Direct Line Group

# 2012 Preliminary Results
## 28 February 2013

# Agenda and presenters

| | |
|---|---|
| Key messages and financial highlights | Paul Geddes - CEO |
| Financials | John Reizenstein - CFO |
| Strategic update | Paul Geddes - CEO |
| Summary and outlook | Paul Geddes - CEO |
| Questions and answers | |

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| **Key messages and financial highlights** | **Paul Geddes - CEO** |
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# Key messages

1. Pro-forma ROTE[1] of 13.4%
2. Ongoing COR 99.2%, a 2.6ppt improvement
3. All divisions profitable in 2012
4. 70% of cost savings announced and plans identified for remainder
5. Proposed final dividend of 8 pence per share; 55% payout ratio[2]

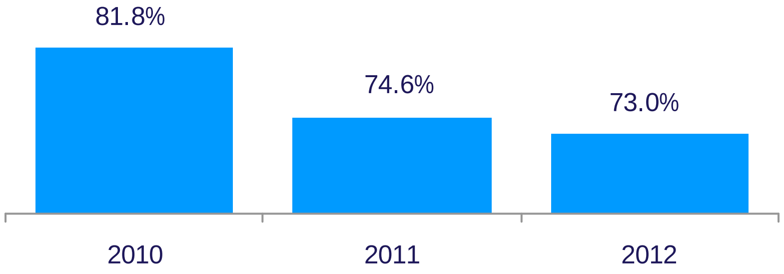
**Good progress towards delivering our strategic targets**

[1] RoTE is adjusted profit after tax from ongoing operations divided by the Group's average tangible shareholders' equity. Profit after tax is adjusted to exclude run-off operations and restructuring and other one-off costs and is stated after charging tax (using UK standard tax rate). Pro-forma RoTE is based on RoTE but assumes that the capital actions taken by the Group (£1 billion dividend payment and £500 million long-term subordinated debt issue) occurred on 1 January 2012

[2] Payout ratio based on pro-forma full year dividend of 12 pence

# 2012 financial highlights

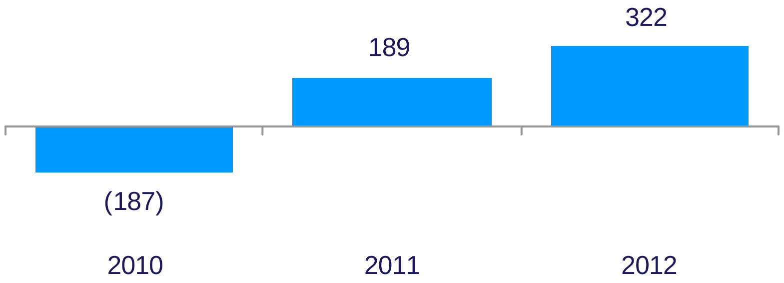
### Continued improvement in attritional current year loss ratio…..




### …together with positive prior year development

Prior year releases

**£m**




### Results from Ongoing operations[1]

| £m | 2010 | 2011 | 2012 |
|---|---|---|---|
| IFPs[2] (m) | 20.0 | 19.4 | **19.6** |
| Motor IFPs[2] (m) | 4.8 | 4.1 | **4.1** |
| Gross written premium | 4,095 | 4,125 | **3,991** |
| Operating profit | (206) | 422 | **461** |
| Combined operating ratio[3] | 120.5% | 101.8% | **99.2%** |
| RoTE/Proforma RoTE[4] | (5.0)% | 10.0% | **13.4%** |

**Transformation plan is delivering improving financial results**

*[1] Ongoing operations exclude Run-off and Restructuring and other one-off costs*
*[2] In-force policies*
*[3] Combined operating ratio is the sum of loss, commission and expense ratios (all expressed as a percentage of net earned premium). The ratio excludes instalment income and other operating income (as well as investment income)*
*[4] RoTE is adjusted profit after tax from ongoing operations divided by the Group's average tangible shareholders' equity. Profit after tax is adjusted to exclude run-off operations and restructuring and other one-off costs and is stated after charging tax (using UK standard tax rate). Pro-forma RoTE is based on RoTE but assumes that the capital actions taken by the Group (£1 billion dividend payment and £500 million long-term subordinated debt issue) occurred on 1 January 2012*



Direct Line Group

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# Financial highlights

## Observations

- 9% increase in operating profit from ongoing operations to £461m
- Q4 operating profit up 34.7%
- In-force policies up 1% to 19.6m during 2012
- £100m improvement in underwriting return and COR of 99.2%, a 2.6ppt improvement
- Total investment return maintained
- Lower profit before tax due to increased restructuring costs of £190m primarily relating to separation and divestment
- Proforma RoTE of 13.4%
- Strong balance sheet with RBC coverage of 151% (145% post dividend)

| (£m unless stated) | 2012 | 2011 | 4Q 12 | 4Q 11 |
|---|---|---|---|---|
| **Ongoing operations** | | | | |
| In-force policies (m) | **19.6** | 19.4 | **19.6** | 19.4 |
| Gross written premium | **3,990.6** | 4,124.9 | **905.4** | 951.3 |
| Underwriting profit/(loss) | **28.2** | (72.3) | **19.8** | (16.9) |
| Instalment and other income | **198.3** | 255.5 | **51.5** | 57.7 |
| Investment return | **234.7** | 238.7 | **42.0** | 43.3 |
| **Operating profit – Ongoing operations** | **461.2** | **421.9** | **113.3** | **84.1** |
| Profit before tax | **249.1** | 342.9 | **60.2** | 47.7 |
| Net income / profit after tax | **184.3** | 249.0 | **42.5** | 25.7 |
| *Of which Ongoing operations[1]* | ***326.5*** | *308.1* | ***79.2*** | *61.4* |
| Combined operating ratio | **99.2%** | 101.8% | **97.9%** | 101.4% |
| Investment return yield[2] | **2.8%** | 2.6% | **1.9%** | 1.7% |
| Pro-forma RoTE[3] | **13.4%** | 10.0% | **-** | - |
| Adjusted EPS[4] | **21.8** | 20.5 | **-** | - |
| Risk based capital coverage | **151%** | 170% | **-** | - |

[1] *Calculated as profit from Ongoing operations less finance costs and tax (applied at the effective rate; 24.5% 2012, 26.5% 2011)*
[2] *Investment return includes realised gains and losses*
[3] *RoTE is adjusted profit after tax from ongoing operations divided by average tangible shareholders' equity. Profit after tax is adjusted to exclude run-off operations and restructuring and other one-off costs and is stated after charging tax (using UK standard tax rate). Pro-forma RoTE is based on RoTE but assumes that the capital actions taken by the Group (£1 billion dividend payment and £500 million long-term subordinated debt issue) occurred on 1 January 2012*
[4] *Adjusted to exclude Run-off and Restructuring and other one-off costs (using UK standard tax rate)*



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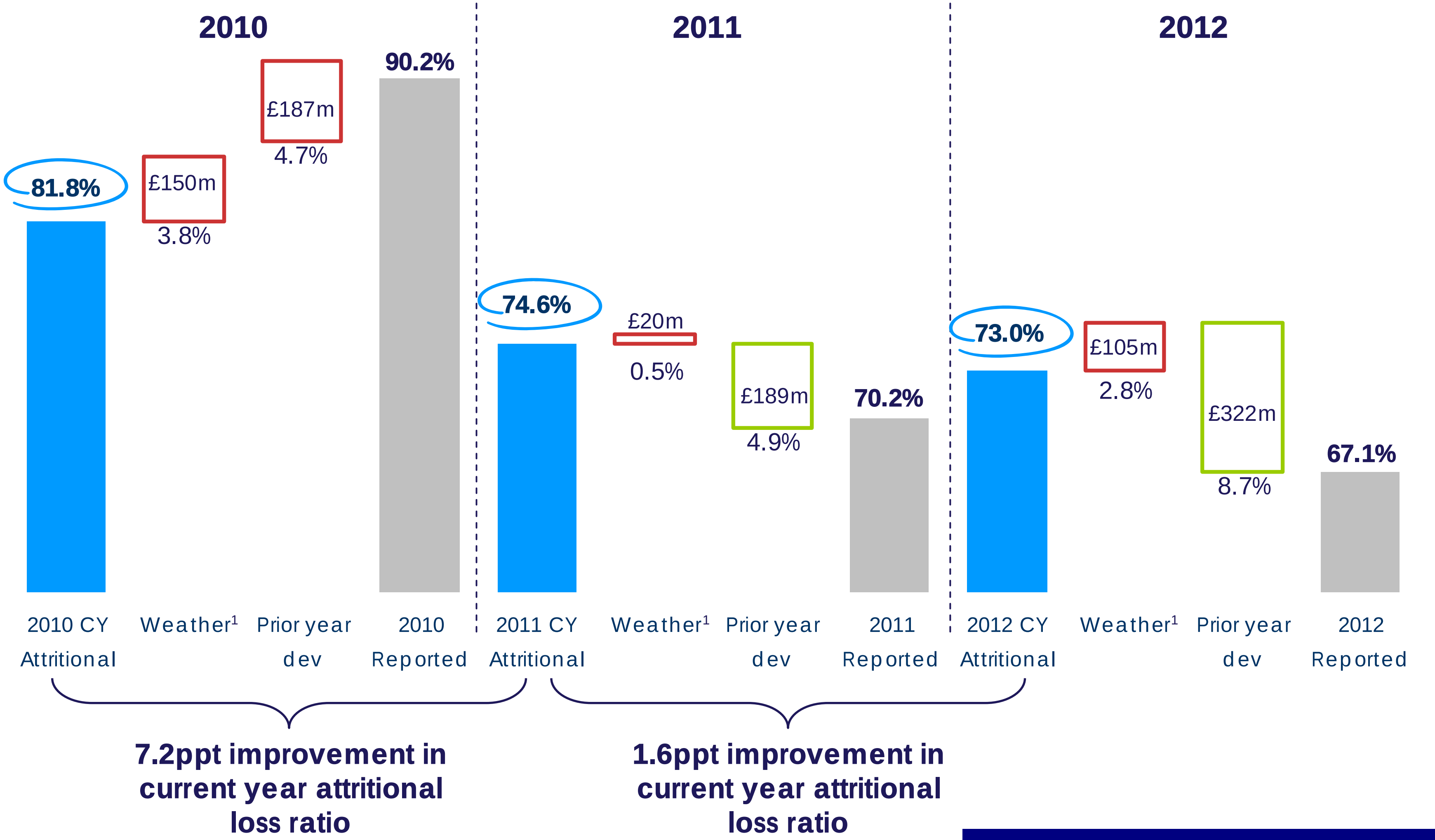
# Continued improvement in underwriting performance

**8.8ppt improvement in current year attritional loss ratio since 2010**




**Loss ratio analysis, ongoing operations**

[1] *Home weather only*

# Continuation of favourable reserve releases

## General Insurance Claims (net of reinsurance, total business)

| £m Accident year[1] | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Initial** | **3,207.4** | **3,486.1** | **3,869.6** | **4,030.8** | **4,341.3** | **3,816.0** | **4,113.0** | **4,219.3** | **2,946.1** | **2,570.1** |
| One year later | (103.3) | (169.2) | (159.3) | (249.7) | (81.7) | 24.1 | 70.0 | (109.7) | **(119.3)** | |
| Two years later | (101.8) | (94.1) | (159.4) | (52.7) | (23.3) | 8.2 | (23.0) | **(136.4)** | | |
| Three years later | (71.0) | (68.3) | (62.0) | (28.2) | 17.7 | (24.5) | **(64.2)** | | | |
| Four years later | (42.4) | (53.3) | (61.6) | 9.9 | (10.4) | **(51.2)** | | | | |
| Five years later | (36.0) | (13.5) | 7.2 | (43.5) | **(22.4)** | | | | | |
| Six years later | (20.5) | 60.7 | (0.4) | **(21.0)** | | | | | | |
| Seven years later | 5.5 | (4.1) | **(12.2)** | | | | | | | |
| Eight years later | 6.2 | **(5.4)** | | | | | | | | |
| Nine years later | **(3.4)** | | | | | | | | | |
| **Current** | **2,840.7** | **3,138.9** | **3,421.9** | **3,645.6** | **4,221.2** | **3,772.6** | **4,095.8** | **3,973.2** | **2,826.8** | **2,570.1** |
| **(Decrease)/ increase of initial reserve estimate** | **(11%)** | **(10%)** | **(11%)** | **(10%)** | **(3%)** | **(1%)** | **(0%)** | **(6%)** | **(4%)** | **-** |

*[1] All figures are net of reinsurance and net of discounting and reflect total business including Run-off*

## Observations

- **Increased prior year releases for ongoing operations in 2012 of £322m compared with £189m in 2011**
- **Favourable run-off from recent accident years due to portfolio de-risking and claims transformation**
- **Reserving assumptions remain prudent**

| £m | 2010 | 2011 | 2012 |
|---|---|---|---|
| Motor | 398.1 | (138.2) | (174.3) |
| Home | (69.0) | 48.5 | (37.4) |
| Rescue and Other PL | (38.5) | (52.8) | (23.9) |
| Commercial | (60.3) | (38.4) | (56.2) |
| International | (43.6) | (7.9) | (30.2) |
| **Total Ongoing** | **186.7** | **(188.8)** | **(322.0)** |
| Run-off | 98.3 | (38.3) | (67.5) |
| Total | 285.0 | (227.1) | (389.5) |

**Reserve releases**

# Motor highlights

## Results

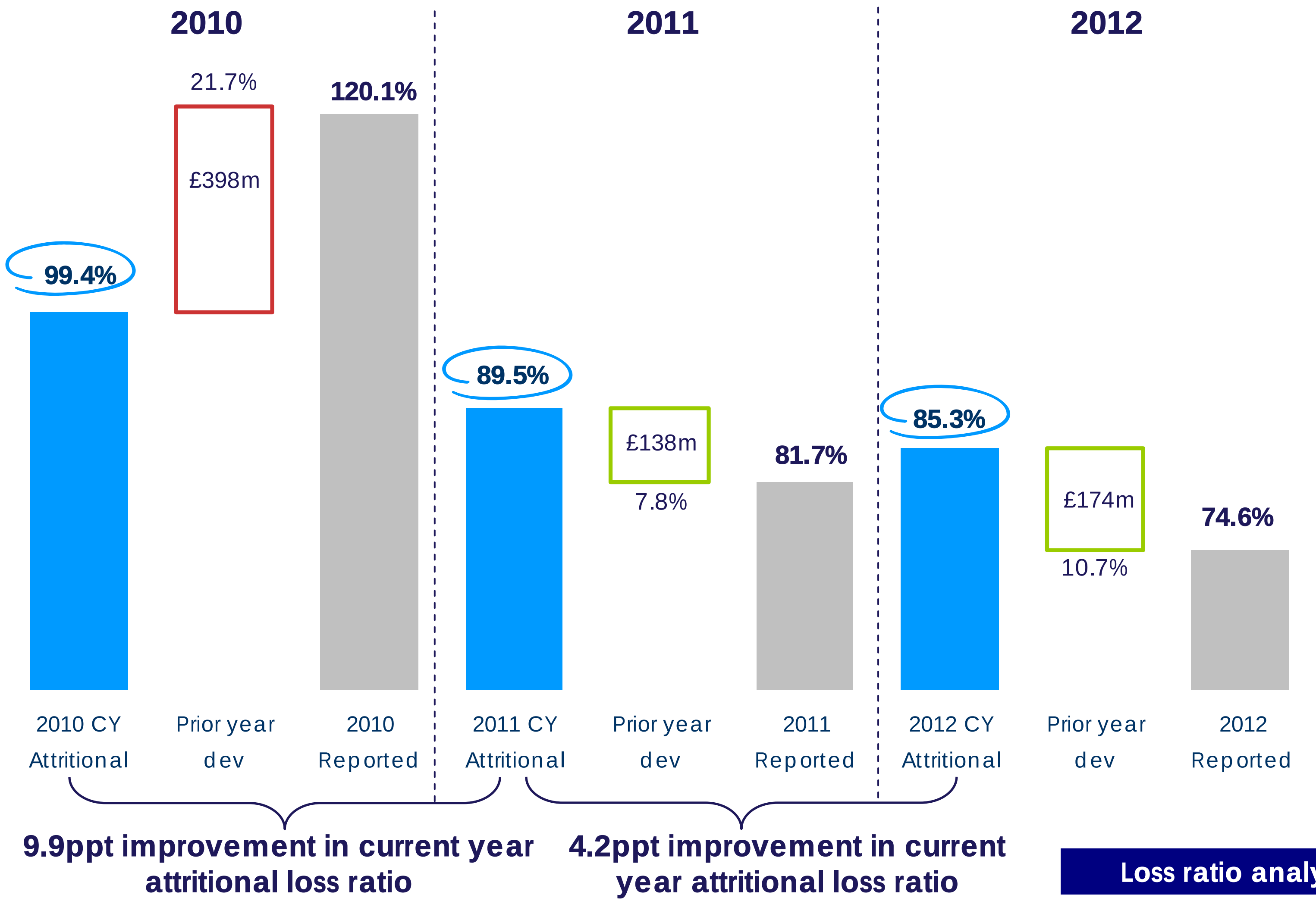
| (£m unless stated) | 2012 | 2011 |
|---|---|---|
| | | |
| Gross written premium | 1,623.5 | 1,734.8 |
| Net earned premium | 1,629.2 | 1,771.6 |
| | | |
| Underwriting loss | (26.3) | (98.6) |
| *Of which prior year releases* | *174.3* | *138.2* |
| Instalment and other income | 148.1 | 208.2 |
| Investment return | 140.0 | 145.2 |
| **Operating profit** | **261.8** | **254.8** |
| | | |
| Loss ratio – current year | 85.3% | 89.5% |
| Loss ratio – prior years | (10.7%) | (7.8%) |
| Loss ratio | 74.6% | 81.7% |
| Commission ratio | 2.0% | 1.5% |
| Expense ratio | 25.0% | 22.4% |
| **Combined operating ratio** | **101.6%** | **105.6%** |
| | | |
| **In-force policies (k)** | **4,050** | **4,107** |

## Observations

- **Improvement in operating profit despite significant reduction in instalment and other income**
- **IFPs stabilised in 2012 following substantial de-risking in 2010 and 2011**
- **7ppt improvement in loss ratio**
- **Overall 4ppt improvement in combined operating ratio**
- **Conservative reserving, continue to expect future positive reserve development**

# Continued improvement in Motor underwriting performance

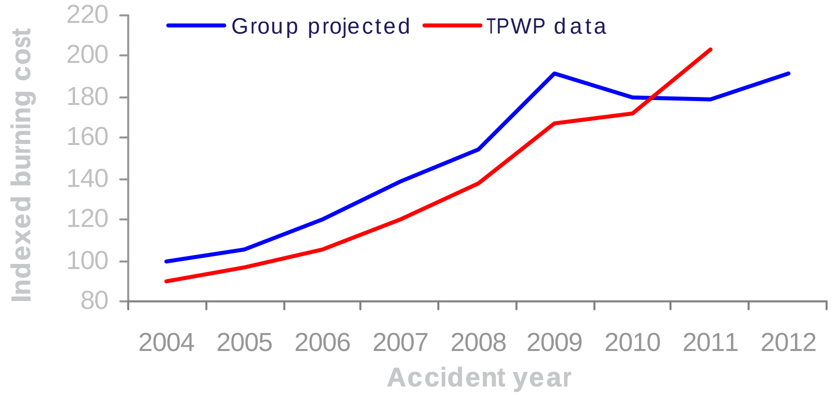
**14ppt improvement in current year loss ratio since 2010**




**Loss ratio analysis, Motor**

# Motor claims trends

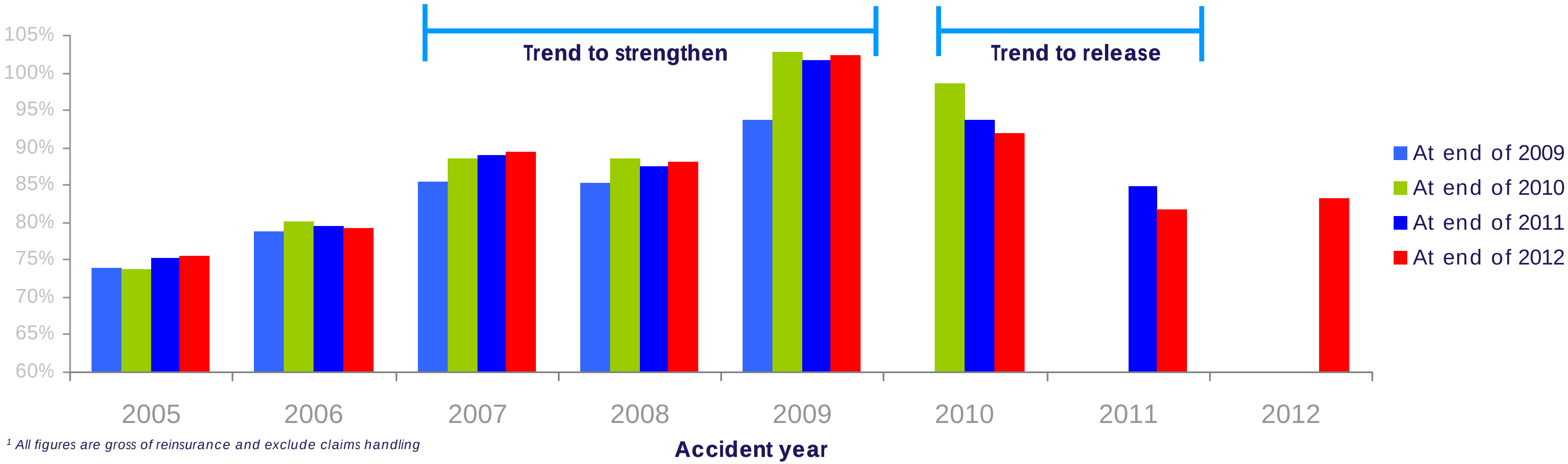
## Burning cost inflation vs industry (BI capped)




## Severity inflation (BI capped)

| | 2012 vs. 2011 | 2011 vs. 2010 | 2010 vs. 2009 | 2009 vs. 2008 |
|---|---|---|---|---|
| **Inflation at latest settlement rate point** | 1.1% | (4.6%) | (4.4%) | 12.5% |
| **Inflation in reserving ultimates** | 7.4% | 3.1% | (0.4%) | 11.1% |

## Motor ultimate loss ratio development (gross[1])




[1] *All figures are gross of reinsurance and exclude claims handling*

# Home highlights

## Results

| (£m unless stated) | 2012 | 2011 |
|---|---|---|
| | | |
| Gross written premium | 989.0 | 1,031.3 |
| Net earned premium | 950.8 | 974.1 |
| | | |
| Underwriting profit | 32.7 | 48.3 |
| *Of which prior year releases* | *37.4* | *(48.5)* |
| Instalment and other income | 26.5 | 35.1 |
| Investment return | 34.1 | 28.5 |
| **Operating profit** | **93.3** | **111.9** |
| | | |
| Loss ratio – current year | 62.3% | 52.4% |
| Loss ratio – prior years | (4.0%) | 5.0% |
| Loss ratio | 58.4% | 57.4% |
| Commission ratio | 16.2% | 17.5% |
| Expense ratio | 22.0% | 20.2% |
| **Combined operating ratio** | **96.6%** | **95.1%** |
| | | |
| **In-force policies (k)** | **4,239** | **4,309** |

## Observations

- **Delivered £93m operating profit despite adverse weather in 2012**
- **IFPs broadly stable supported by balanced distribution mix**
- **Combined operating ratio of 96.6% 1.5ppts higher than 2011 reflecting higher weather claims offset by higher reserve releases**
  - Underlying attritional current year loss ratio broadly in line with 2011
- **Reserve releases relate principally to previous weather events and are not expected to repeat**



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# Rescue and other personal lines highlights

## Results

| (£m unless stated) | 2012 | 2011 |
|---|---|---|
| | | |
| Gross written premium | 389.8 | 350.2 |
| Net earned premium | 382.8 | 390.8 |
| | | |
| Underwriting profit | 66.2 | 53.8 |
| *Of which reserve releases* | *23.9* | *52.8* |
| Instalment and other income | 10.7 | - |
| Investment return | 7.5 | 9.5 |
| **Operating profit** | **84.4** | **63.3** |
| *Of which Rescue* | *46.9* | *54.0* |
| | | |
| Loss ratio – current year | 57.2% | 57.9% |
| Loss ratio – prior years | (6.3%) | (13.5%) |
| Loss ratio | 50.9% | 44.4% |
| Commission ratio | 6.0% | 22.5% |
| Expense ratio | 25.8% | 19.4% |
| **Combined operating ratio** | **82.7%** | **86.3%** |
| | | |
| **In-force policies (k)** | **9,431** | **9,151** |

## Observations

- **Operating profit up 33% benefiting from run-off of the legacy creditor book**
- **Increase in IFPs as a result of increased packaged bank account products; gross written premiums up 11%**
- **Current year loss ratio broadly in line with 2011**
- **Overall 3.6pt improvement in the combined operating ratio**
- **Instalment and other income of £10.7m back to normal levels. In 2011 this was offset by an adjustment relating to the Life business**
- **Prior year releases which relate to legacy creditor book are not expected to continue**



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# Commercial highlights

| Results | | |
|---|---|---|
| (£m unless stated) | 2012 | 2011 |
| | | |
| Gross written premium | 435.6 | 438.6 |
| Net earned premium | 402.8 | 392.7 |
| | | |
| Underwriting loss | (33.1) | (47.9) |
| *Of which prior year releases* | *56.2* | *38.4* |
| Instalment and other income | 5.9 | 5.0 |
| Investment return | 29.4 | 30.5 |
| **Operating profit** | **2.2** | **(12.4)** |
| | | |
| Loss ratio – current year | 77.0% | 75.1% |
| Loss ratio – prior years | (13.9%) | (9.7%) |
| Loss ratio | 63.1% | 65.4% |
| Commission ratio | 21.6% | 21.0% |
| Expense ratio | 23.5% | 25.9% |
| **Combined operating ratio** | **108.2%** | **112.3%** |
| | | |
| **In-force policies (k)** | **466** | **422** |

## Observations

- **Return to profit in 2012**
- **10% growth in IFPs primarily driven by Direct Line for Business (DL4B) as commercial direct model builds momentum**
- **4.1ppt improvement in the combined operating ratio with improvement in both loss and expense ratios**
  - Loss ratio includes a number of large fire claims that occurred in 1H 2012
- **Continue to reserve prudently and expect positive releases**
- **Combined operating ratio progression supportive of target of combined operating ratio below 100% in 2014**

# International highlights

## Results

| (£m unless stated) | 2012 | 2011 |
|---|---|---|
| | | |
| Gross written premium | 552.7 | 570.0 |
| Gross written premium (€m) | 680.0 | 654.7 |
| Net earned premium | 343.1 | 361.7 |
| | | |
| Underwriting loss | (11.3) | (27.9) |
| *Of which prior year releases* | *30.2* | *7.9* |
| Instalment and other income | 7.1 | 7.2 |
| Investment return | 23.7 | 25.0 |
| **Operating profit** | **19.5** | **4.3** |
| *Of which Italy* | *14.3* | *(2.0)* |
| *Of which Germany* | *5.7* | *6.3* |
| | | |
| Loss ratio – current year | 86.9% | 83.6% |
| Loss ratio – prior years | (8.8%) | (2.2%) |
| Loss ratio | 78.1% | 81.4% |
| Commission ratio | 12.1% | 7.9% |
| Expense ratio | 13.1% | 18.3% |
| **Combined operating ratio** | **103.3%** | **107.6%** |
| | | |
| **In-force policies (k)** | **1,462** | **1,387** |

## Observations

- **Four-fold increase in operating profit in 2012**
- **6% growth in IFPs**
- **4% growth in gross premium in local currency**
- **4.3ppt improvement in the combined operating ratio with improvement in both loss and expense ratios**
- **Combined operating ratio improvement in line with target to increase profitability in International**



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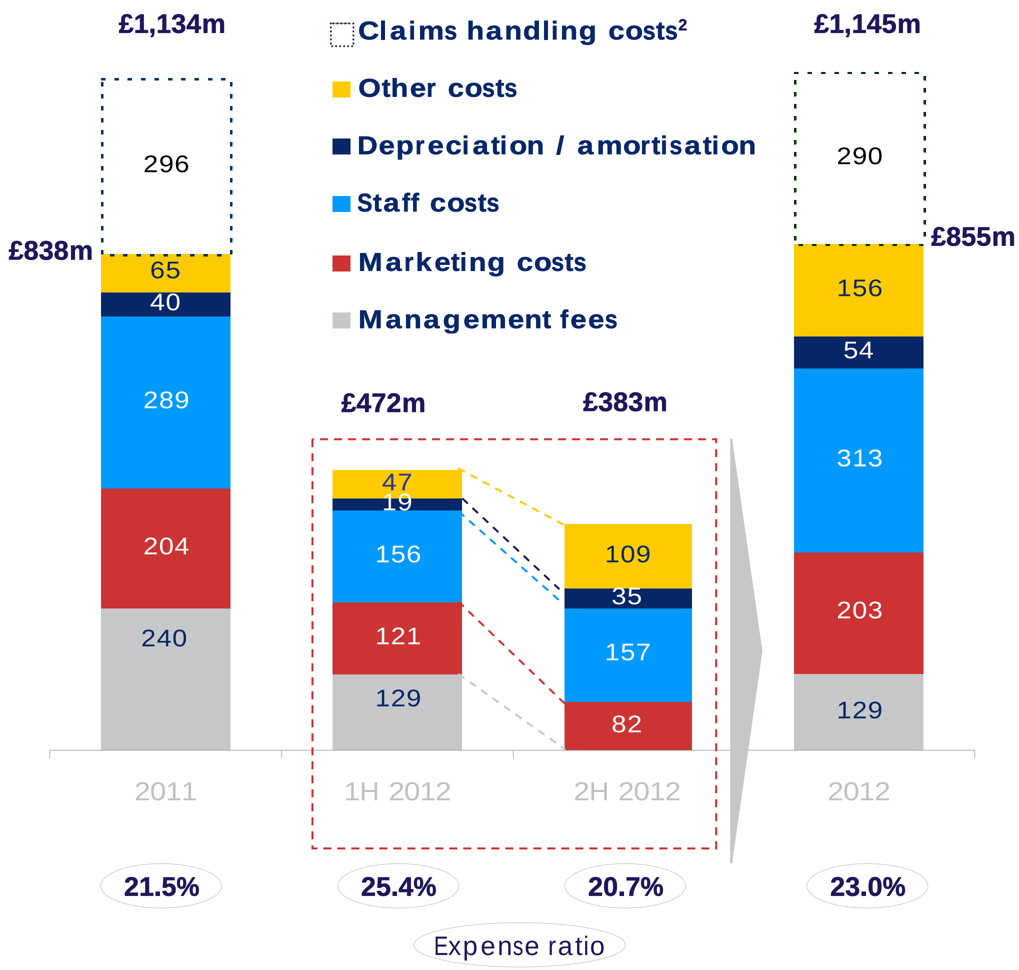
# Improving expense ratio

## Observations

- **Progress in lowering expense ratio in 2H 2012**
- **2H 2012 expense ratio of 20.7%, 4.7ppts lower than 1H 2012**
  - Replacement of RBS Group recharge with direct costs in 2H
  - Transitional IT infrastructure costs still paid to RBS
- **Marketing costs stable year on year**
- **Initiatives announced to date relate to approximately 70% of £100 million gross annual cost saving target[1]**
  - Further 30% in advanced state with two thirds relating to marketing

## Expense analysis, ongoing operations




[1] Cost savings expected to be recognised in operating costs for Ongoing operations and claims handling expenses
[2] Included in loss ratio

# Instalment and other operating income

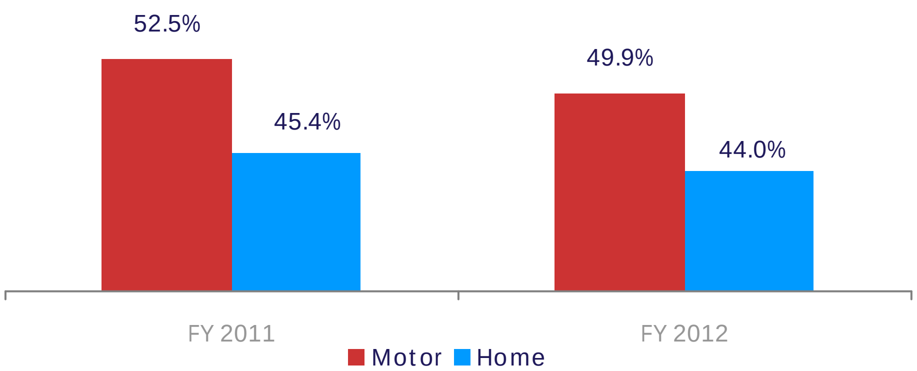
## Observations

- Underlying instalment and other income down 15.1% after adjusting for TPF tariff income
- Instalment income reduction due to fall in average Motor IFPs and lower risk driver base
- Fewer non-fault claims reducing solicitor and vehicle replacement referral fees
- Reduced vehicle recovery and repair services revenue primarily as a result of fewer third party repairs

## Instalment and other operating income

| (£m) | FY 2012 | FY 2011 |
|---|---|---|
| Instalment income | 125.4 | 138.5 |
| Other operating income | 72.9 | 117.0 |
| **instalment and other operating income – ongoing operations** | **198.3** | **255.5** |
| TPF tariff income (non-repeatable) | - | (21.9) |
| **Underlying instalment and other operating income** | **198.3** | **233.6** |

## Instalment income take-up (own brands)




## Breakdown of underlying other income

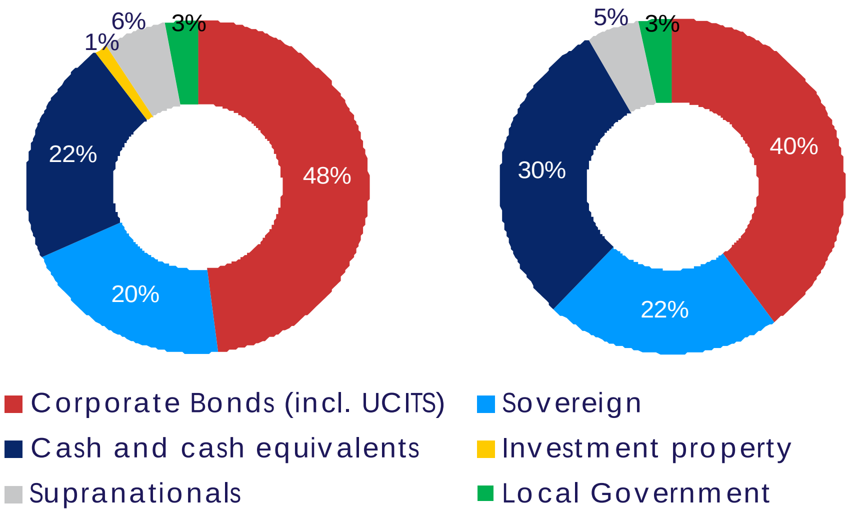
| (£m) | FY 2012 | FY 2011 |
|---|---|---|
| Solicitors referral fee income | 21.1 | 27.9 |
| Vehicle replacement referral fee income | 17.2 | 21.9 |
| Revenue from vehicle recovery and repair services | 25.9 | 39.3 |
| Fee income from insurance intermediary services | 1.9 | 3.4 |
| Other income | 6.8 | 2.6 |
| **Underlying other income** | **72.9** | **95.1** |

# Investments

## Observations

- **Lower investment income reflects reduction in assets under management and low reinvestment yields**
- **High average cash holdings due to portfolio restructuring and funding of large cash payments**
- **Continued progress towards a target allocation to credit of 60% in Q4 2012**
  - Reduction in short term deposits
  - £230m increase in credit
- **Increased investment in property in Q4**
- **High realised gains due to portfolio restructuring in the first nine months**

## Investment assets by type

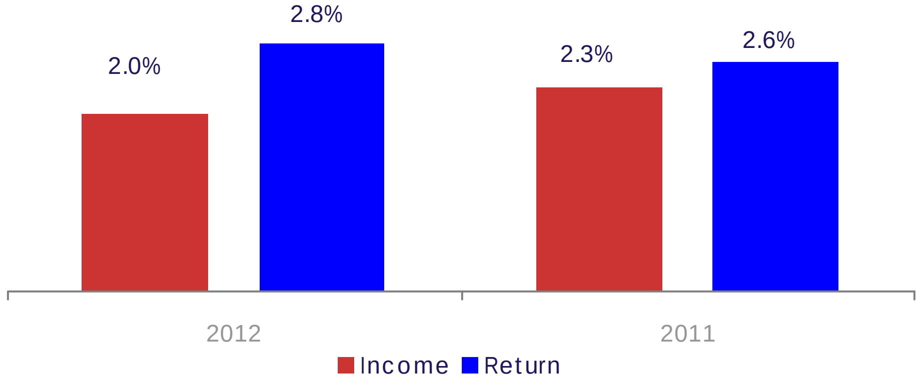



## Investment income, ongoing operations

| (P&L £m) | FY 2012 | FY 2011 | 4Q 2012 | 4Q 2011 |
|---|---|---|---|---|
| Investment income | 179.9 | 210.9 | 42.2 | 49.6 |
| Net realised and unrealised gains[1] (allocated to income statement) | 54.8 | 27.8 | (0.2) | (6.3) |
| **Total** | **234.7** | **238.7** | **42.0** | **43.3** |

[1] *Unrealised gains relate to derivative hedges and property*

## Investment yields



# Investment return

## Income yield

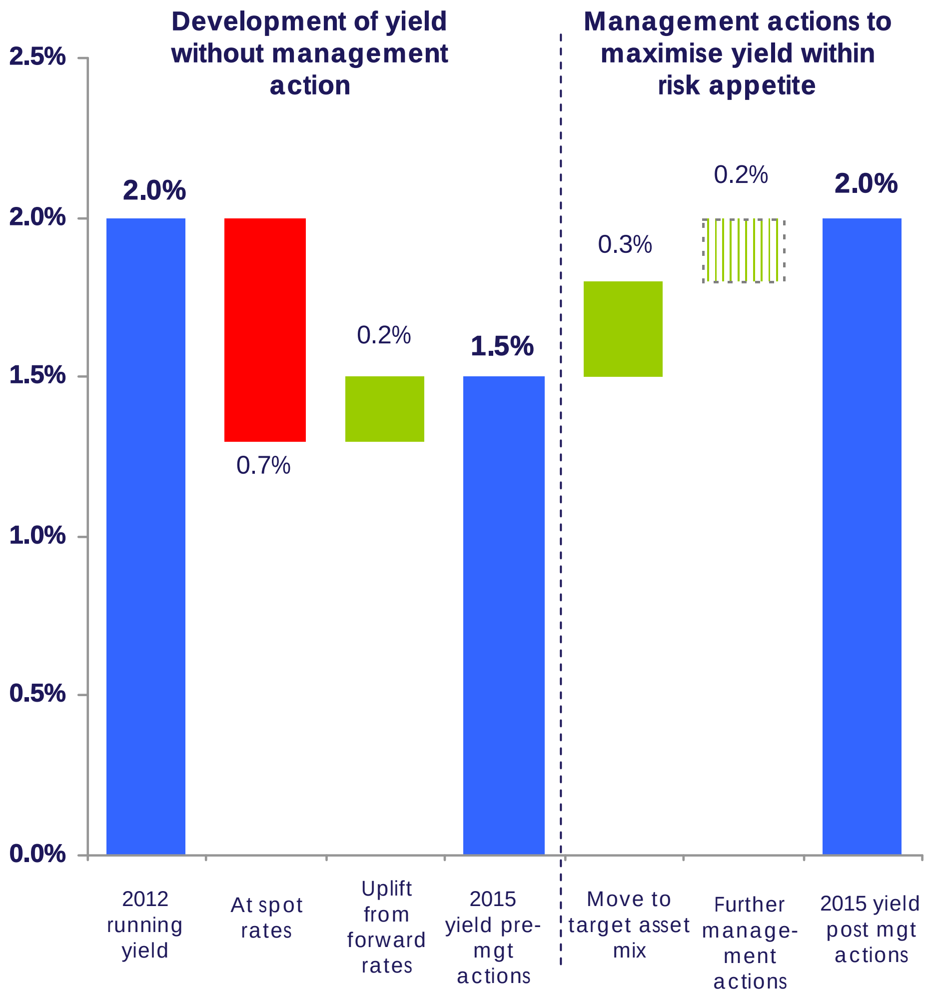
| 31 Dec 12 | Allocation | Income yield | Reinvest rate | Duration |
|---|---|---|---|---|
| Corporate bonds | 48.4% | 2.8% | 1.6% | 2.3yrs |
| Government bonds[1] | 28.2% | 1.6% | 1.0% | 2.1yrs |
| Cash and cash equivalents | 22.0% | 0.8% | 0.5% | - |
| Investment property | 1.4% | 4.4% | 6.0%[2] | - |
| **Total** | **100.0%** | **2.0%** | **1.3%** | **1.8yrs** |

## Observations

- **Current income yields benefit from bonds purchased in higher interest rate environment**
- **Reinvestment rate of c.1.3% (on current asset mix) increases to c.1.6% at target asset mix before effect of higher yields on forward curve**
- **Further management actions following review of liquidity, duration and credit quality in addition to portfolio diversification to support long term PPO liabilities**

[1] Government bonds includes Supranationals and local Government bonds
[2] Property reinvestment rate based on management forecast

## Income yield outlook



# Operating profit reconciliation

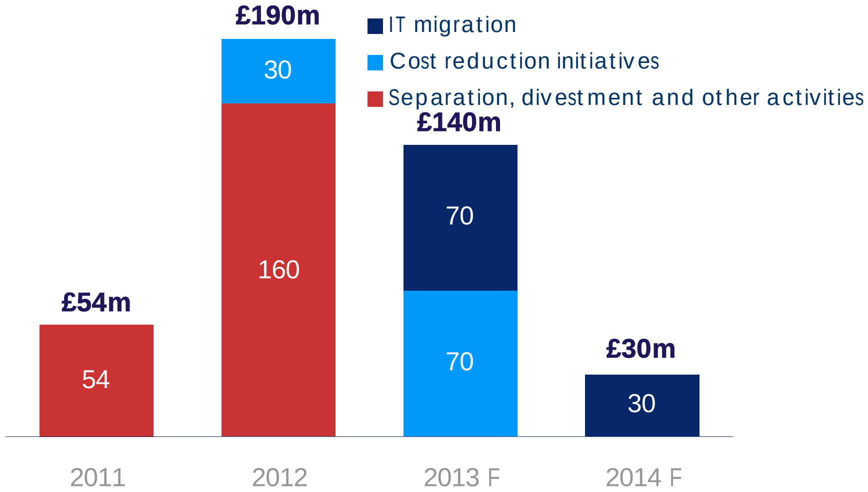
## Observations

- **Run-off profit of £6m**
- **Restructuring and other one-off costs of £190m relate primarily to separation and divestment activities**
- **Further restructuring costs expected to be booked in 2013/14 relating to:**
  - One-off cost of delivering £100m gross annual cost reduction plan
  - IT migration costs to be accelerated post Capgemini agreement
- **Effective tax rate of 26.0% in 2012 (2011 27.4%)**
  - Reflects return to profitability in International and other one-off adjustments

## Operating profit

| £m | 2012 | 2011 |
|---|---|---|
| **Operating profit from ongoing operations** | **461.2** | **421.9** |
| Run-off | 6.1 | (23.9) |
| Restructuring and other one-off costs | (189.5) | (54.0) |
| **Operating profit** | **277.8** | **344.0** |
| Finance and other costs | (28.7) | (1.1) |
| Profit before tax | 249.1 | 342.9 |
| Tax charge | (64.8) | (93.9) |
| **Profit for the year** | **184.3** | **249.0** |

## Restructuring and other one-off costs breakdown



# Conservative balance sheet maintained after capital actions

## Observations

- Balance sheet remains conservative
- Efficiency improved by capital actions including pre-IPO dividends and long-term subordinated debt raising
- Reduction in borrowings reflects repayment of intra-group loans in 1H 2012
- TPF loan repaid in early 2013

## Capital ratios

| | 2012 | 2011 |
|---|---|---|
| Tangible equity / total equity | 85% | 90% |
| Leverage ratio[2] | 22% | 12% |
| IGD coverage | 279% | 319% |
| Risk based capital coverage | 151% | 170% |

## Balance sheet overview

| (£m) | 2012 | 2011 |
|---|---|---|
| **Assets** | | |
| Goodwill | **211.0** | 211.0 |
| Other intangible assets | **210.5** | 154.8 |
| Investment assets[1] | **9,438.8** | 10,929.6 |
| Other assets | **2,837.6** | 2,474.7 |
| **Total assets** | **12,697.9** | **13,770.1** |
| **Liabilities** | | |
| Insurance liabilities and unearned premium reserve | **8,271.4** | 8,440.6 |
| Borrowings | **90.9** | 317.9 |
| Other liabilities | **1,504.0** | 1,140.3 |
| **Total liabilities** | **9,866.3** | **9,898.8** |
| **Equity** | | |
| Total invested equity | **2,831.6** | 3,612.8 |
| Non-controlling interest[3] | **-** | 258.5 |
| Net asset value per share (p) | **189.1** | 240.9 |
| Net tangible asset value per share (p) | **161.0** | 216.5 |

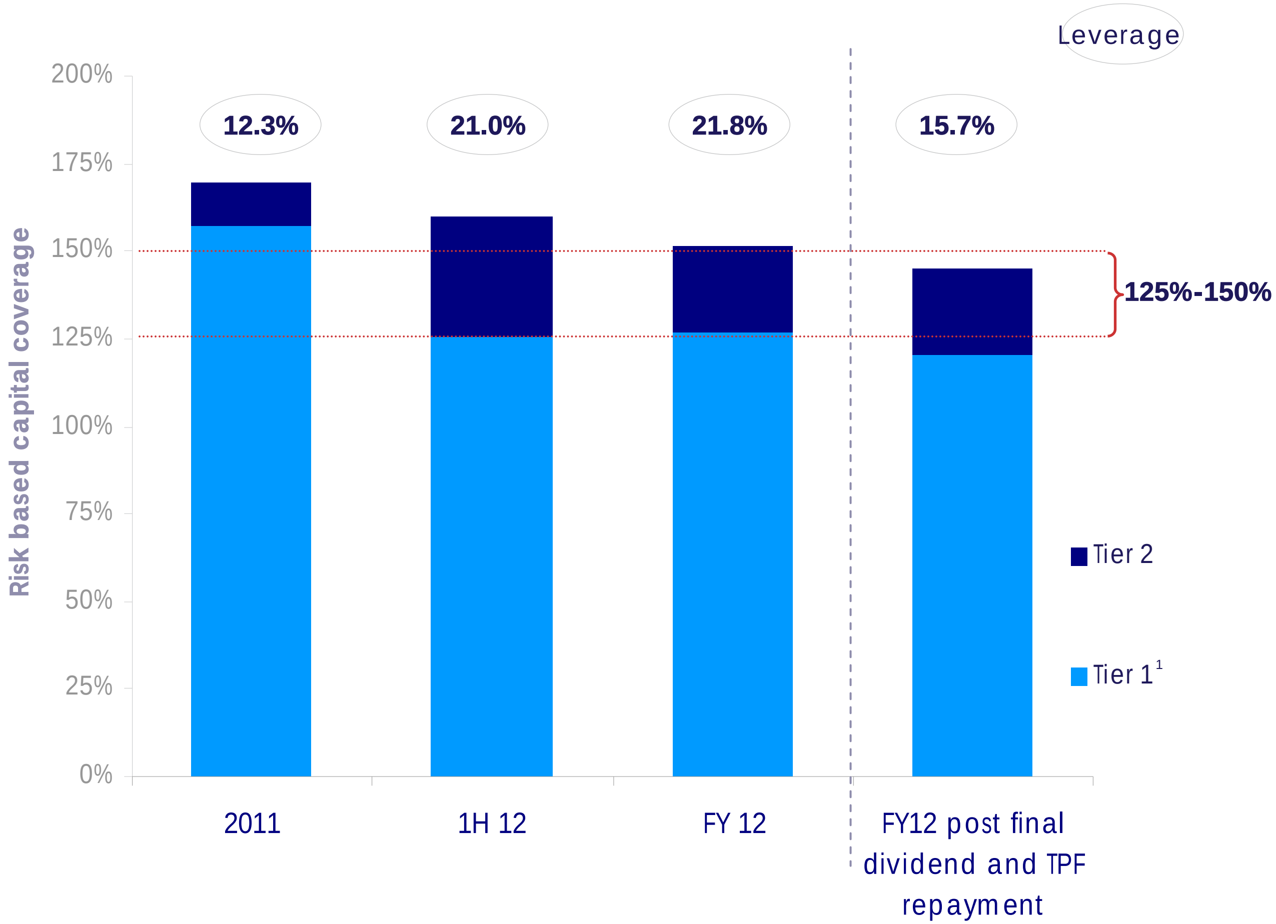
*[1] Includes financial investments, investment property, cash and cash equivalents.*
*[2] Total financial debt as a percentage of total capital employed*
*[3] TPF Note and £3.5 million of solvency capital provided by TPF in relation to the TPF life insurance business reclassified from non-controlling interest to subordinated liabilities and fully repaid on 8 January 2013*



Direct Line Group

# Development of capital coverage

## Development of risk based capital coverage




## Observations

- Risk based capital coverage of 151% at year end excludes TPF loan note which ceased to qualify as regulatory capital due to imminent repayment
- Post final dividend risk based capital coverage falls to 145%, well within 125%-150% target range
- Leverage of 15.7% post final dividend and TPF note repayment of £258.5m

**Capital leverage remains within target range post final dividend**

*[1] Tier 1 is net of regulatory adjustments*

# Dividend and book value per share

## Dividend per share

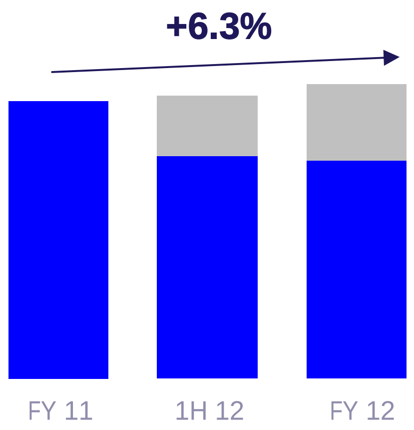
- Recommending a final dividend of 8 pence per share
- Pro-forma full year dividend of 12 pence represents a 55% payout ratio, in line with the 50-60% guidance previously communicated
- Progressive dividend policy based on pro-forma dividend, with aim to grow, in real terms

| £m | 2012 |
|---|---|
| Operating profit - ongoing operations | 461.2 |
| Finance costs | (28.7) |
| Tax at UK standard (24.5%) | (106.0) |
| Adjusted net income | 326.5 |
| **Adjusted earnings per share (pence)** | **21.8** |
| | |
| Final dividend per share (pence) | 8.0 |
| Pro-forma full year (pence) | 12.0 |
| | |
| **Payout ratio** | **55%** |

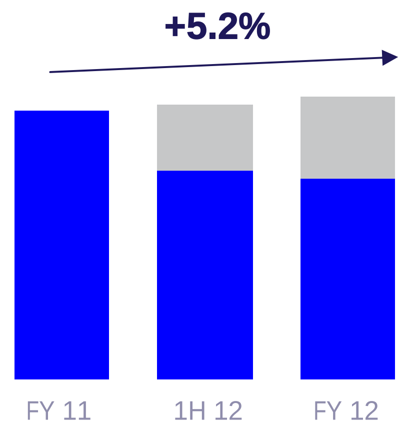
## NAV and TNAV

- 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)

NAV per share (pence)




TNAV per share (pence)




Dividends paid in 2012

# Agenda and presenters

| | |
|---|---|
| Key messages and financial highlights | Paul Geddes - CEO |
| Financials | John Reizenstein - CFO |
| **Strategic update** | **Paul Geddes - CEO** |
| Summary and outlook | Paul Geddes - CEO |
| Questions and answers | |

# We are transforming Direct Line Group through five strategic priorities

| | | |
|---|---|---|
| 1 | Distribution | Enhance effectiveness to improve Customer Lifetime Value |
| 2 | Pricing | Build superior pricing capabilities to utilise scale advantage in data |
| 3 | Claims | Attain market leading position in claims management |
| 4 | Costs | Realise the significant cost opportunity |
| 5 | Commercial and International | Leverage core skills to improve performance |

**Targets**

- 15% return on tangible equity
- 98% COR for ongoing operations in 2013
- Below 100% COR for Commercial division in 2014
- £100 million gross annual cost savings in 2014
- Maintain capital resources consistent with credit rating in the 'A' range

**Clear strategic plans in place to achieve our targets**



Direct Line Group

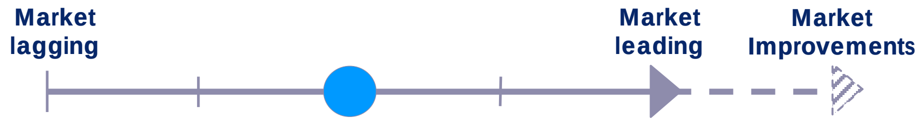
# 1 Distribution

## Progress to date

- **Secured key partnerships**
    - RBS Group / NatWest
    - Nationwide Building Society
    - Sainsbury's Motor and Home
- **Present on all four major PCWs following launch on comparethemarket**

Motor and Home in-force policies ('000s)


## Priorities for 2013 and beyond




- **Refresh marketing campaigns and customer proposition**
- **Improve digital capability**
- **Focus on customer retention and cross sales**
- **Deploy improved pricing capabilities**

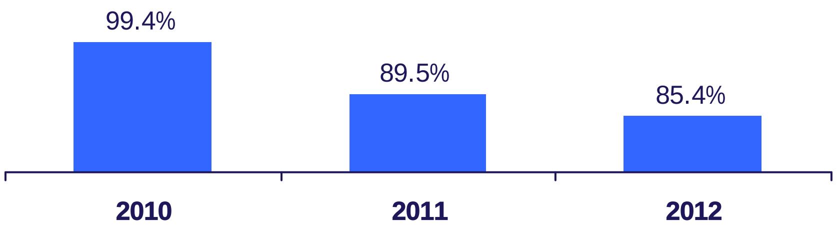
**Aim to improve efficiency throughout the distribution model**

# 2 Pricing

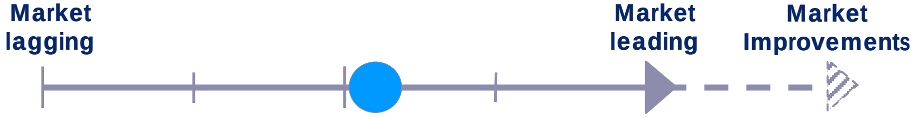
## Progress to date

- **Captured historic data in one rating engine**
  - 49 million consumer records
  - 8 million claims data points
- **Introduced peril level rating models for Motor**
- **Enhanced use of external data, e.g. Geospatial, tree mapping**
- **Switched over to gender neutral pricing**

Motor current year loss ratio




## Priorities for 2013 and beyond




- **Continue to optimise the rating engine to improve technical pricing**
  - Faster links to external data
  - Real-time deployment of pricing changes
- **Implement enhanced renewal pricing strategies**
- **Leverage pricing sophistication to target more areas of the market**

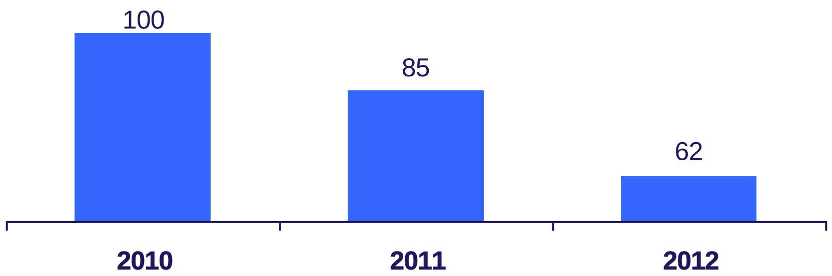
**Crossing the half way line for pricing allows us to broaden target segments**

# 3 Claims

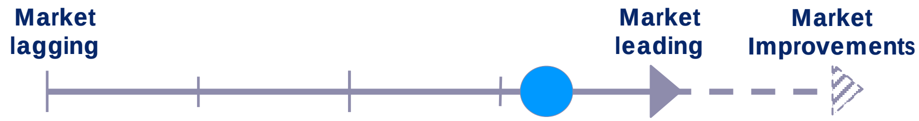
## Progress to date

- **Fundamental redesign of operating model and processes**
- **Implemented new claims system across Motor and Home**
- **Improved proactive process to manage BI claims**
  - Legal, medical and insurance experts manage the process through specialist case management software
- **Benefits from claims transformation being recognised in current year and through prior year reserve releases**

Settled litigation rates on BI claimants (indexed: 2010 = 100)




## Priorities for 2013 and beyond




- **Maintain momentum on claims transformation programme in Motor and Home**
- **Extend to Commercial and apply learnings to International**
- **Proactively embrace regulatory change in the coming years**

**Maintain claims performance in the top quartile of the sector**

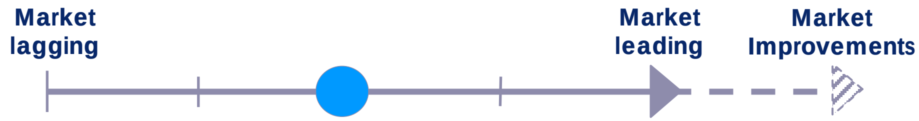
# 4 Costs

## Progress to date

- **Major site rationalisation**
- **Set target of £100 million gross annual cost and claims handling savings in 2014**
- **Announced steps contributing to 70% of target, including:**
  - Closure of our Teesside office
  - Reduction of 70 senior leadership roles across the organisation
  - Simplification and automation within a number of head office functions

Ongoing expenses including claims handling costs (£m)


## Priorities for 2013 and beyond




- **Delivery of cost saving programme in line with target**
- **Continue to build on cost ambitions through reinforcing culture of efficiency**
- **Leverage off IT system changes to enhance digital capability and automation**
  - Lower costs and improved service

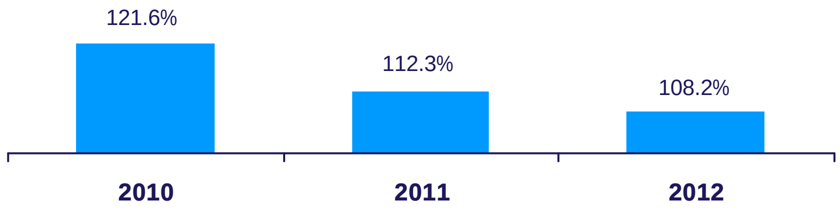
**Delivery of cost savings well advanced**

# 5a Commercial

## Progress to date

- **Portfolio management actions**
  - Exit of certain segments and relationships
  - Holding firm on premium rates in competitive market
- **Developed full-cycle eTrading platform to capture the shift in broker distribution to a lower cost model**
- **Successful growth in Direct Line for Business (DL4B) brand in micro and SME segment**
  - Now 19%[1] of Commercial GWP and 64%[1] IFPs

Commercial combined operating ratio




## Priorities for 2013 and beyond

- **Continue to drive growth to micro and SME segments**
  - Complete roll out of NIG's eTrading platform
- **Deliver savings and efficiency associated with restructuring of regional office network and consolidation of back office operations**
- **Leverage data from personal lines to enhance pricing and underwriting decisions**

**On track to meet COR target of below 100% in 2014**

[1] *Includes DL4B Van product*



Direct Line Group

# 5b International

## Progress to date

- **10 years experience in Europe's two biggest insurance markets and now getting to scale**
  - #1 Italian Direct Insurer with 989k in force policies at end 2012
  - #3 German Direct Insurer with 473k in force policies at end 2012
- **Operating profit of £19.5m in 2012**
- **Continue to attract local talent**

International in-force policies ('000s)


## Priorities for 2013 and beyond

- **Drive operational efficiencies and further leverage pan-European expertise in pricing, claims and digital**
- **Focus on profitability in Italy**
  - Careful approach to new business given economic conditions
- **Accelerate German IFP growth**
  - Opportunity in PCWs and partners
  - Over 100k new IFPs incepting on 1 Jan 13; IFPs now in excess of 500k

**Focus on profitability in Italy, accelerating growth in Germany**

# Agenda and presenters

| | |
|---|---|
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| Questions and answers | |

# Motor legal reform

| Reform | Implementation method | Update since Q3 | Expected implementation date | Expected impact |
|---|---|---|---|---|
| 1 **Referral fee ban** | LASPO | No change | April 2013 | ↓ |
| 2 **Reduction in fixed legal costs in RTA portal** | MOJ/CPR | Consultation closed 4 Jan 13 on proposal to reduce legal fees to £500 (from £1200) for stage 2 claims within the portal. Also includes reduction to fees for those claims that fall out of portal | April 2013 but likely delay due to recent APIL/MASS instigation of Judicial Review proceedings. Gov't announcement awaited re revised timescales | ↑ |
| 3 **10% uplift in General Damages** | Simmons vs Castle | No change | April 2013 | ↓ |
| 4 **Non-recovery of ATE/success fees** | LASPO | No change | April 2013 | ↑ |
| 5 **Extension of RTA portal limits to £25k (from £10k)** | MOJ/CPR | Consultation closed on 23 Nov 12 | April 2013 but likely delay due to recent APIL/MASS instigation of Judicial Review proceedings | ↑ |
| 6 **Whiplash** | Various | Consultation launched 11 Dec 12<br>Increasing the small claims track to £5k (from £1k) for RTA BI claims. Improving medical diagnosis from medical practitioners | Unknown but not expected before mid / end 2014 if implemented | ↑ |

**Impact of proposed motor legal reforms to be at least "net neutral" in the medium term**

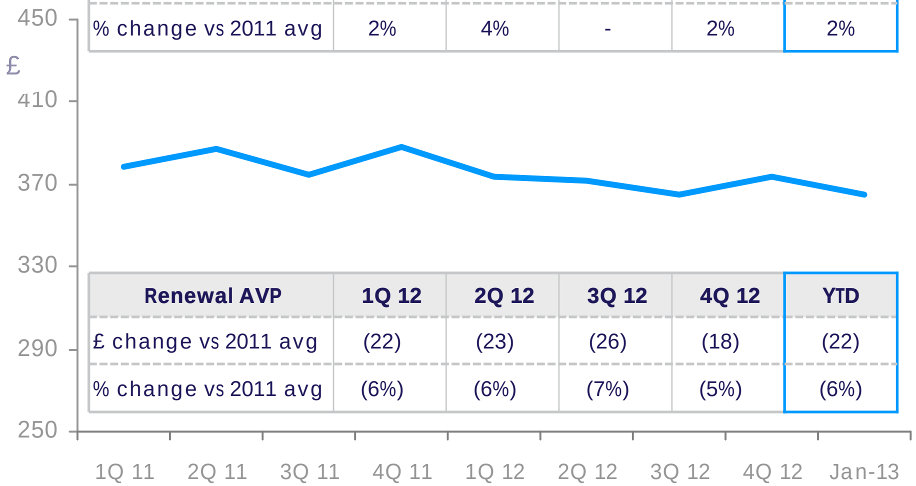


Direct Line Group

# Motor and Home market conditions

## Motor AVP £

| New business AVP | 1Q 12 | 2Q 12 | 3Q 12 | 4Q 12 | YTD |
|---|---|---|---|---|---|
| £ change vs 2011 avg | 11 | 17 | 1 | 9 | 9 |
| % change vs 2011 avg | 2% | 4% | - | 2% | 2% |



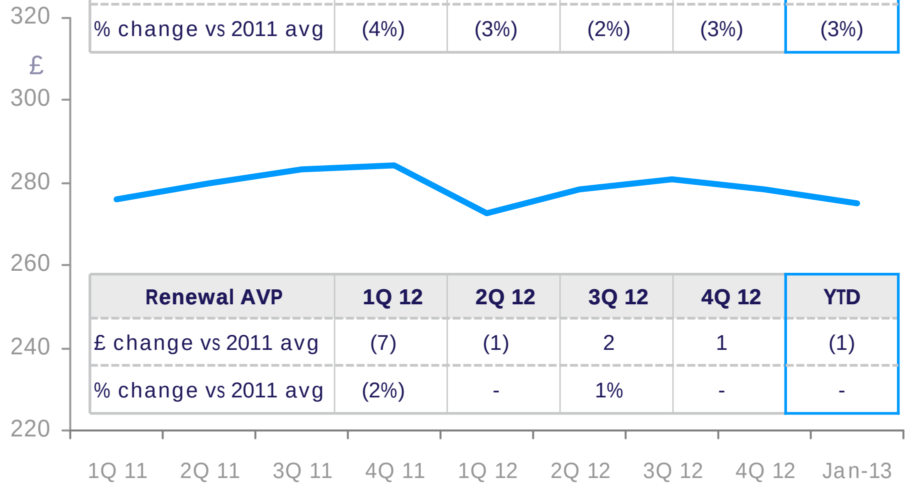

| Renewal AVP | 1Q 12 | 2Q 12 | 3Q 12 | 4Q 12 | YTD |
|---|---|---|---|---|---|
| £ change vs 2011 avg | (22) | (23) | (26) | (18) | (22) |
| % change vs 2011 avg | (6%) | (6%) | (7%) | (5%) | (6%) |

## Observations

- Motor new business average premium broadly flat year on year
    - Competitive market conditions versus modest increase in risk mix
- Lower renewal average premium reflects good performance of current portfolio, sharper pricing on multicar and retention strategies
- Market price surveys suggest deflation

## Home AVP £

| New business AVP | 1Q 12 | 2Q 12 | 3Q 12 | 4Q 12 | YTD |
|---|---|---|---|---|---|
| £ change vs 2011 avg | (9) | (6) | (4) | (6) | (6) |
| % change vs 2011 avg | (4%) | (3%) | (2%) | (3%) | (3%) |




| Renewal AVP | 1Q 12 | 2Q 12 | 3Q 12 | 4Q 12 | YTD |
|---|---|---|---|---|---|
| £ change vs 2011 avg | (7) | (1) | 2 | 1 | (1) |
| % change vs 2011 avg | (2%) | - | 1% | - | - |

## Observations

- Lower new business average premium for Home reflects competitive market conditions
- Home renewal average premium stable year on year supported by excellent distribution reach
- Benefits from transformation programme to support competitiveness



Direct Line Group

# Key messages

1. Pro-forma ROTE[1] of 13.4%
2. Ongoing COR 99.2%, a 2.6ppt improvement
3. All divisions profitable in 2012
4. 70% of cost savings announced and plans identified for remainder
5. Proposed final dividend of 8 pence per share; 55% payout ratio[2]

**Good progress towards delivering our strategic targets**

[1] RoTE is adjusted profit after tax from ongoing operations divided by the Group's average tangible shareholders' equity. Profit after tax is adjusted to exclude run-off operations and restructuring and other one-off costs and is stated after charging tax (using UK standard tax rate). Pro-forma RoTE is based on RoTE but assumes that the capital actions taken by the Group (£1 billion dividend payment and £500 million long-term subordinated debt issue) occurred on 1 January 2012

[2] Payout ratio based on pro-forma full year dividend of 12 pence

# Agenda and presenters

| | |
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| **Questions and answers** | |

# Appendices

# GWP and IFPs for ongoing operations

## Observations

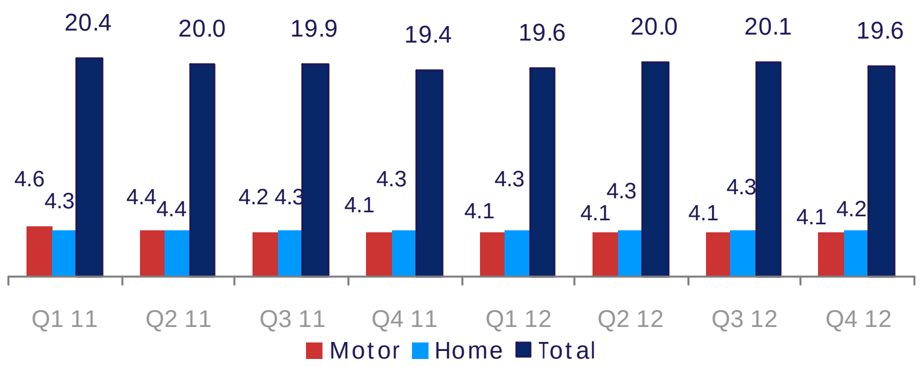
- **IFPs up 1.4% in 2012**
  - Stability in Motor and Home
  - Growth in Rescue and other personal lines from packaged bank accounts
  - Commercial IFP growth through DL4B
  - International IFPs up 5%
- **GWP of £3,991m, 3% lower than 2011 reflecting lower Motor IFPs arising from risk mix improvements during 2011 and a continued focus on disciplined underwriting**

## GWP by segment, ongoing operations

| (£m) | FY 2012 | FY 2011 | 4Q 12 | 4Q 11 |
|---|---|---|---|---|
| Motor | **1,624** | 1,735 | **342** | 397 |
| Home | **989** | 1,031 | **238** | 253 |
| Rescue & Other | **390** | 350 | **86** | 51 |
| Commercial | **436** | 439 | **102** | 106 |
| International | **553** | 570 | **137** | 144 |
| **Total** | **3,991** | **4,125** | **905** | **951** |

| | | | | |
|---|---|---|---|---|
| International (€m) | 680 | 654 | 170 | 165 |

## Quarterly IFPs (m), ongoing operations




## IFPs by segment, ongoing operations

| (000s) | Dec 11 | June 12 | Sep 12 | Dec 12 |
|---|---|---|---|---|
| Motor | 4,107 | 4,135 | 4,094 | **4,050** |
| Home | 4,309 | 4,304 | 4,291 | **4,239** |
| **Motor and Home** | **8,416** | **8,439** | **8,385** | **8,289** |
| Rescue & Other | 9,151 | 9,693 | 9,771 | **9,431** |
| Commercial | 422 | 460 | 466 | **466** |
| International | 1,387 | 1,441 | 1,444 | **1,462** |
| **Total** | **19,375** | **20,033** | **20,066** | **19,648** |

# Home event weather costs in 2012

## Weather events

| £m | 2012 | 2013 expected |
|---|---|---|
| Q1 – storms and freeze | 45 | 25 |
| Q2 – floods and storms | 27 | 15 |
| Q3 – floods and storms | 16 | 15 |
| Q4 – floods and storms | 17 | 25 |
| **Total** | **105** | **80** |
| Expected weather cost | 80 | |

## Observations

- **2012 was an exceptional year for rainfall**
  - **Second wettest year in the UK**
  - **Wettest year in England since records began**
- **Table shows current developed view of 2012 weather events**

# Reserving

## Claims reserves net of reinsurance

| £m | 2012 | 2011 |
|---|---|---|
| Motor | 3,026.6 | 3,148.9 |
| Home | 403.8 | 375.8 |
| Rescue and other personal lines | 77.1 | 92.7 |
| Commercial | 588.3 | 605.3 |
| International | 429.7 | 439.9 |
| **Total – Ongoing operations** | **4,525.5** | **4,662.6** |
| Run-off | 856.4 | 1,148.7 |
| **Total** | **5,381.9** | **5,811.3** |

## PPO sensitivity

| £m | 2012 | 2011 |
|---|---|---|
| Impact of an increase in the discount rate used in the calculation of present values of 100bps | 104.7 | 106.5 |
| Impact of a decrease in the discount rate used in the calculation of present values of 100bps | (150.4) | (152.1) |

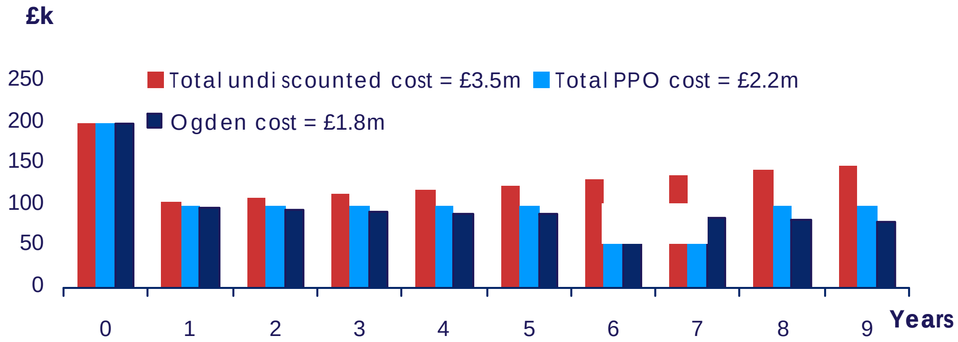
## PPO claims reserves (net, discounted)

| £m | 2012 | 2011 |
|---|---|---|
| Approved PPOs claims reserves | 125.0 | 80.3 |
| Anticipated PPOs | 692.9 | 755.0 |
| **Net** | **817.9** | **835.3** |

| | | |
|---|---|---|
| **Number of PPOs including anticipated** | **235** | **215** |

- PPOs are held on a discounted basis and assume an investment return of 4.0% (2011: 4.5%). Claims for PPOs are also assumed to inflate at 4.0% (2011: 4.5%) per annum resulting in a real discount rate of 0.0% (2011: 0.0%)

## Illustration of Ogden vs. PPO costs




- Selected propensity is based on both Direct Line Group and market data
- Selected severity based on the full Direct Line Group portfolio of open claims >£1m

# Segmental performance: 2010

| £m | Motor | Home | Rescue and other personal lines | Commercial | International | Total Ongoing |
|---|---|---|---|---|---|---|
| GWP | 1,902.2 | 1,034.4 | 335.5 | 397.7 | 425.5 | **4,095.3** |
| Net earned premium | 1,922.5 | 970.1 | 393.0 | 372.1 | 319.1 | **3,976.8** |
| Net claims – current year | (1,910.3) | (612.3) | (241.7) | (321.7) | (315.6) | **(3,401.7)** |
| Net claims – prior years | (398.1) | 69.0 | 38.5 | 60.3 | 43.6 | **(186.6)** |
| Commission expenses | (37.3) | (156.1) | (68.5) | (81.7) | (9.3) | **(352.9)** |
| Operating expenses | (425.7) | (183.5) | (70.3) | (109.1) | (63.2) | **(851.8)** |
| **Underwriting result** | **(848.9)** | **87.2** | **51.0** | **(80.1)** | **(25.4)** | **(816.2)** |
| Investment return | 176.3 | 39.8 | 20.2 | 20.4 | 24.7 | **281.4** |
| Instalment income and other operating income | 255.7 | 36.1 | 11.8 | 18.9 | 6.6 | **329.1** |
| **Operating profit/(loss)** | **(416.9)** | **163.1** | **83.0** | **(40.8)** | **5.9** | **(205.7)** |
| Loss ratio - CY | 99.4% | 63.1% | 61.5% | 86.5% | 98.9% | **85.5%** |
| Loss ratio - PY | 20.7% | (7.1%) | (9.8%) | (16.2%) | (13.7%) | **4.7%** |
| Commission ratio | 1.9% | 16.1% | 17.4% | 22.0% | 2.9% | **8.9%** |
| Expense ratio | 22.1% | 18.9% | 17.9% | 29.3% | 19.8% | **21.4%** |
| **Combined operating ratio** | **144.1%** | **91.0%** | **87.0%** | **121.6%** | **107.9%** | **120.5%** |
| Operating margin | (21.7%) | 16.8% | 21.1% | (11.0%) | 1.8% | **-5.2%** |

# Segmental performance: 2011

| £m | Motor | Home | Rescue and other personal lines | Commercial | International | Total Ongoing |
|---|---|---|---|---|---|---|
| GWP | 1,734.8 | 1,031.3 | 350.2 | 438.6 | 570.0 | **4,124.9** |
| Net earned premium | 1,771.6 | 974.1 | 390.8 | 392.7 | 361.7 | **3,890.9** |
| Net claims – current year | (1,585.0) | (510.8) | (226.4) | (295.1) | (302.5) | **(2,919.8)** |
| Net claims – prior years | 138.2 | (48.5) | 52.8 | 38.4 | 7.9 | **188.8** |
| Commission expenses | (25.9) | (170.0) | (87.8) | (82.3) | (28.6) | **(394.6)** |
| Operating expenses | (397.5) | (196.5) | (75.6) | (101.6) | (66.4) | **(837.6)** |
| **Underwriting result** | **(98.6)** | **48.3** | **53.8** | **(47.9)** | **(27.9)** | **(72.3)** |
| Investment return | 145.2 | 28.5 | 9.5 | 30.5 | 25.0 | **238.7** |
| Instalment income and other operating income | 208.2 | 35.1 | - | 5.0 | 7.2 | **255.5** |
| **Operating profit/(loss)** | **254.8** | **111.9** | **63.3** | **(12.4)** | **4.3** | **421.9** |
| Loss ratio - CY | 89.5% | 52.4% | 57.9% | 75.1% | 83.6% | **75.1%** |
| Loss ratio - PY | (7.8%) | 5.0% | (13.5%) | (9.8%) | (2.2%) | **(4.9%)** |
| Commission ratio | 1.5% | 17.5% | 22.5% | 21.0% | 7.9% | **10.1%** |
| Expense ratio | 22.4% | 20.2% | 19.4% | 25.9% | 18.3% | **21.5%** |
| **Combined operating ratio** | **105.6%** | **95.1%** | **86.3%** | **112.3%** | **107.6%** | **101.8%** |
| Operating margin | 14.4% | 11.5% | 16.2% | (3.2%) | 1.2% | **10.8%** |

# Segmental performance: 2012

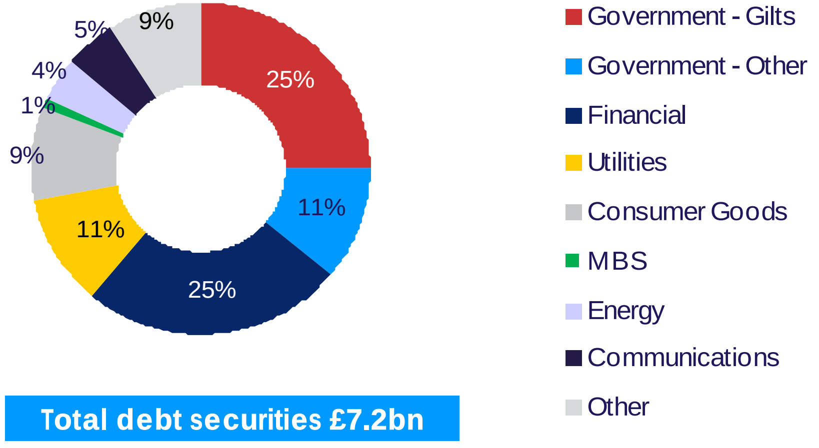
| £m | Motor | Home | Rescue and other personal lines | Commercial | International | Total Ongoing |
|---|---|---|---|---|---|---|
| GWP | 1,623.5 | 989.0 | 389.8 | 435.6 | 552.7 | **3,990.6** |
| Net earned premium | 1,629.2 | 950.8 | 382.8 | 402.8 | 343.1 | **3,708.7** |
| Net claims – current year | (1,390.8) | (592.1) | (218.8) | (310.3) | (298.2) | **(2,810.2)** |
| Net claims – prior years | 174.3 | 37.4 | 23.9 | 56.2 | 30.2 | **322.0** |
| Commission expenses | (31.9) | (154.2) | (22.9) | (87.0) | (41.5) | **(337.5)** |
| Operating expenses | (407.1) | (209.2) | (98.8) | (94.8) | (44.9) | **(854.8)** |
| **Underwriting result** | **(26.3)** | **32.7** | **66.2** | **(33.1)** | **(11.3)** | **28.2** |
| Investment return | 140.0 | 34.1 | 7.5 | 29.4 | 23.7 | **234.7** |
| Instalment income and other operating income | 148.1 | 26.5 | 10.7 | 5.9 | 7.1 | **198.3** |
| **Operating profit/(loss)** | **261.8** | **93.3** | **84.4** | **2.2** | **19.5** | **461.2** |
| Loss ratio - CY | 85.4% | 62.3% | 57.2% | 77.0% | 86.9% | **75.8%** |
| Loss ratio - PY | (10.7%) | (4.0%) | (6.2%) | (14.0%) | (8.8%) | **(8.7%)** |
| Commission ratio | 2.0% | 16.2% | 6.0% | 21.6% | 12.1% | **9.1%** |
| Expense ratio | 25.0% | 22.0% | 25.8% | 23.5% | 13.1% | **23.0%** |
| **Combined operating ratio** | **101.6%** | **96.6%** | **82.7%** | **108.2%** | **103.3%** | **99.2%** |
| Operating margin | 16.1% | 9.8% | 22.0% | 0.5% | 5.7% | **12.4%** |

# Fixed income portfolio

## Observations

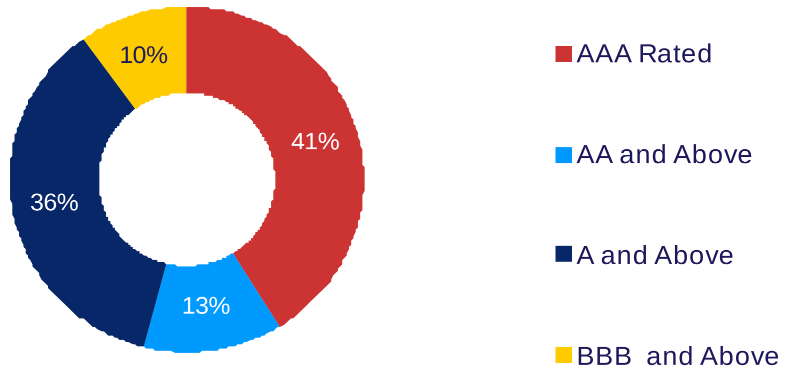
- **Progress made in portfolio restructuring**
  - Investing in US corporate credit and additional sterling corporate credit
  - Reducing cash and short term investment balances

## Fixed income by sector




Total debt securities £7.2bn

## Fixed income by rating




Total debt securities £7.2bn

# Fixed income portfolio

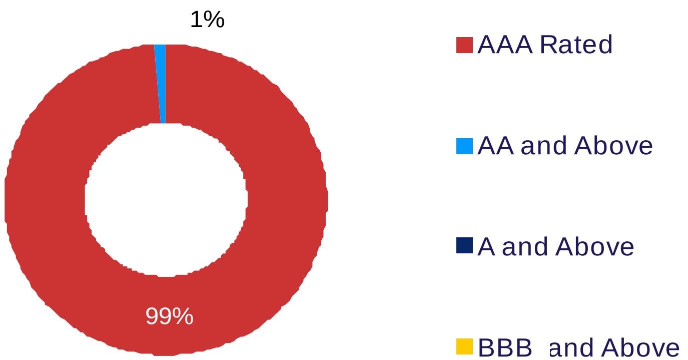
## Sovereign exposure by country

| Key Eurozone countries £m | 31-Dec-12 |
|---|---|
| Germany | - |
| France | 4.5 |
| Netherlands | 4.3 |
| Ireland | - |
| Spain | - |
| Italy | - |
| Belgium | 7.1 |
| Austria | 2.9 |
| **TOTAL** | **18.8** |

## Corporate exposure by country

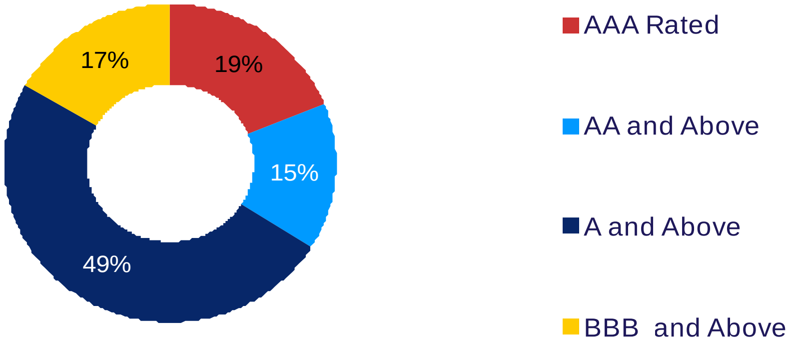
| Key Eurozone countries £m | 31-Dec-12 |
|---|---|
| Germany | 207.4 |
| France | 216.4 |
| Netherlands | 47.2 |
| Ireland | 5.4 |
| Spain | 4.2 |
| Italy | 33.7 |
| Belgium | 14.3 |
| Austria | - |
| **TOTAL** | **528.6** |

## Sovereign exposure by rating




**Total sovereign £1.8bn**

## Corporate exposure by rating




**Total corporate £3.7bn**

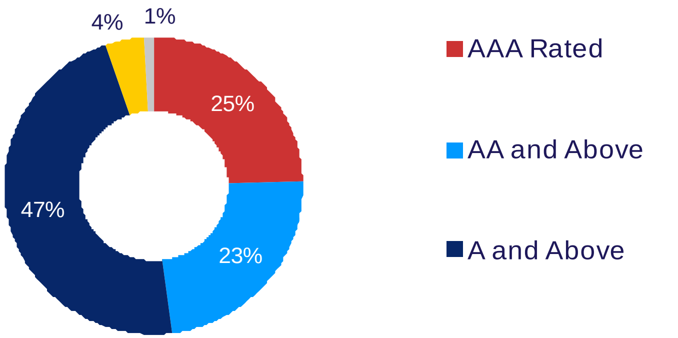
# Fixed income portfolio

## Bank and other financial institutions exposure

| £m | 31-Dec-12 |
|---|---|
| Secured | 211 |
| Unsecured | 1,153 |
| Subordinated | 146 |
| Certificates of deposit | - |
| **Total banks** | **1,511** |
| Other financial institutions | 74 |
| **Total** | **1,585** |

| Key Eurozone countries £m | 31-Dec-12 |
|---|---|
| Germany | 185 |
| France | 84 |
| Netherlands | 72 |
| Ireland | 12 |
| Spain | 12 |
| Italy | 3 |
| Belgium | 2 |
| Austria | - |
| Portugal | - |
| Greece | - |
| **TOTAL** | **370** |

## Bank and other financial institutions by rating




Total bank and FI £1.6bn

| RBS Group Exposure £m | 31-Dec-12 |
|---|---|
| Cash | 69 |
| Short term deposits | 29 |
| Overdrafts | (91) |
| Term deposits | 50 |
| Interest rate swaps | 25 |
| FX derivatives | (2) |
| **Total** | **80** |
| RBS Group debt held | 75 |
| **Total cash and investment transaction** | **155** |

# RoTE calculation

## RoTE calculation

| (£m) | 2012 | 2011 |
|---|---|---|
| Operating profit (total operations) | 277.8 | 344.0 |
| Add back: Run off | (6.1) | 23.9 |
| Add back: Restructuring and other one off costs | 189.5 | 54.0 |
| Less: Finance costs | (28.7) | (2.7) |
| Profit before tax (ongoing operations) | 432.5 | 419.2 |
| Less: tax[1] | (106.0) | (111.1) |
| **Profit after tax** | **326.5** | **308.1** |
| Invested tangible equity b/f | 3,247.0 | 2,937.5 |
| Invested tangible equity c/f | 2,828.6 | 3,247.0 |
| **Average invested tangible equity** | **2,817.0** | **3,092.3** |
| **Return on tangible equity** | **11.5%** | **10.0%** |

## Adjusted RoTE calculation

| (£m) | 2012 |
|---|---|
| Operating profit (ongoing operations) | 461.2 |
| Less: Finance costs adjustment | (28.7) |
| Operating profit before tax (ongoing operations) | 432.5 |
| Less: additional finance costs[2] | (19.7) |
| Adjusted profit before tax | 412.9 |
| Less: tax[1] | (101.1) |
| **Adjusted profit after tax** | **311.7** |
| Invested equity 1 Jan 2012 | 3,612.8 |
| Less: goodwill and other intangibles | 365.8 |
| Less: dividends | (1,000) |
| Tangible invested equity 1 Jan 2012 | 2,247.0 |
| Invested equity 31 Dec 2012 | 2,831.6 |
| Less: goodwill and other intangibles | 421.5 |
| Tangible invested equity 31 Dec 2012 | 2,410.1 |
| **Average pro-forma tangible invested equity** | **2,328.6** |
| **Adjusted RoTE** | **13.4%** |

*[1] Standard tax rate 26.5% FY 2011, 24.5% FY 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 £19.7m (net of the actual finance costs for the subordinated debt)*



Direct Line Group

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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 year ended 31 December 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 four years ended 31 December 2012 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 (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.