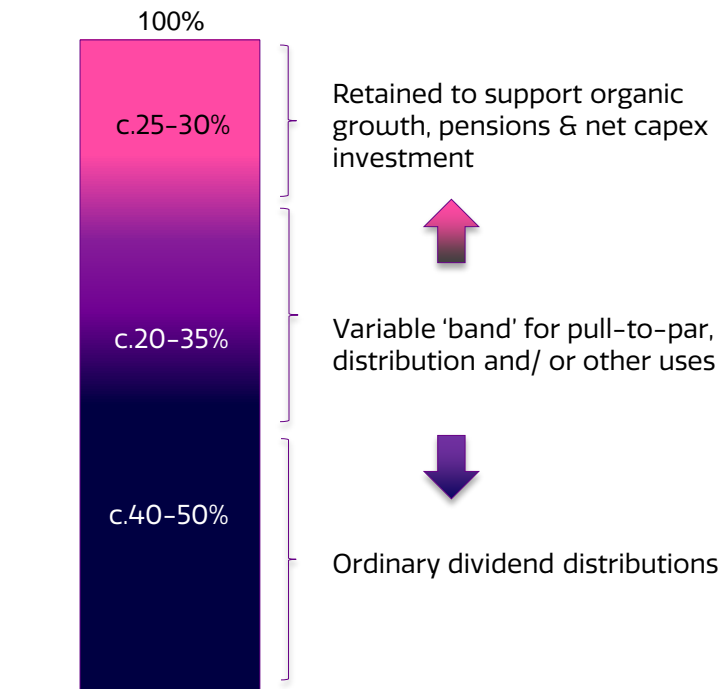
# LEADERS IN OUR MARKETS, WITH ATTRACTIVE BUSINESS BALANCE



<sup>1</sup> Includes Ireland, specialty businesses in the Eurozone and Middle East  
 Note: Split based on 2017 Group NWP, except indicative profitability which is based on operating profit ambitions

# DIVIDEND OUTLOOK

## Illustrative use of earnings



## Earnings and dividends

- Attractive earnings progression our goal, with increasing proportion available for distribution
- Around 25-30% of earnings used for organic growth, net capex investment and pensions
- Continue to plan for base dividend payout of 40-50%
- Leaves a variable 'band' of 20-35% for additional distributions, to fund pull-to-par or for any other need
- Pull-to-par effect impacts 2018 to 2020, but to a sharply decreasing extent
- Emphasis will continue to be that shareholder reward follows performance, but doesn't lead