Direct Line Group

Results for the first quarter to 31 March 2013

Key messages

Progress towards delivering financial targets

- 32.9% improvement in operating profit[1]
- 98.0% combined operating ratio[1]
- RoTE of 12.3%[2]

Competitive market conditions

- GWP 4.5% lower than Q1 2012[1]
- Reduction in UK Personal Lines partially offset by growth in International
- Maintain focus on discipline in a competitive market

Outlook

- UK Personal Lines markets expected to remain competitive
- Continue to pursue opportunities to improve efficiency further and reduce costs
- First part of motor legal reforms now in place and taken together are expected to be broadly neutral to operating profit in 2013

On track to deliver a 98% combined operating ratio in 2013

1 Ongoing operations
2 Annualised and adjusted to exclude Run-off operations and Restructuring and other one-off costs (using UK standard tax rate)

Financial highlights

Observations

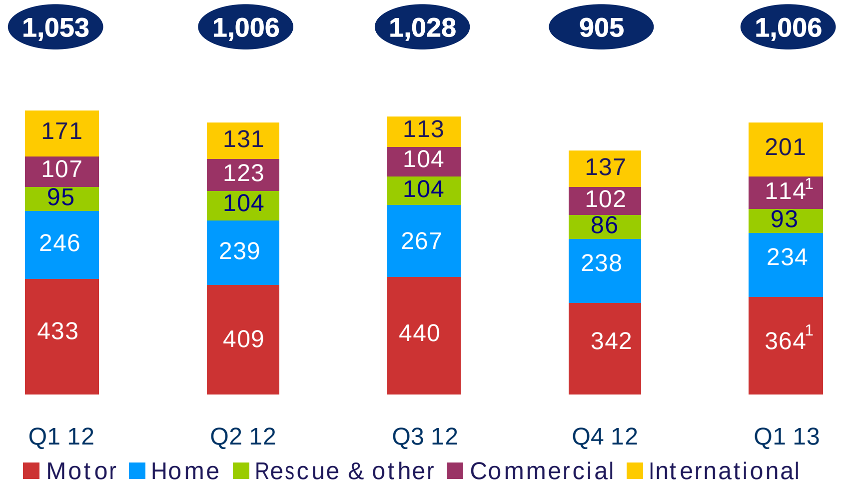
- **32.9% increase in operating profit from ongoing operations to £107.5m**
- **Gross written premium 4.5% lower**
- **£60m improvement in underwriting profit and 6.5ppt improvement in combined operating ratio benefitting from claims, pricing and lower weather related claims**
- **Instalment and other income broadly flat**
- **Lower investment income due to fewer realised gains and reduction in investment yields**
- **Annualised RoTE from ongoing operations of 12.3% compared to 7.7% in Q1 2012**

(£m unless stated)	Q1 13	Q1 12	FY 12
Ongoing operations			
Gross written premium	1,005.6	1,052.5	3,990.6
Underwriting profit/(loss)	17.6	(42.4)	28.2
Instalment and other income	49.5	50.9	198.3
Investment return	40.4	72.4	234.7
Operating profit – Ongoing operations	**107.5**	**80.9**	**461.2**
Profit before tax	94.3	64.1	249.1
Net income / profit after tax	71.6	56.7	184.3
Of which Ongoing operations[1]	*75.4*	*59.9*	*326.5*
Combined operating ratio	98.0%	104.5%	99.2%
Investment return[2]	2.0%	3.4%	2.8%
RoTE (annualised)[3]	12.3%	7.7%	11.5%
RoTE (pro forma)[3]	-	-	13.4%
Adjusted EPS[1]	5.0p	4.0p	21.8p

[1] *Adjusted to exclude Run-off operations and Restructuring and other one-off costs (using UK standard tax rate)*
[2] *Includes realised gains and losses and unrealised gain and losses allocated to the income statement*
[3] *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 segment, 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*

Competitive market conditions reflected in IFPs

Quarterly GWP - ongoing operations (£m)



IFPs – ongoing operations (000s)

	31 Mar 13	31 Dec 12	31 Mar 12	31 Dec 11
Motor	3,865[1]	4,050	4,149	4,107
Home	4,199	4,239	4,332	4,308
Rescue and other personal lines	9,197	9,431	9,296	9,151
Commercial	550[1]	466	417	422
International	1,572	1,462	1,412	1,387
Total	**19,383**	**19,648**	**19,606**	**19,375**

Quarterly GWP - ongoing operations (£m)

	% change vs. prior year	Adj[1] % change vs. prior year[2]
Motor	(15.9%)	**(14.3%)**
Home	(5.0%)	(5.0%)
Rescue and other personal lines	(2.4%)	(2.4%)
Commercial	6.1%	**(1.3%)**
International	17.5%	17.5%
Total	**(4.5%)**	**(4.5%)**

Observations

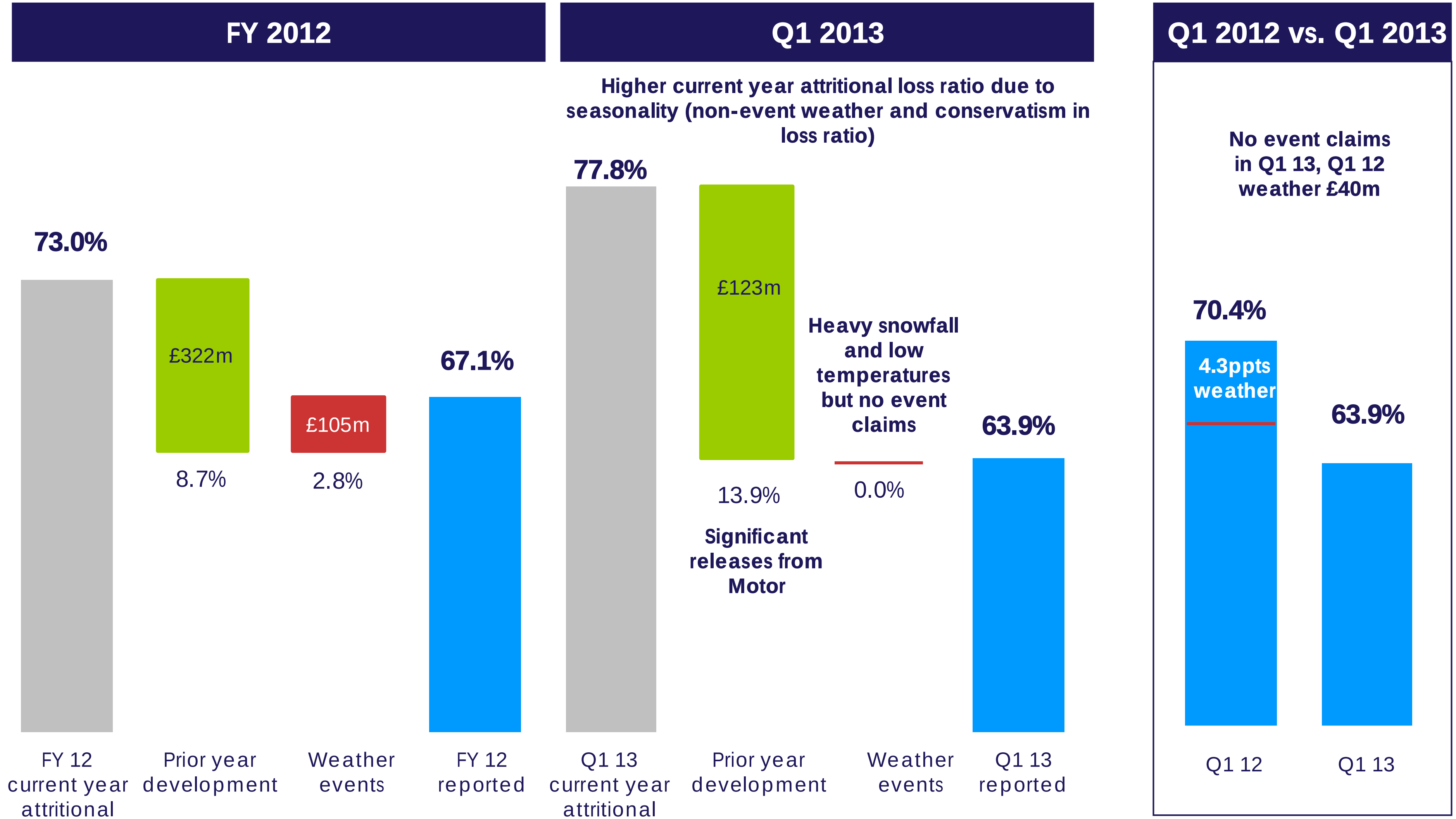
- **Competitive UK personal lines market**
- **Stability in Commercial**
- **Growth in International through German year-end business**

[1] *DL4B Van now reported in Commercial*

[2] *Adjustment made to GWP and IFPs for DL4B Van historically reported in personal lines Motor(GWP: £6.4m Q1 2013, £8.0m Q1 2012. IFPs: 70k Q1 2013, 83k Q1 2012). New business written in Commercial segment from September 2010*

Lower reported loss ratio, current year loss ratio reflects seasonality

Loss ratio analysis - ongoing operations

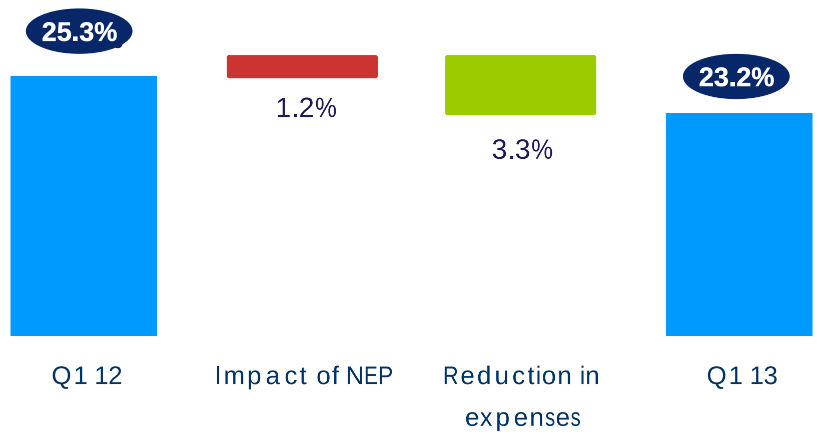


Improving expense ratio

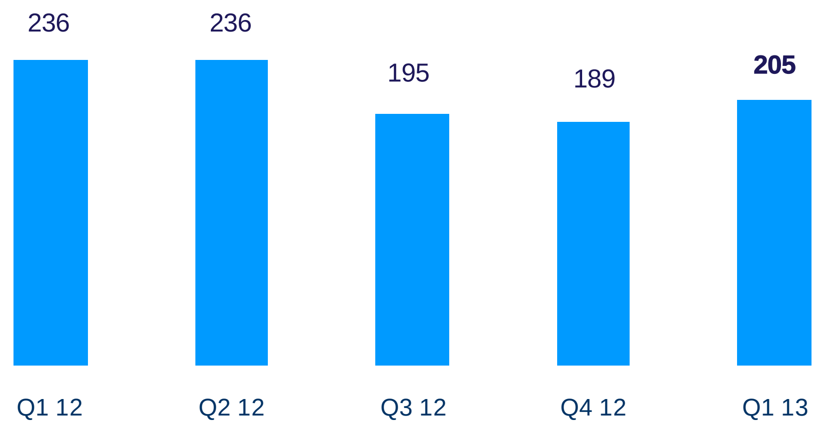
Observations

- **Expense ratio of 23.2% in Q1 2013, down 2.1ppts versus Q1 2012**
- **13% reduction in costs compared to Q1 2012**
- **Actions to meet the £100m gross annual cost savings[1] target in 2014 on track**
- **Continue to pursue opportunities to improve efficiency further and reduce costs**

Expense ratio - ongoing operations



Expenses - ongoing operations (£m)



[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

- Instalment income and other income broadly in line with prior year and prior quarter
- Solicitors' referral fee income in Q1 2013 of £5.8m. This ceased from 1 April
- First part of legal reforms now live and impact of these expected to be broadly neutral to operating profit in 2013
- Additional reforms including the extension of the MoJ portal limits and a number of reforms relating to diagnosis of whiplash are currently expected to be net positive for the Group in the medium term

Instalment and other income - ongoing operations

(£m)	Q1 13	Q1 12	Q4 12	FY 12
Instalment income	30.9	31.4	31.7	125.4
Other operating income	18.6	19.5	19.8	72.9
Total	**49.5**	**50.9**	**51.5**	**198.3**

Reforms now implemented include

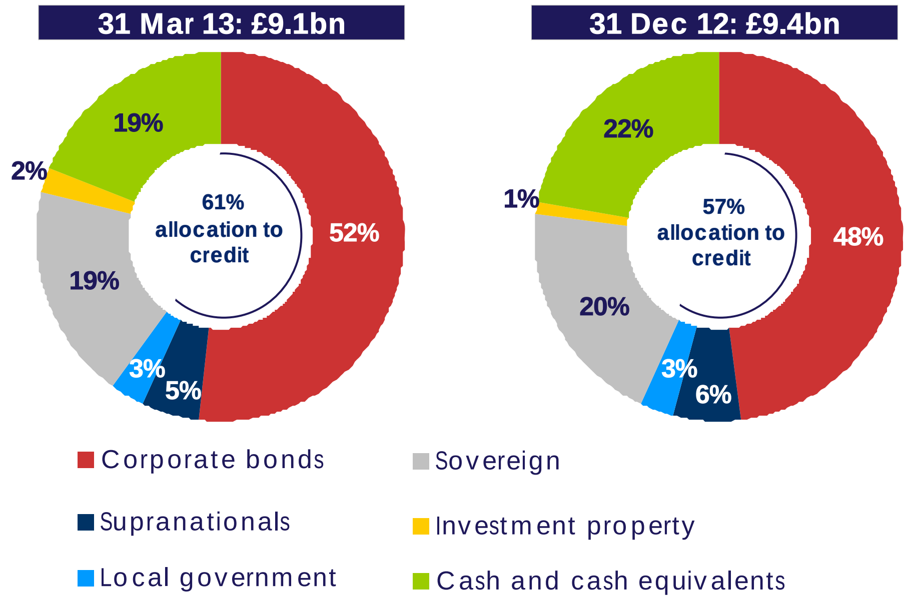
Reform	Implementation date	Expected impact
Referral fee ban	1 April	↓
Reduction in fixed legal costs in RTA portal	30 April	↑
10% uplift in General Damages	1 April	↓
Non-recovery of after the event/success fees	1April	↑

Investments

Observations

- Reduction in overall investment return principally due to fewer gains compared with Q1 2012
- Investment income down year on year due to a reduction in AUM and lower reinvestment yields
- Investment income yield of 2.0% lower than Q1 2012 but in line with FY 2012
- Credit now at target allocation and further progress in property

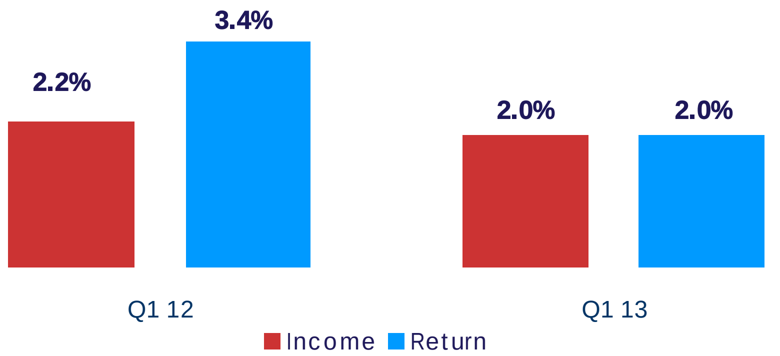
Investment assets by type



Investment income - ongoing operations (£m)

	Q1 13	Q1 12	Q4 12	FY 12
Investment income	40.1	50.8	42.2	179.9
Net realised and unrealised gains[1]	0.3	21.6	(0.2)	54.8
Total	**40.4**	**72.4**	**42.0**	**234.7**

Investment yields



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

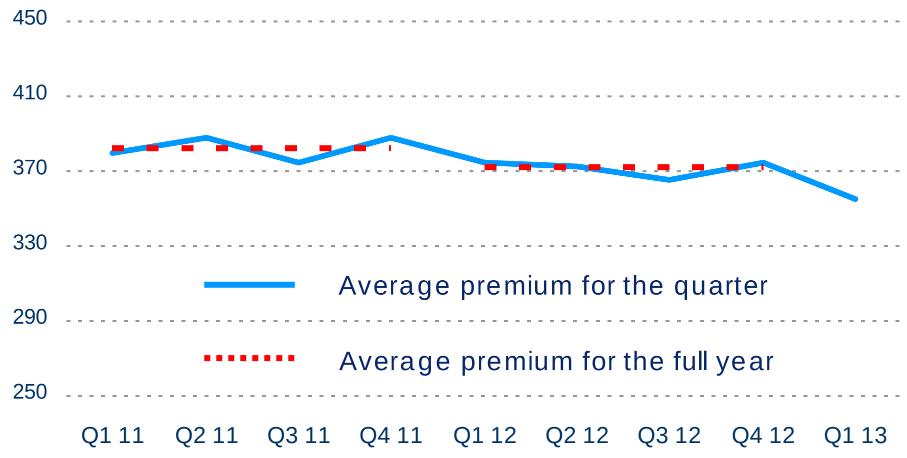
Business highlights

1 Distribution	Enhance effectiveness to improve Customer Value	• Move towards loyalty led propositions • Refreshed advertising campaigns and relaunch of Green Flag • Further action to pull brands apart
2 Pricing	Build superior pricing capabilities to utilise scale advantage in data	• Telematics pilots ongoing • Advances in deploying full data set in Motor and Home and use of additional external data including geospatial enhancements
3 Claims	Attain market leading position in claims management	• Benefits continue to flow through prior year releases • Initiatives being rolled out across Home • Evolving claims business model to post reform world including considering launch of legal services
4 Costs	Realise the significant cost opportunity	• Actions relating to £100m gross cost savings on track • Continue to pursue opportunities to improve efficiency and reduce costs
5a Commercial	Leverage core skills to improve performance	• Full-cycle eTrading platform now live • Continued growth in Direct through DL4B
5b International		• Over 1.5 million in-force policies • Growth in German year-end business

Direct Line Group

UK motor market

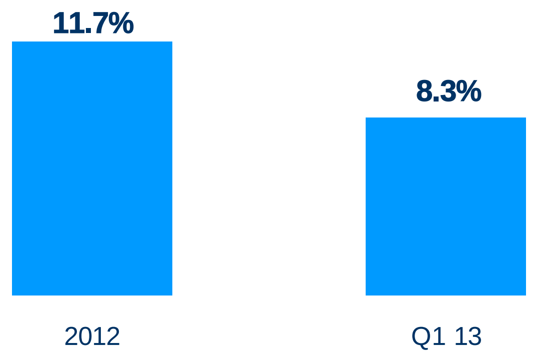
Motor average premium (£)



Motor average premium (% change)

% change	Q1 12 vs FY 11	Q2 12 vs FY 11	Q3 12 vs FY 11	Q4 12 vs FY 11	Q1 13 vs FY 12	Q1 13 vs Q1 12
New business	+2.5%	+4.0%	+0.3%	+2.1%	-7.4%	-7.7%
Renewals	-6.0%	-6.1%	-6.9%	-4.9%	-2.3%	-2.3%

Young drivers share of new business (own brands)



Observations

- **Reduction in average premium mainly due to temporary reduction in young drivers as gender neutral pricing was rolled-out and refined**
- **Adjusting for risk mix, pricing held broadly flat year-on-year in a competitive market**
- **Reduced use of price-led promotion**

Maintaining underwriting discipline

Key messages

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Q&A

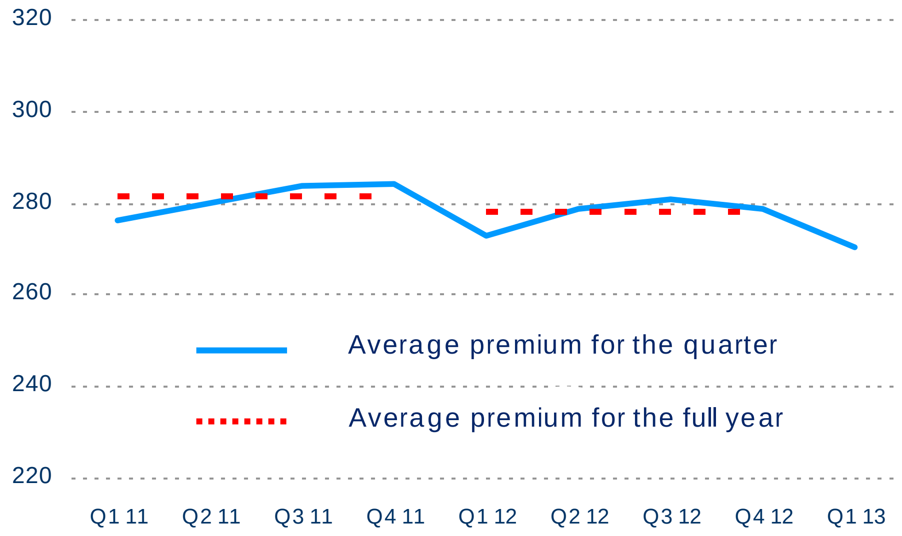
Appendix

Regulatory update

Reform	Implementation method	Details	Expected / actual implementation date
Various motor reforms	LASPO, SvC	Referral fee ban, reduction in fixed legal costs in RTA portal, 10% uplift in general damages and non-recovery of ATE / success fees all now in place.	1 April 2013
Extension of RTA portal limits to £25k	MoJ/CPR	Portal extension approved. Associated fixed fees also approved as proposed (both within the portal and outside it). APIL/MASS judicial review rejected.	Applies to accidents occurring from end of July 2013
Whiplash	Various	Consultation closed 8 March 2013. Direct Line Group responded to support an increase in the small claims track to £5k (from £1k) for all RTA BI claims and improved medical evidence.	Unknown but not expected before mid / end 2014, if implemented
Ogden	MoJ/CPR	Two consultations, firstly how the ASHE rate should be set within the current legal framework. Secondly, a review of the legal framework to assess whether index-linked gilts or a more balanced portfolio of investments should be used in setting rates, and whether there should be a change in the usage of PPOs.	Unknown
Competition Commission investigation	TBA	Determining whether any feature, or combination of features, of the private motor insurance markets prevents, restricts or distorts competition.	September 2013

Home market conditions

Home average premium (£)



% change	Q1 12 vs FY 11	Q2 12 vs FY 11	Q3 12 vs FY 11	Q4 12 vs FY 11	Q1 13 vs FY 12	Q1 13 vs Q1 12
New business	-4.3%	-2.8%	-1.9%	-2.7%	-5.3%	-3.9%
Renewals	-2.2%	-0.3%	+0.7%	+0.2%	-2.7%	-0.9%

Weather events

£m	As at end of 2012[1]	2013 actual	2013 expected
Q1 – storms and freeze	45	0	25
Q2 – floods and storms	27	n/a	15
Q3 – floods and storms	16	n/a	15
Q4 – floods and storms	17	n/a	25
Total	**105**		**80**
Expected weather cost	80		

Observations

- **Lower new business average premium reflects competitive market conditions**
- **Continued growth in PCW channel for new business**
- **Renewal average premium in Q1 13 in line with Q1 12**

Maintaining underwriting discipline

[1] *Developed view*

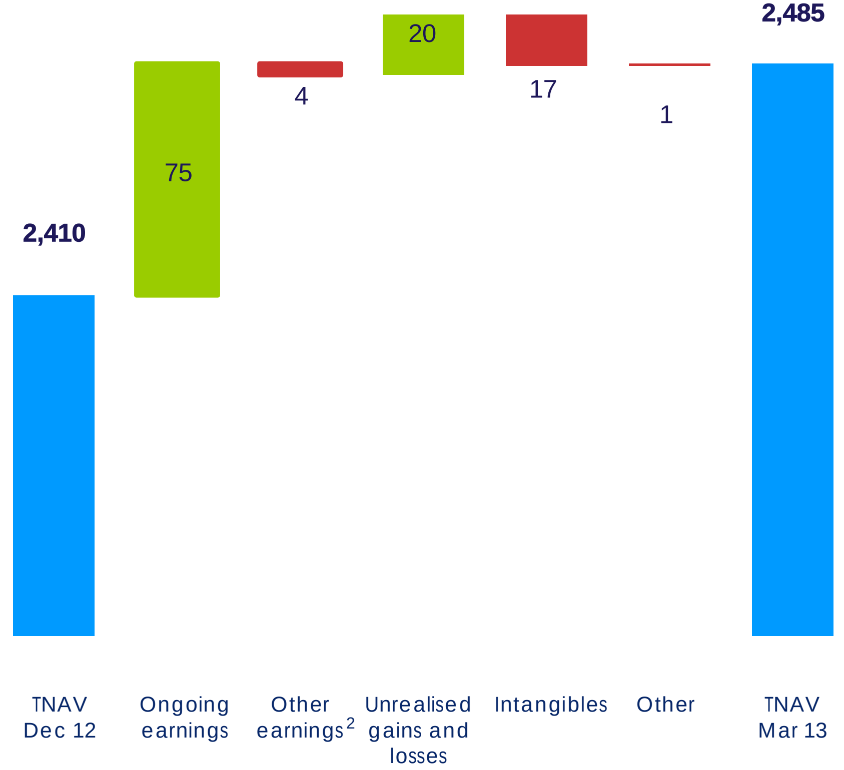
Direct Line Group

RoTE calculation

RoTE calculation

(£m)	FY 12	Q1 13
Operating profit (total operations)	277.8	103.6
Add back: Run off	(6.1)	(6.5)
Add back: Restructuring and other one off costs	189.5	10.4
Less: Finance costs	(28.7)	(9.3)
Profit before tax (ongoing operations)	432.5	98.2
Less: tax[1]	(106.0)	(22.8)
Profit after tax	**326.5**	**75.4**
Invested tangible equity b/f	3,247.0	2,410.1
Invested tangible equity c/f	2,828.6	2,485.1
Average invested tangible equity	**2,817.0**	**2,447.6**
Return on tangible equity (annualised)	**11.5%**	**12.3%**

TNAV



[1] Standard tax rate 23.25% Q1 2013, 24.5% 2012
[2] Earnings attributable to Run-off and Restructuring and other one off costs

General disclaimer

Forward-looking statements

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Certain information contained in this document, including any information as to the Group's strategy, plans or future financial or operating performance, constitutes "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "aims", "anticipates", "believes", "estimates", "expects", "intends", "may", "plans", "predicts", "projects", "seeks", "should", "targets" or "will" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, amongst other things: the Company's results of operations, financial condition, prospects, growth, strategies and the industry in which the Group operates. Examples of forward-looking statements include financial targets which are contained in this document specifically with respect to RoTE, the Group's COR, the COR for the Group's commercial business, and cost savings. By their nature, all forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Group's control. Forward-looking statements are not guarantees of future performance. The Company's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this document including, but not limited to, 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 or the Ogden discount rate), the impact of competition, currency changes, 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 and other regulation in the jurisdictions in which the Group and its affiliates operate. In addition, even if the Company's actual results of operations, financial condition, and the development of the business sector in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

The forward-looking statements contained in this document reflect knowledge and information available as of the date of preparation of this document. The Company and the Directors expressly disclaim any obligations or undertaking to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable law or regulation. Nothing in this document should be construed as a profit forecast.

General disclaimer (continued)

Historical financial information

The basis of preparation of the financial information within the interim management statement for the first quarter to 31 March 2013 is the same as the financial statements and notes contained within the Direct Line Group Annual Report & Accounts issued on 21 March 2013.

The Historical Financial Information for the four years ended 31 December 2012 and three months ended 31 March 2013 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.