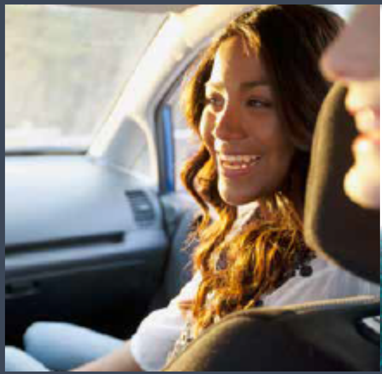
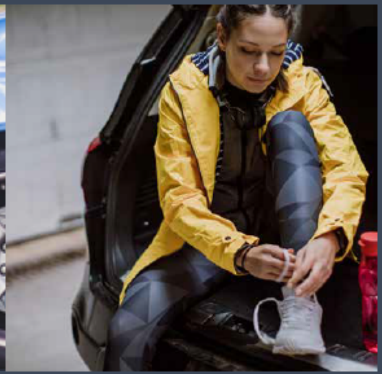
Half Year Results Presentation

2019



Presenting & Q&A

Geoff Carter – CEO

Adam Westwood – CFO

Q&A

Trevor Webb – Claims Director
James Ockenden – Chief Actuary

Today’s agenda

1. **H1 2019 Highlights**
   Geoff Carter
2. **Financial Results**
   Adam Westwood
3. **Market context**
   Geoff Carter
4. **Sabre’s Strategic Approach – A Reminder**
   Geoff Carter
5. **Summary & Outlook**
   Geoff Carter
6. **Q&A**
   All

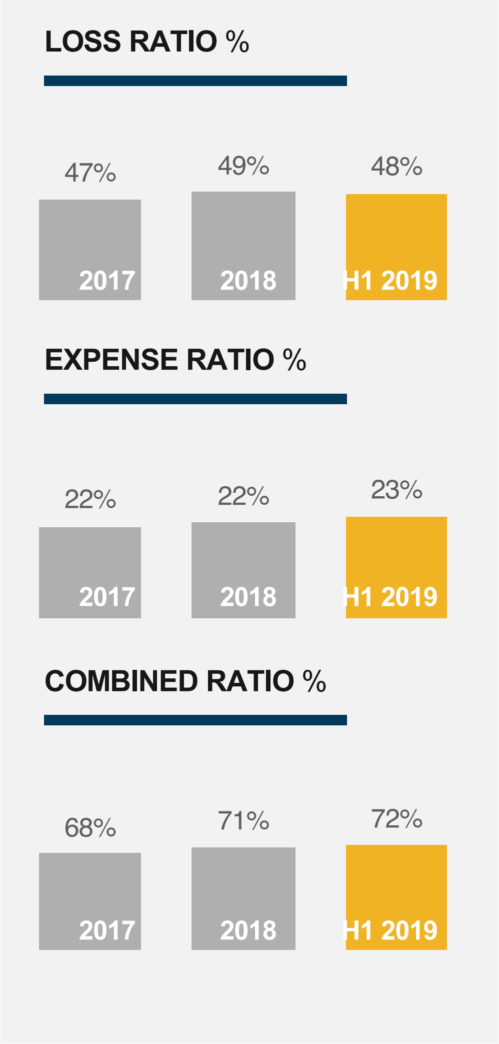
H1 2019 Highlights

Geoff Carter

Financial highlights

Continued absolute focus on profitability delivering encouraging results against what remains a competitive market backdrop:

- Leading underwriting performance, with strong profitability and returns, and attractive organic capital generation
- Year-on-year premium delta maintained despite further rate increases
- Ongoing price increases to mitigate industry-wide claims inflation and preserve profitability
- Interim dividend of 4.7p per share (one third of prior year ordinary dividend), in-line with our policy set out at IPO
- SCR coverage of 200% pre-dividend, 181% post interim dividend
- Impact of Ogden rate change immaterial



Operational highlights

Current focus

- Tracking / covering long-run claims inflation with price increases
- Optimising profit within our mid-70%'s COR range
- Understanding possible changes following whiplash reforms and being ready to respond appropriately
- Continual refinement and enhancement of pricing data / techniques and claims processes

Other activities

- Investment approach under review
- Roll-out of "Insure 2 Drive" van insurance to further price comparison websites

Sabre's DNA: "Do less, and obsess…"

Financial Results

Adam Westwood

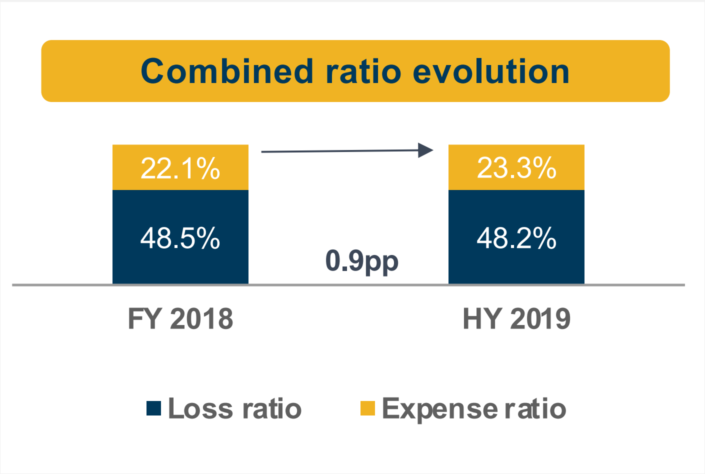
Results summary

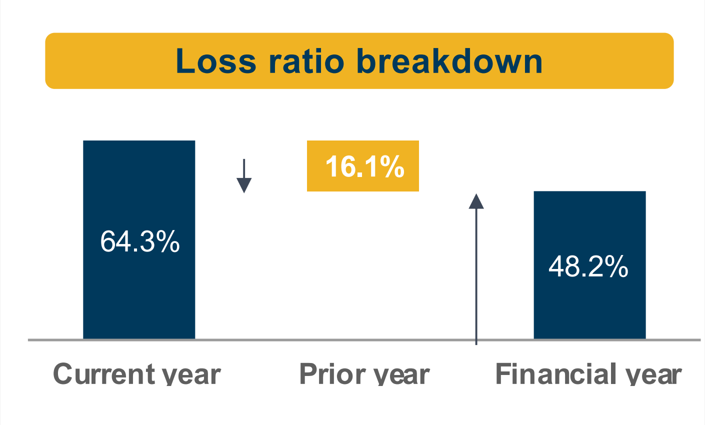
2019 H1 financial performance

	HY2019	HY2018	Change	FY 2018
Gross written premium	£101.2m	£108.8m	(£7.6m)	£210.0m
Net earned premium	£91.6m	£93.2m	(£1.6m)	£188.2m
Combined ratio	71.5%	68.6%	2.9ppts	70.6%
Investment return	£1.7m	(£0.1m)	£1.8m	£0.8m
Adjusted profit before tax	£30.5m	£32.5m	(£2.0m)	£61.9m
Adjusted profit after tax	£24.7m	£26.1m	(£1.4m)	£50.1m
Profit after tax	£24.7m	£25.8m	(£1.1m)	£49.6m
Basic EPS	9.9p	10.4p	(0.5p)	19.9p
Dividend per share	4.7p	7.2p	(2.5p)	20.0p
Solvency coverage ratio	200%	209%	(9pps)	213%
Post-dividend	181%	179%	2ppts	161%
Annualised ROTE	44.0%	56.5%	(12.5ppts)	54.4%
Return on opening SCR	40.4%	42.7%	(2.3ppts)	82.2%

- Premium income down 7.0% against the same period in 2018, while we continue to increase prices to match claims inflation
- Combined operating ratio tending towards long-run mid-70%'s average and in-line with our expectation
- Investment return impacted by market-value movements. Portfolio remains ultra low-risk and primarily gilt-based
- Dividend in-line with policy set out at IPO, being one third of the previous year's total ordinary dividend

Leading underwriting performance

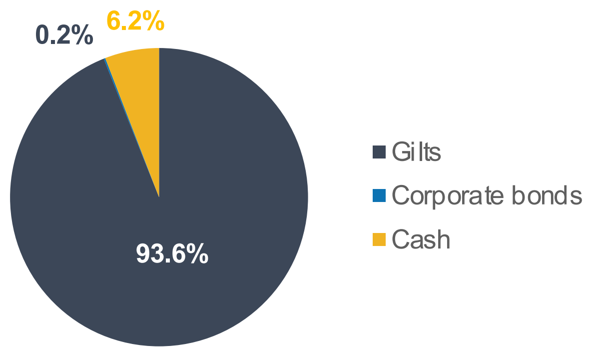




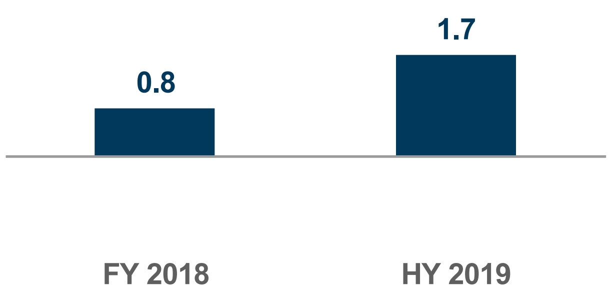
- Financial year combined ratio below long-run mid-70%'s target, driven by a strong loss ratio
- Current accident-year loss ratio represents claims incurred in the accident year to date and is consistent with business being written at the target loss ratio
- Prior-year reserve movement continues to represent run-off of margins
- No changes to reserving methodology
- Expense ratio slightly up on 2018
- Immaterial (c.£0.3m benefit) net impact of recent Ogden rate change

Conservative approach to risk

Investment portfolio breakdown



Investment return evolution (£m)

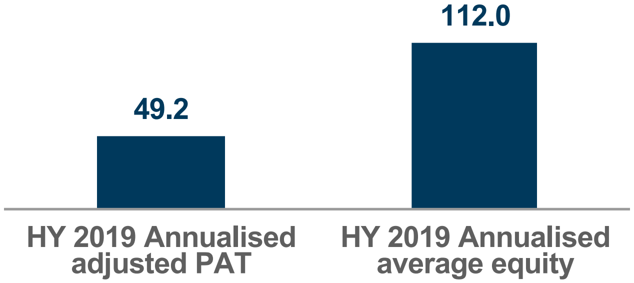


- Investments continue to be held in UK government bonds, in-line with our conservative approach to risk
- Investment portfolio managed in-house and focused on capital preservation to support our profitable underwriting activities
- Net investment return of £1.7m for HY 2019 in-line with normal gilt yield adjusted for market value movements
- Low-risk investment portfolio complemented by a consistent and conservative reserving policy and prudent use of reinsurance

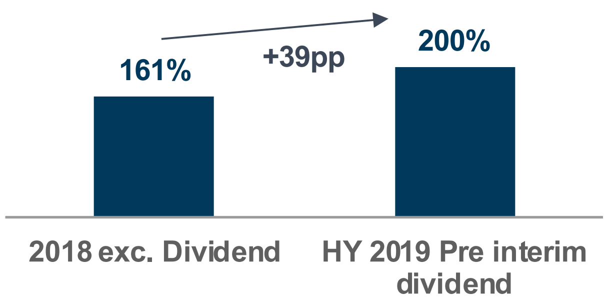
Attractive capital generation

Return on Tangible Equity

44% Annualised return on tangible equity



Solvency coverage ratio



- We continue to benefit from strong profitability and an efficient capital model
- Strong capital generation led to a period-end solvency ratio of 200%
- Dividend policy set out at IPO is to pay an interim dividend equal to one third of the prior-year's ordinary dividend
- Assessment and potential distribution of additional capital to occur at full-year
- Post dividend capital ratio of 181%, leaving an excess of £18.6m over the lower-end of the Group's preferred operating range

Interim dividend of 4.7p per share in respect of 2019.

Approach to capital management

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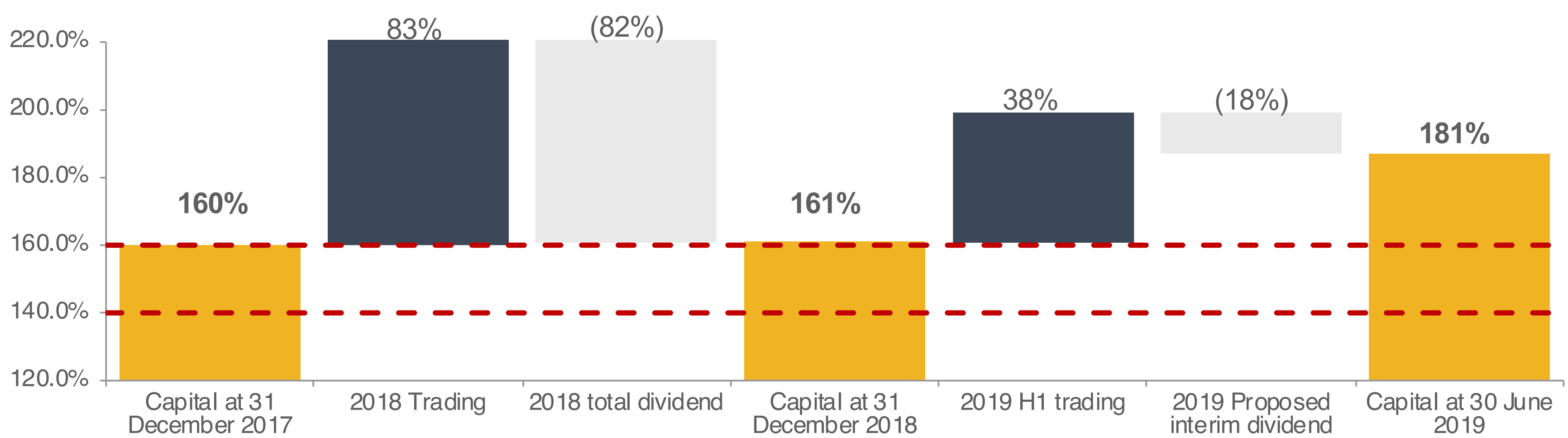
Our approach	• Prudent approach to regulatory capital with a minimum SCR of 140% • Focus on underwriting discipline generating organic capital - target long term COR of mid-70s
Continued investment	• Continued investment in business to enhance product capabilities and maintain operational efficiencies
Capital distribution	• Ordinary dividend pay out ratio of 70% • At year-end, consider distribution of surplus capital beyond top of SCR range of 160% • Target range of 140%-160% enables more stable returns of capital to investors by supporting dividends during cycle downturns or periods of rapid growth

FY 2018 and HY2019 Regulatory Capital Movements



Market Context

Geoff Carter

Sabre view

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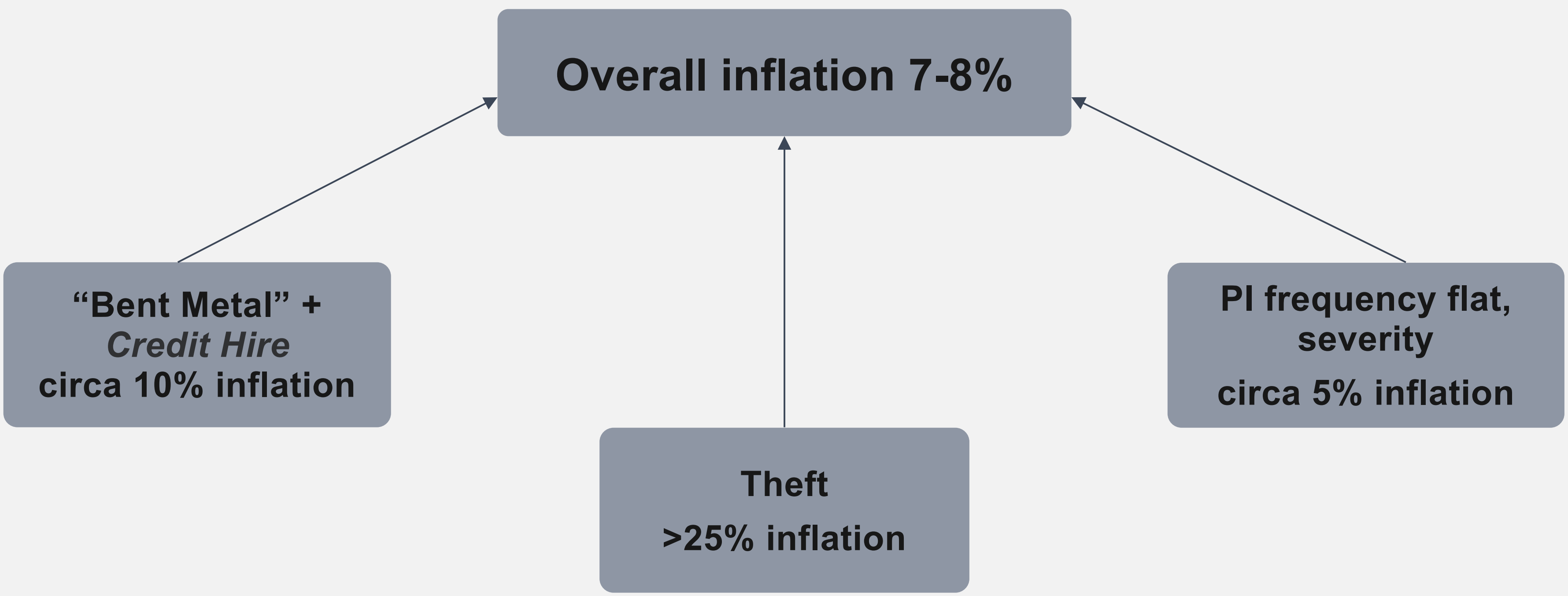
Sabre view of market claims inflation is consistent with that shared at the full-year.
Indications are that the industry is moving towards this view.



Premium inflation

Year-on-year premium delta consistent, despite continued rate increases

- Possible evidence of market rate increases
- Anecdotal feedback from brokers suggests a steady drip feed of inflationary monthly increases now underway…
- ….but we have not seen a step-change to materially close negative premium / claims inflation jaws

At the FY results, potential market impacts were balanced..

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Possible premium inflation factors

- Continued claims inflation
- Competitor margin squeeze
- Lawyer legal reforms response
- FCA pricing review

Possible premium deflation factors

- Whiplash reforms
- Ogden discount rate
- New MGA's launching

Sabre Strategy

Continue to price to mid 70%'s combined, reflecting changes as they emerge and avoiding speculation

… and at H1 2019 our view is tilted in favour of rate increases

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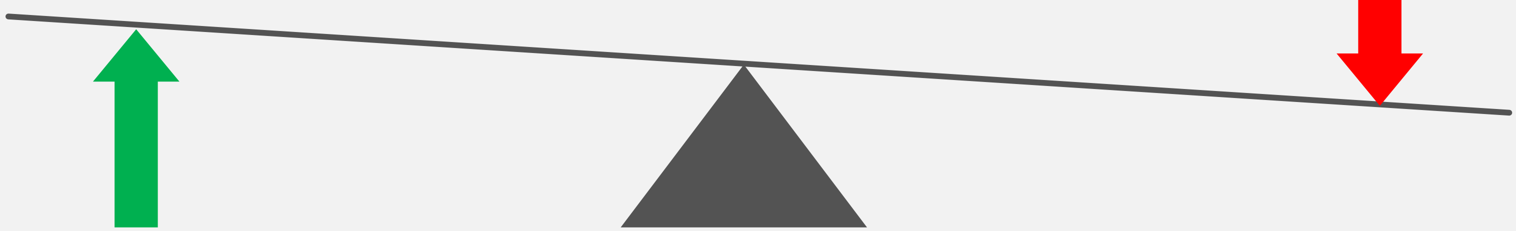
Possible premium inflation factors

- Continued claims inflation ↑
- Competitor margin squeeze ↑
- Whiplash reforms impact ↑
- Lawyer legal reforms response ↔
- FCA pricing review ↔
- Ogden rate change ↑

Possible premium deflation factors

- Whiplash reforms ↓
- New MGA's launching ↔



Sabre Strategy

Continue to price to mid 70%'s combined range, reflecting changes as they emerge and avoiding speculation

Possible premium inflation factors

FCA Pricing Review

- Initial report due (late) summer
- Believed to be a clear understanding that renewal discounts will drive an equalling impact on new business
- Recent CMA and government messages may encourage a stronger response?

Sabre does not utilise inertia pricing or propensity modelling, and prices are calculated purely from risk factors

Market claims / premium inflation

- Commentary suggests market moving towards Sabre view of long-run claims inflation at near 7-8%
- Claims inflation driven by increased costs due to technology in newer vehicles and theft.

Possible Impacts

- If current dynamics continue, potential margin squeeze across the industry likely to continue
- Observed market premium inflation unlikely to be closing jaws to claims inflation

Sabre has sought to fully cover emerging claims experience in 2018 and into 2019, maintaining its underwriting discipline

Possible premium inflation factors - Ogden

Ogden discount rate

Rate moved to (0.25%) from (0.75%) – announced 15th July 2019.

Impact on Sabre

- Estimated impact on Sabre recorded in H1 2019 financial result
  - Approximately £0.3m net P&L benefit
  - Gross reserves decreased by c £9.0m

Impact on Insurance Market

- Smaller change than market generally expected
- Prices may need to be adjusted to account for gross and net increases in expected cost of claims

Sabre continued to rate / reserve on (0.75%) discount rate until change was announced – no pricing adjustment required

Civil Liability Act ("whiplash reforms") – where are we?

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Reminder of Reforms

- Significantly reduced tariff based damages for soft tissue claims
- Small claims limit increased from £1k to £5k (no legal fees)
- No pre-medical offers
- New portal to be utilised by "litigants in person"
- Vulnerable claimants and infants excluded

If full benefits emerge circa £35 per policy saving

Implementation progress

- Target implementation remains as April 2020
- Motor Insurers Bureau well underway in designing and building the new portal

BUT…

- Severe lack of clarity on many issues within these reforms
- In our view, continued risk that reforms will not deliver forecast savings

Actual impact anywhere between £35 saving and mildly inflationary

Civil Liability Act (“whiplash reforms”) – where are we?

Risks – Implementation

- Change of Government
- Rules and policy decisions cannot be supported by planned portal IT build. (IT having to be built before rules are known)
- Testing of portal identifies significant user issues
- A challenge to the implementation from a claimant lobby
- Individual compensators not IT / process ready
- A change to claim development triangles
- Claims will not be able to migrate from the new small claims portal to the traditional portal where value / complexity demands

Sabre approach - price to facts not assumptions

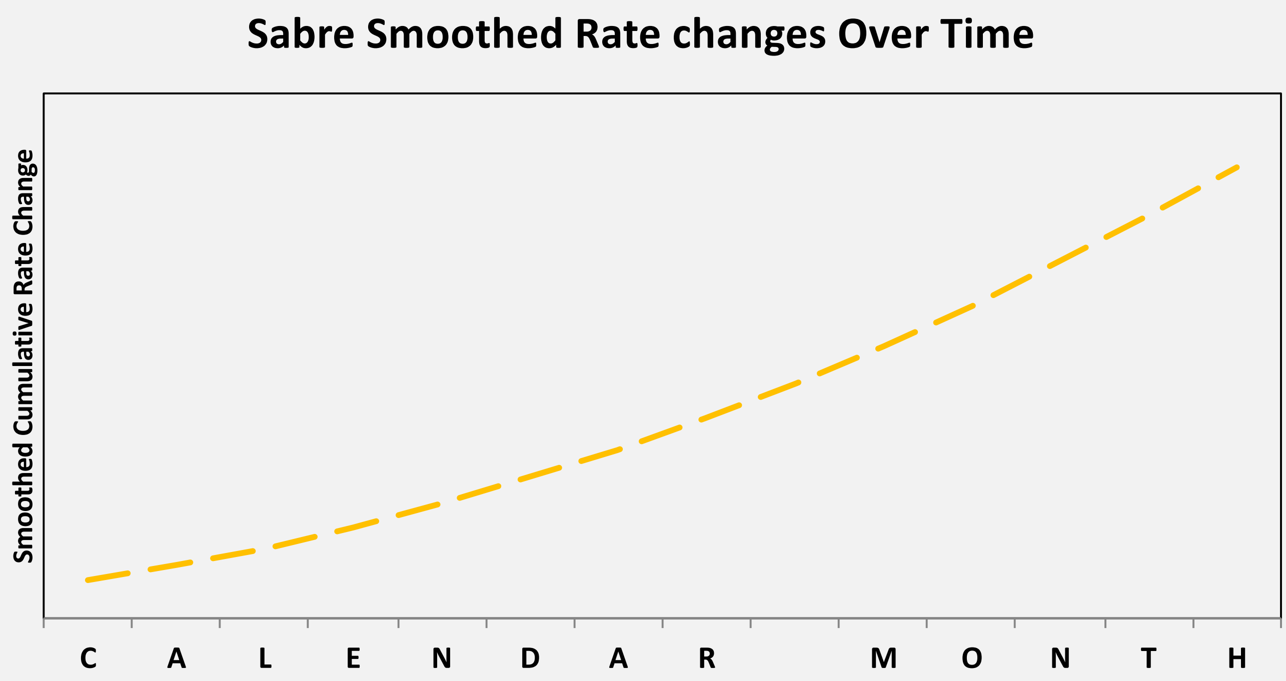
Risks - Behaviours

- Changes to current CMC behaviours
- Emergence of new representation models, including unregulated representation
- Linked - risk of consumer detriment as fees may not be proportionate or indeed capped
- Claims stacking (accumulating a personal injury claim, property damage claim and credit hire) to escape the small claims limit
- “Shopping list“ of claims opportunities presented
- Previous reductions in claims frequency are reversed
- Receiving unmeritorious claims as the dispute resolution process is fully funded by the compensator. A no risk punt!

Sabre approach - price to facts not assumptions

What has our approach been in YTD 19?

- Sabre has continued to execute its strategy of focusing on profitability not volume
- Price increases in H2 2018 to reflect unattractive claims inflation trends
- Sabre rates hardened further over H1 2019 due to increased pressure from 'bent metal' claims inflation
- Sabre continues to follow its historic philosophy of allowing for inflationary effects within rating, whilst optimising profit levels, given the stage in the underwriting cycle



Reinsurance

Consistent reinsurance programme limits volatility

- Reinsurance renewed successfully on existing structure (£1m excess of loss) for 1st July 2019
- Very consistent panel of reinsurers and level of security
- Renewed at a small discount, reflecting good long-term performance
- Reinsurers may have factored an expectation of settlements at an Ogden rate higher than that prevailing at the time of renewal
- Reinsurer pricing currently appears to be more focused on the underlying price per vehicle being obtained by the underlying insurer

Sabre's Strategic Approach – A Reminder

Geoff Carter

Strategy and key business principles

Maintain wide underwriting footprint

Continue to develop defensive non-standard positioning

Market leading underwriting performance

Mid-70s

COMBINED RATIO TARGET

Strong returns and cash generation

70%

BASE DIVIDEND PAYOUT

140-160%

TARGET SOLVENCY RATIO

Return excess capital to shareholders

Controlled and attractive growth across the cycle

Premium growth across the cycle

Likely scenarios – NO change from full year assessment

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Possible outcomes

Sabre current cautious approach is correct	Sabre current view is too cautious
• Potential market margin compression leads to price increases • Sabre has already taken pricing action, and will therefore be able to grow • Potential FCA pricing review impacts in addition	• Data will demonstrate too much prudence in pricing assumptions, allowing prices to be reduced fuelling growth • Potential FCA pricing review impacts in addition

- **Timing on either scenario is difficult to assess and a range of GWP outcomes therefore remain possible**
- **Sabre will return to GWP growth at the appropriate time**

Summary & Outlook

Geoff Carter

Summary

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We remain focused on our long-term and well established strategy; prioritising underwriting profitability over premium volume and centred on a mid-70%'s COR target

Despite the year-on-year reduction in premium, our response to market conditions has been to accelerate the increase in prices to ensure we continue to write achieve our mid-70%'s COR target

Despite rate increases, volumes are slightly better than expected, suggesting modest market rate increases or other underwriting action

Outlook

Premium outturn for the year will depend on market conditions. Assuming current market conditions persist, relative year end premium position is expected to be broadly similar to half year position

On track to deliver existing full year guidance of a combined ratio slightly better than our long-term target of mid-70s, with continued strong capital generation expected to support an attractive dividend

Continued commitment to utilising our strong capital generation and range to support dividends

Having covered claims inflation, we are well-positioned for growth as the market turns

Q&A

Geoff Carter - CEO
Adam Westwood – CFO
Trevor Webb – Claims Director
James Ockenden – Chief Actuary

Appendices

Reconciliation to KPIs

Adjusted Profit Before Tax	HY 2019	FY 2018	HY 2018
	£'k	£'k	£'k
Profit before tax	30,472	61,363	32,208
Add:			
Amortisation of goodwill	-	501	251
Exceptional items	-	-	-
Adjusted profit before tax	**30,472**	**61,864**	**32,459**

Adjusted Profit After Tax	HY 2019	FY 2018	HY 2018
	£'k	£'k	£'k
Profit after tax	24,663	49,568	25,824
Add:			
Amortisation of goodwill	-	501	251
Exceptional items	-	-	-
Tax on exceptional items	-	-	-
Adjusted profit after tax	**24,663**	**50,069**	**26,075**

Loss Ratio	HY 2019	2018	HY 2018
	£'k	£'k	£'k
Net insurance claims	47,743	97,861	46,012
Less: Claims handling expenses	(3,592)	(6,536)	(3,383)
	44,151	91,325	42,629
Net earned premium	91,618	188,235	93,209
Net loss ratio	**48.2%**	**48.5%**	**45.7%**

Reconciliation to KPIs

Expense Ratio	HY 2019 £'k	FY 2018 £'k	HY 2018 £'k
Total expenses	17,804	35,191	17,960
Plus: Claims handling expenses	3,592	6,536	3,383
	21,396	41,727	21,343
Net earned premium	91,618	188,235	93,209
Expense Ratio	**23.4%**	**22.2%**	**22.9%**

Combined Operating Ratio	HY 2019 £'k	FY 2018 £'k	HY 2018 £'k
Total expenses	17,804	35,191	17,960
Net insurance claims	47,743	97,861	46,012
	65,547	133,052	63,972
Net earned premium	91,618	188,235	93,209
Combined operating ratio	**71.5%**	**70.7%**	**68.6%**

Solvency Coverage Ratio	HY 2019 £'k	FY 2018 £'k	HY 2018 £'k
Solvency II net assets	119,813	130,019	126,126
Solvency Capital Requirement	59,839	60,995	60,566
Solvency Coverage Ratio	**200.2%**	**213.2%**	**208.2%**

Reconciliation to KPIs

Solvency Coverage Ratio - Post-Dividend	HY 2019 £'k	FY 2018 £'k	HY 2018 £'k
Solvency II net assets	119,813	130,019	126,126
Less: Final/interim dividend expected	(11,750)	(32,000)	(18,000)
Solvency II net assets inc. dividend	108,063	98,019	108,126
Solvency Capital Requirement	59,839	60,995	60,566
Solvency Coverage Ratio	**180.6%**	**160.7%**	**178.5%**

Return on Rangible Equity	HY 2019 £'k	FY 2018 £'k	HY 2018 £'k
Annualised IFRS net assets at period-end	271,100	265,148	265,746
Less:			
Intangible assets at period-end	(156,279)	(156,279)	(156,279)
Goodwill at period-end	-	-	-
Annualised closing tangible equity	114,821	108,869	109,467
Opening tangible equity	108,869	75,213	75,213
Average tangible equity	111,845	92,041	92,340
Annualised adjusted profit after tax	49,326	50,069	52,150
Return on tangible equity	**44.1%**	**54.4%**	**56.5%**

Return on Opening SCR	HY 2019 £'k	FY 2018 £'k	HY 2018 £'k
Opening SCR	60,995	61,087	61,087
Adjusted profit after tax	24,663	50,069	26,075
Return on SCR	**40.4%**	**82.0%**	**42.7%**

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