Direct Line Group

Q3 / 9M 2012 Results
2 November 2012

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General disclaimer (continued)

Historical financial information

The basis of preparation of the financial information within the interim management statement for the nine months to 30 September 2012 is the same as the financial statements and notes contained within the Direct Line Group price range prospectus issued 28 September 2012.

The Historical Financial Information for the three years ended 31 December 2011 and six months ended 30 June 2012 are different to the financial information for the insurance division of the RBS Group (the ''RBSG Insurance Division'') incorporated in the RBS Group's financial results disclosures. Differences arise principally because:

• a number of items, including restructuring costs, separation costs and goodwill impairment, are recorded before operating profit within the Historical Financial Information but not included in the RBSG Insurance Division's operating profit reported within the RBS Group's financial results disclosures; and

• the operating results of the activities of Tesco Personal Finance are reflected in operating profit in the Historical Financial Information as a run-off business of Direct Line Insurance Group, but does not constitute core operating profit for the purposes of the RBS Group's financial results disclosures, and as a result the Tesco Personal Finance operating results are included as part of the non-core portion of the RBS Group's financial results disclosures and not in the results for the RBSG Insurance Division.

As a result, the Historical Financial Information is not directly comparable with previous financial information for the RBSG Insurance Division incorporated in the RBS Group's financial results disclosures.

Return on tangible equity

Direct Line Insurance Group uses return on tangible equity as a supplemental measure of its performance and believes it is relevant to the evaluation of companies in its industry. Direct Line Insurance Group calculates return on tangible equity as adjusted operating profit after tax divided by average tangible ordinary shareholders equity. Profit after tax is adjusted to exclude run-off operations and restructuring and other one-off costs and based on average tangible invested equity (adjusted for the weighted average value of dividends paid in the period) (using UK standard tax rate). The unadjusted return on equity is calculated as profit after tax divided by average ordinary shareholders equity. Return on tangible equity is not a measurement of performance under International Financial Reporting Standards ("IFRS") and investors should not consider this measure as an alternative to other measures of performance under IFRS. This information has been disclosed in this Prospectus to permit a more complete and comprehensive analysis of Direct Line Insurance Group's operating performance relative to other companies. Because all companies do not calculate these measures identically, Direct Line Insurance Group's presentation of this measure may not be comparable to similarly titled measures of other companies.

Key messages

- **Continued progress towards delivering financial targets year to date**
  - 3% improvement in operating profit[1]
  - 99.7% combined operating ratio[1]
  - Proforma RoTE of 13.5%[2]
- **Q3 financial highlights**
  - Stable IFPs in Motor and Home
  - Improvement in attritional loss ratio
  - Significantly lower expense ratio
- **Outlook**
  - UK personal lines market remains competitive
  - Focus on 'value over volume'
  - Continued benefits from claims transformation programme
  - First two phases of cost savings programme announced

Progress towards 98% combined operating ratio in 2013

[1] *Ongoing operations*
[2] *Adjusted to exclude Run-off and Restructuring and other one-off costs (using UK standard tax rate) and adjusted as if the 2012 capital actions had occurred on 1 January 2012 (£1bn dividends, £500m Tier 2 debt), annualised RoTE*

Direct Line Group

Strategic highlights

Distribution	Enhance effectiveness to improve Customer Lifetime Value	• New Direct Line marketing campaign • Launched Motor on comparethemarket.com • Exclusive five-year arm's length distribution agreement signed with RBS Group
Pricing	Build superior pricing capabilities to utilise scale advantage in data	• Improved flexibility within rating engine for pricing updates • Further rollout of risk model enhancements in Motor and Home
Claims	Attain market leading position in claims management	• Continued rollout of ClaimCenter with over 400,000 claims now on system • Benefits of claims transformation continue to show through in Motor
Costs	Realise the significant cost opportunity	• Target of £100m annual gross cost savings in 2014[1] • Actions taken to date represent approximately 50% of target savings
Commercial and International	Leverage core skills to improve performance	• Continued development of Commercial e-trading platform for NIG as well as action on costs • International IFPs consolidated at over 1.4 million
Capital	Optimise the balance sheet for value	• Further £200m dividend paid to RBS Group in September, taking total dividends paid in 2012 to £1bn

[1] *Cost savings expected to be recognised in operating costs for Ongoing operations and claims handling expenses (2011: £1,133m)*

Financial highlights

Observations

- **3% increase in operating profit from ongoing operations**
  - £348m in 9M 2012 compared with £338m in 9M 2011
- **In-force policies up 4% to 20.1m during 2012**
  - Stability in Motor and Home, growth in Commercial, and Rescue and other personal lines
- **Improvement in operating profit largely due to improved underwriting result partially offset by lower instalment and other income; investment return lower in 3Q 2012**
- **RoTE from ongoing operations of 10.6% compared to 10.0% in 2011**
  - Proforma annualised RoTE for ongoing operations for 9M 2012 of 13.5%

(£m unless stated)	9M 2011	9M 2012	3Q 2011	3Q 2012
Ongoing operations				
In-force policies (m)	19.9	20.1	n/a	n/a
Gross written premium	3,174	3,085	1,080	1,027
Underwriting return	(55)	8	(5)	28
Instalment and other income	198	147	64	48
Investment return	195	193	70	47
Operating profit - ongoing operations	**338**	**348**	**128**	**124**
Run-off	(12)	(2)	1	(3)
Restructuring and other one-off	(31)	(137)	(21)	(28)
Finance costs and other	(1)	(20)	(1)	(10)
Profit before tax	295	189	108	82
Profit for the period	223	142	81	59
Of which Ongoing operations	*247*	*247*	*94*	*86*
Key metrics				
Ongoing operations:				
Loss ratio	73.2%	67.2%	71.1%	66.8%
Commission ratio	7.6%	8.7%	7.5%	9.2%
Expense ratio	21.1%	23.8%	21.9%	20.9%
Combined operating ratio	101.9%	99.7%	100.5%	96.9%
Investment income yield [1]	2.3%	2.0%		
Investment return yield [2]	2.9%	3.1%		
EPS (pence)	14.9	9.5		
Adjusted EPS (pence) [3]	16.4	16.5		
RoTE (annualised) [3]	n/a	10.6%		
Proforma RoTE (annualised) [3,4]	n/a	13.5%		

[1] *Investment income excludes gains and losses*
[2] *Investment return includes realised gains and losses*
[3] *Adjusted to exclude Run-off and Restructuring and other one-off costs (using UK standard tax rate)*
[4] *Had the 2012 capital actions occurred on 1 January 2012 (£1bn dividends, £500m Tier 2 debt)*

GWP and IFPs for ongoing operations have been stable

Observations

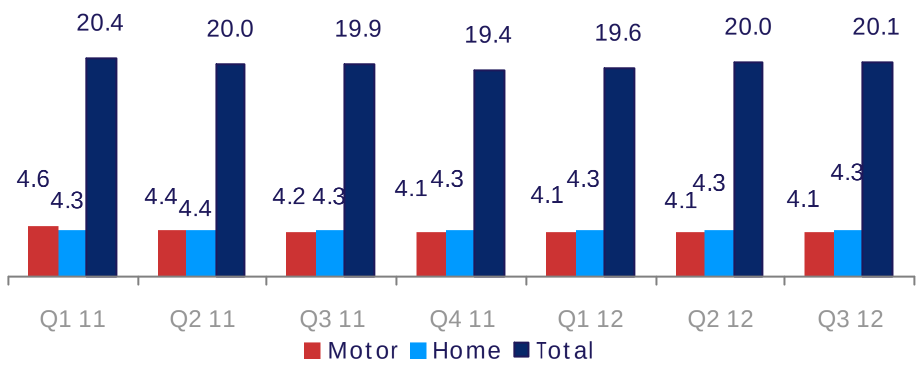
- **IFPs up 4% in 2012**
  - Stability in Motor and Home
  - Growth in Rescue and other personal lines from packaged bank accounts
  - Commercial IFP growth through Direct Line for Business
  - Consolidation in International
- **GWP of £3,085m, 3% lower than 9M 2011 reflecting lower Motor IFPs arising from risk mix improvements during 2011 and FX effects in International**

GWP by segment, ongoing operations

(£m)	9M 2011	9M 2012	3Q 2011	3Q 2012
Motor	1,338	1,282	472	440
Home	778	751	277	267
Rescue & Other	299	303	107	104
Commercial	333	334	101	104
International	426	415	124	113
Total	**3,174**	**3,085**	**1,080**	**1,027**

International (€m)	492	515	143	144

Quarterly IFPs (m), ongoing operations



IFPs by segment, ongoing operations

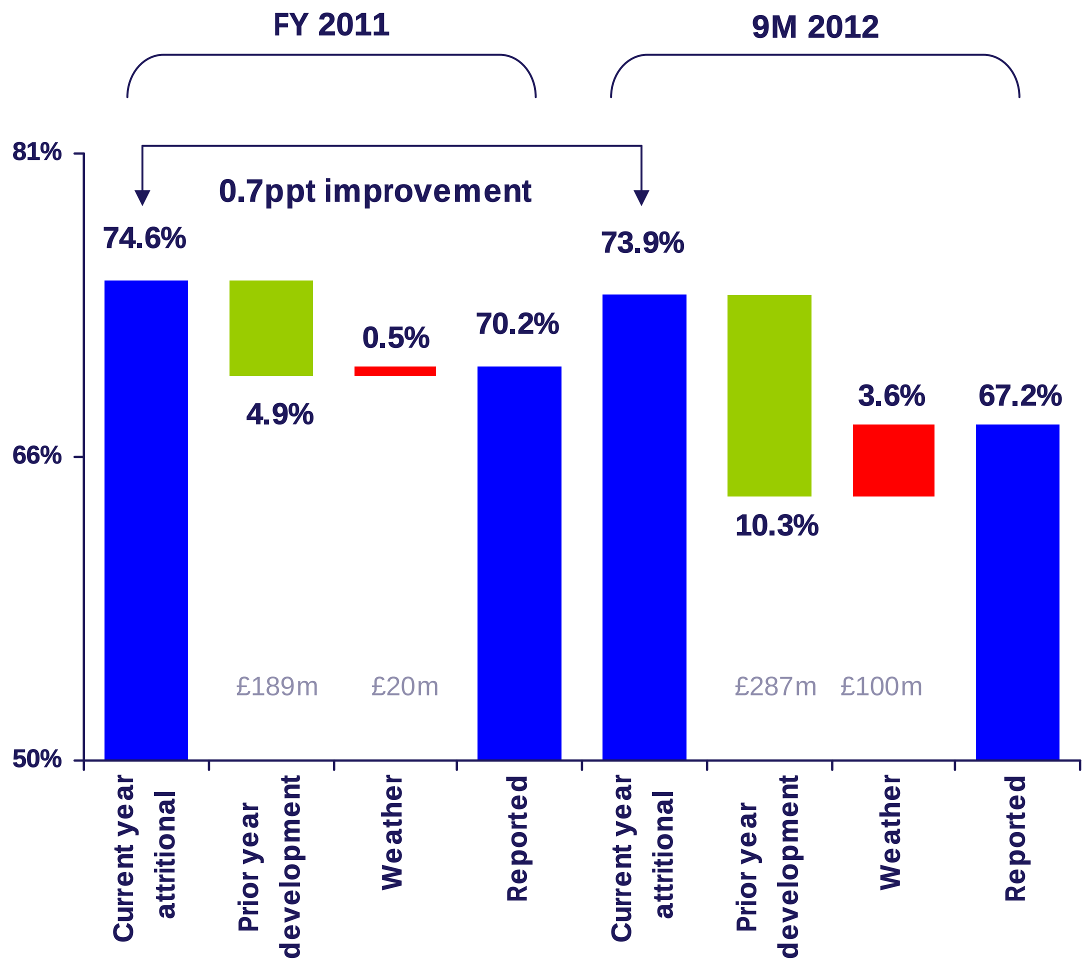
(000s)	Sep 12	June 12	Dec 11
Motor	4,094	4,135	4,107
Home	4,291	4,304	4,308
Rescue & Other	9,771	9,693	9,151
Commercial	466	460	422
International	1,444	1,441	1,387
Total	**20,066**	**20,033**	**19,375**

Continued improvement in underwriting performance

Observations

- Loss ratio of 67.2% versus 70.2% for FY 2011 as a result of higher reserve releases more than offsetting adverse weather
- Improvement in current year attritional loss ratio of 0.7ppt compared with FY 2011 driven primarily by Motor partially offset by impact of Commercial large losses in 1H 2012
- Positive prior year development of £287m in 9M 2012 partly arising from risk mix and claims transformation delivering lower frequency and severity for small BI
- Weather related claims totalled approximately £100m in 9M 2012 compared with approximately £20m in full year 2011

Loss ratio analysis, ongoing operations

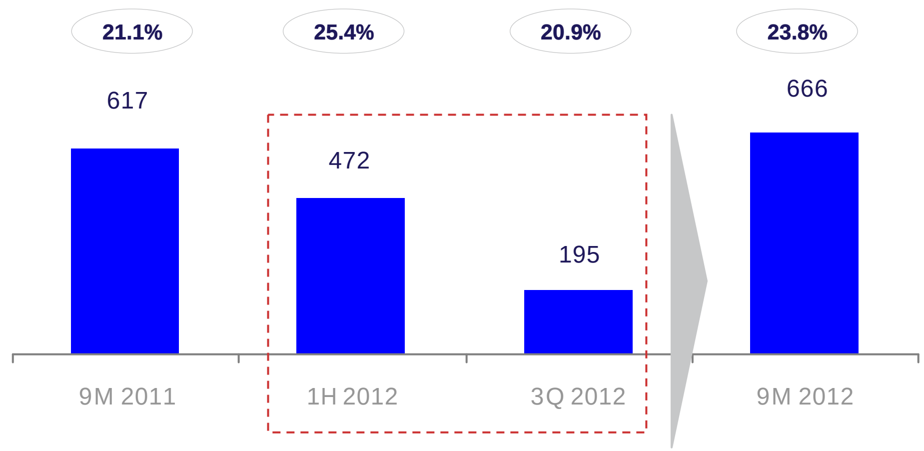


Improving expense ratio

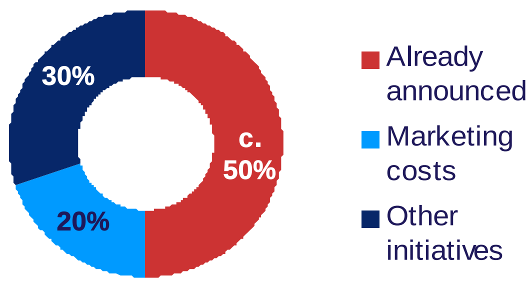
Observations

- **Progress in lowering expense ratio in 3Q with 9M 2012 expense ratio of 23.8% 1.6ppts lower than 1H 2012**
- **Discrete 3Q 2012 expense ratio of 20.9%**
  - Replacement of RBS Group recharge with direct costs
  - Non-repeat of parallel running costs with removal of RBS Group recharge
- **Initiatives already announced relating to approximately 50% of £100 million gross annual cost saving target**
  - Additional 20% relates to 2013 marketing costs
  - Further 30% in advanced state

Expense ratio, ongoing operations



£100 million gross annual cost savings



Good progress on initiatives to deliver £100m annual gross cost savings target in 2014[1]

[1] Cost savings expected to be recognised in operating costs for Ongoing operations and claims handling expenses (2011: £1,133m)

Instalment and other income

Observations

- **Reduction of instalment income and other income in line with trends experienced in 1H 2012**
- **Prior to 2012 other income from ongoing operations included tariff income on the TPF run-off**
- **Instalment income reduced as a result of the earn through of lower Motor IFPs. Instalment income take-up rates broadly in line with historic performance**
- **Lower referral fees and credit hire income due to falling claims frequency**
- **Simmons v Castle ruling reinforces the need for a cohesive implementation of reforms**

Instalment and other income, ongoing operations

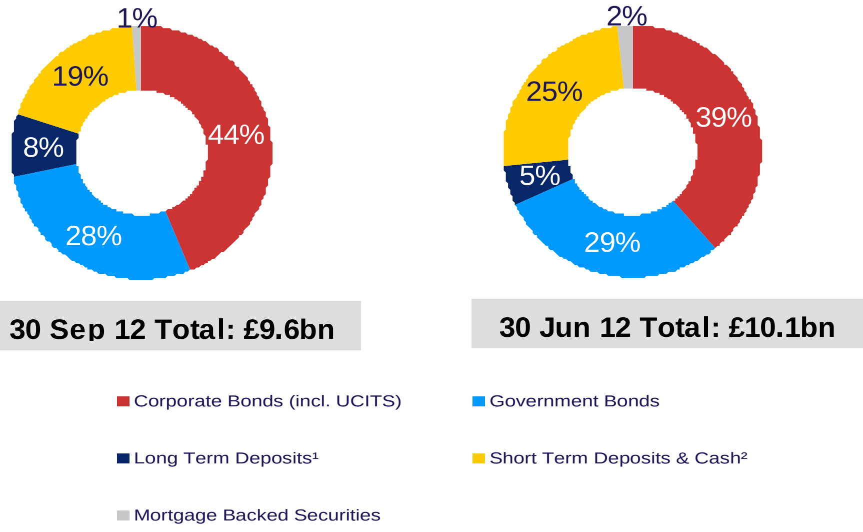
(£m)	9M 2011	9M 2012	3Q 2011	3Q 2012
Instalment Income	104.5	93.7	34.5	31.6
Other income	93.3	53.1	29.1	16.4
Total	**197.8**	**146.8**	**63.6**	**48.0**

Investments

Observations

- **Lower investment income reflects developments in interest rates and relatively high cash positions**
- **Continued progress towards a maximum allocation to corporate bonds of 60%**
  - Reduction in short term deposits
  - £287m increase in corporate bonds in the quarter
- **Investment in property commenced in quarter**
- **High realised gains due to portfolio restructuring**

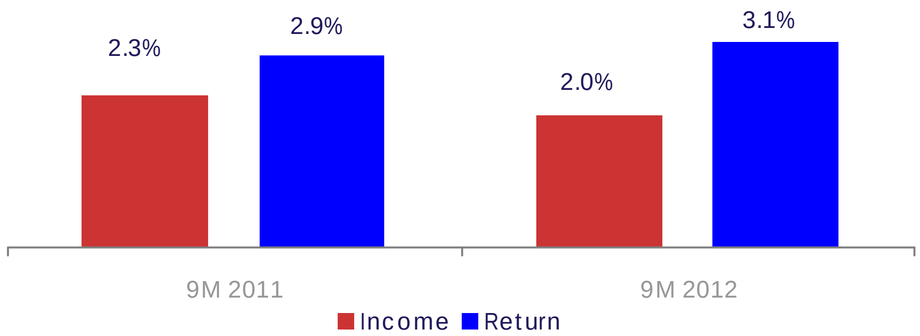
Investment assets by type



Investment income, ongoing operations

(£m)	9M 2011	9M 2012	3Q 2011	3Q 2012
Investment income	161.3	137.7	52.6	40.4
Net realised and unrealised gains[3]	34.1	55.0	17.3	6.9
Total	**195.4**	**192.7**	**69.9**	**47.3**

Investment yields



[1] *Includes financial investments, investment property, cash and cash equivalents*
[2] *Total financial debt excludes bank overdrafts (c. £84m)*
[3] *Unrealised gains relate to derivative hedges and property*

Direct Line Group

Book value per share

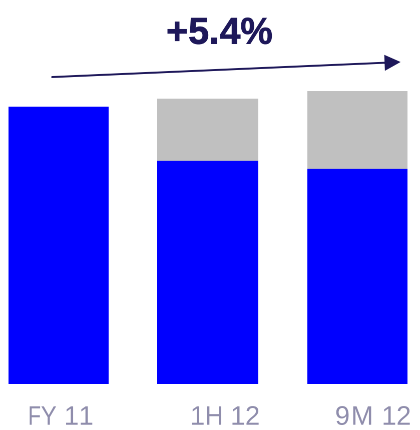
Observations

- Reduction in net asset value following £1 bn dividend paid to RBS Group
- Increase in other intangibles as a result of investment in systems as part of the continued transformation plan
- 5% underlying growth in TNAV per share (pre-dividends)
- No material change in capital position
- Intention to repay TPF loan note in 1Q 2013, subject to consent from FSA. No impact on book value per share

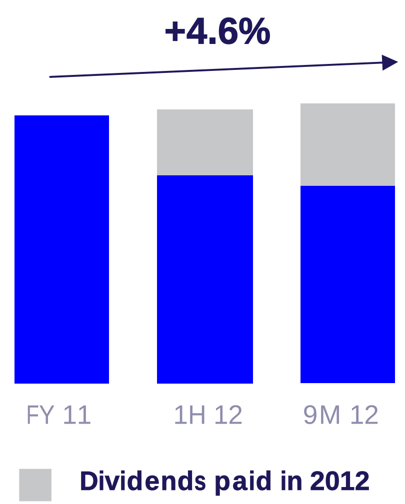
NAV and TNAV

(£m)	FY 2011	1H 2012	9M 2012
Net asset value	3,613	2,906	2,807
Goodwill and other intangibles	(366)	(391)	(412)
Tangible net asset value	**3,247**	**2,515**	**2,395**
NAV per share (pence)	240.9	193.7	187.2
TNAV per share (pence)	**216.5**	**167.7**	**159.7**

NAV per share (pence)



TNAV per share (pence)



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Q&A

Appendix

RoTE calculation

RoTE calculation

(£m)	2011	9M 2012
Operating profit (total operations)	344.0	209.2
Add back: Run off	23.9	1.8
Add back: Restructuring and other one off costs	54.0	136.9
Less: Finance costs	(2.7)	(20.3)
Profit before tax (ongoing operations)	419.2	327.6
Less: tax[1]	(111.1)	(80.3)
Profit after tax	**308.1**	**247.3**
Invested tangible equity b/f	2,937.5	3,247.0
Invested tangible equity c/f	3,247.0	2,395.4
Average invested tangible equity	**3,092.3**	**2,821.2**
Adjustment for time weighting of dividends paid during period	-	281.9
Average invested tangible equity	**3,092.3**	**3,103.1**
Return on tangible equity (annualised)	**10.0%**	**10.6%**

Adjusted RoTE calculation

(£m)	9M 2012
Operating profit (ongoing operations)	347.9
Less: Finance costs	(20.3)
Operating profit before tax (ongoing operations)	327.6
Less: additional finance costs[2]	(17.3)
Adjusted profit before tax	310.3
Less: tax [1]	(76.0)
Adjusted profit after tax	**234.3**
Invested equity 1 Jan 2012	3,612.8
Less: goodwill and other intangibles	(365.8)
Less: dividends	(1,000.0)
Tangible invested equity 1Jan 2012	2,247.0
Invested equity 30 Sep 2012	2,807.4
Less: goodwill and other intangibles	(412.1)
Tangible invested equity 30 Sep 2012	2,395.3
Average pro-forma tangible invested equity	**2,321.2**
Adjusted RoTE (annualised)	**13.5%**

[1] *Standard tax rate 26.5% FY 2011, 24.5% 9M 2012*

[2] *The Group issued £500 million of subordinated notes on 27 April 2012, at a fixed rate of 9.25%. The adjustment, which has a continuing effect, shows an increase in finance costs of £17.3m (net of the actual finance costs for the subordinated notes of £17.4 million for the nine months ended 30 September 2012)*

Direct Line Group