Direct Line Group

Results for the nine months to 30 September 2013

Key messages

Good progress towards delivery of financial targets

- 9M operating profit[1] up 20.1% to £417.8m; combined operating ratio (COR) of 95.4%
- Annualised Return on tangible equity (RoTE) of 16.8%[2] benefiting from fewer claims from major weather events – normalised RoTE in line with target
- Q3 operating profit[1] up 6.1% to £131.2m; combined operating ratio[1] of 97.0%

Active management of underwriting portfolio

- Maintained pricing discipline in the UK motor market in the face of strong competition
- Sustained position in Home by reinvesting some of our transformation benefits
- Continued growth in Direct Line for Business and Germany

Execution of 'self-help' agenda

- Continued investment in technology with new data centres
- Cost saving actions delivering and total costs on track to meet 2014 target
- Sale of Direct Line Life Insurance and proposed special dividend of 4.0p per share post completion

Continue to execute well in competitive markets

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

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Financial highlights

Observations

1. **Gross written premium (GWP) of £2,954m down 4.3% versus the prior period**
2. **Improvement in underwriting profit partially due to fewer claims from major weather events**
3. **Operating profit up 20.1% to £418m**
4. **Profit after tax up 71% to £243.1m**
5. **Annualised RoTE of 16.8%**

Ongoing operations (£m)	Q3 2013	Q3 2012	9m 2013	9m 2012
Gross written premium (1)	978	1,027	2,954	3,085
Underwriting profit (2)	27	28	122	8
Instalment and other income	44	48	138	147
Investment return	60	47	158	193
Operating profit – ongoing operations (3)	**131**	**124**	**418**	**348**
Profit before tax	124	82	333	189
Net income / profit after tax (4)	91	59	243	142
Of which ongoing operations[1]	*93*	*86*	*299*	*247*
Combined operating ratio	97.0%	96.9%	95.4%	99.7%
Investment return[2]	-	-	2.5%	3.1%
RoTE (annualised)[3] (5)	-	-	16.8%	13.5%[4]
Adjusted EPS[1] – diluted	-	-	19.9p	16.5p

1 *Adjusted to exclude Run-off segment and Restructuring and other one-off costs (using UK standard tax rate 23.25%)*
2 *Includes net gains and losses and unrealised gain and losses allocated to the income statement*
3 *RoTE is annualised 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 of 23.25%, 2012 24.5%).*
4 *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*

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Competitive market conditions reflected in IFPs and GWP

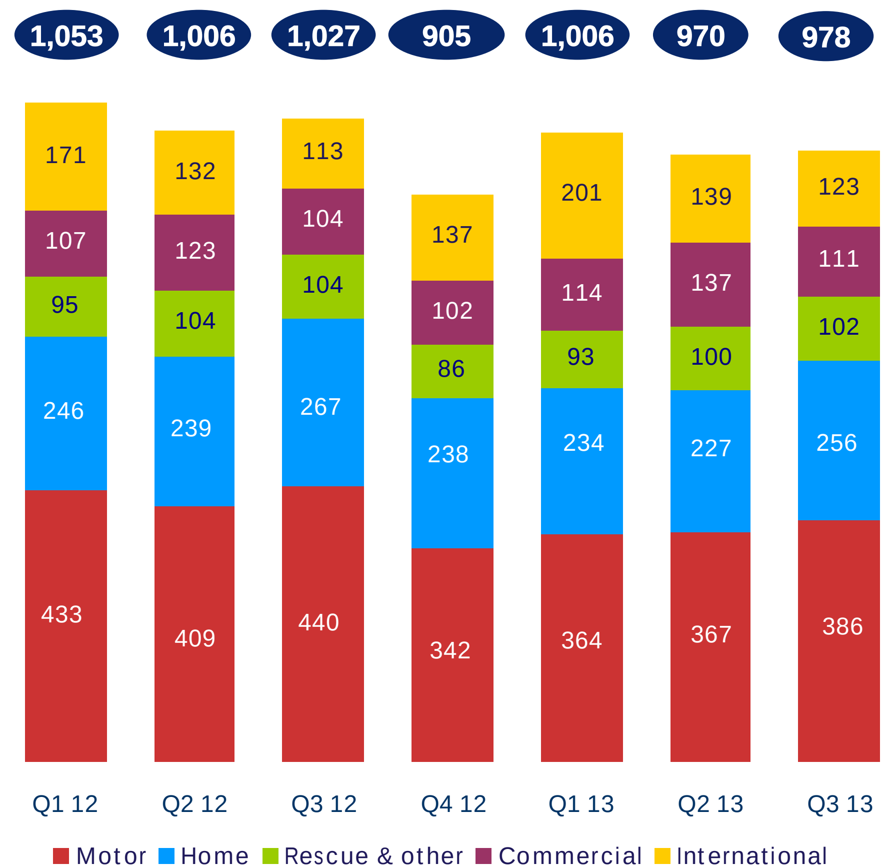
IFPs – ongoing operations (000s)

	30 Sep 13	30 Jun 13	31 Mar 13	31 Dec 12
Motor	3,790	3,829	3,865[1]	4,050
Home	3,753	3,753[2]	4,199	4,239
Rescue and other personal lines	8,917	9,014	9,197	9,431
Commercial	571	561	550[1]	466
International	1,597	1,586	1,572	1,462
Total	**18,628**	**18,743**	**19,383**	**19,648**

GWP - ongoing operations[1,3]

	3Q vs. prior period	YTD vs. prior period
Motor	(10.6%)	(11.2%)
Home	(4.1%)	(4.6%)
Rescue and other personal lines	(1.9%)	(2.7%)
Commercial	(0.6%)	11.5%
International	8.9%	11.4%
Total	**(4.8%)**	**(4.3%)**

Quarterly GWP - ongoing operations (£m)



1 Van now reported in Commercial
2 Home Response policies removed from certain packaged bank accounts during 1H 2013. Circa. 420k policies
3 Adjustment made to GWP and IFPs for DL4B Van historically reported in personal lines Motor (GWP: £19.0m 9m 2013, £24m 1H 2012. IFPs: 63k June 2013, 78k June 2012). New business written in Commercial division from September 2010

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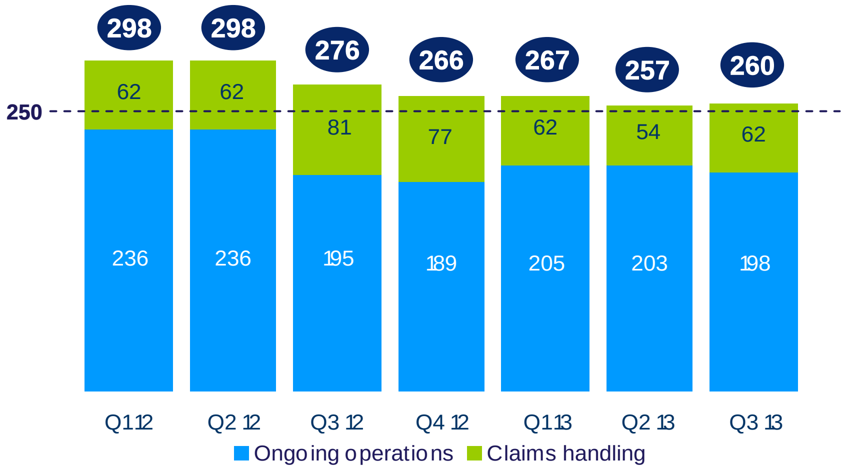
Continued improvement in underwriting performance

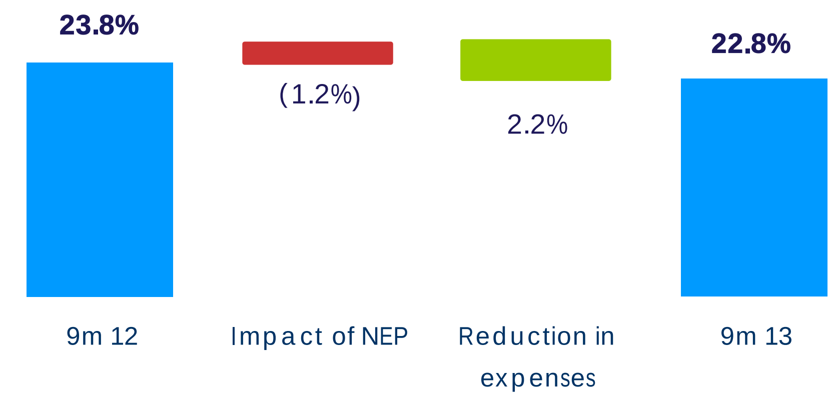
Loss ratio analysis - ongoing operations

Improving expense ratio

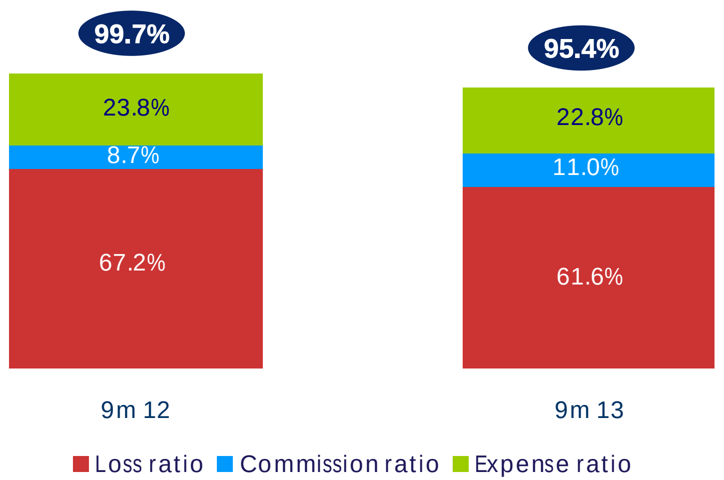
Expenses – ongoing operations (£m)



Expense ratio – ongoing operations



COR – ongoing operations



Observations

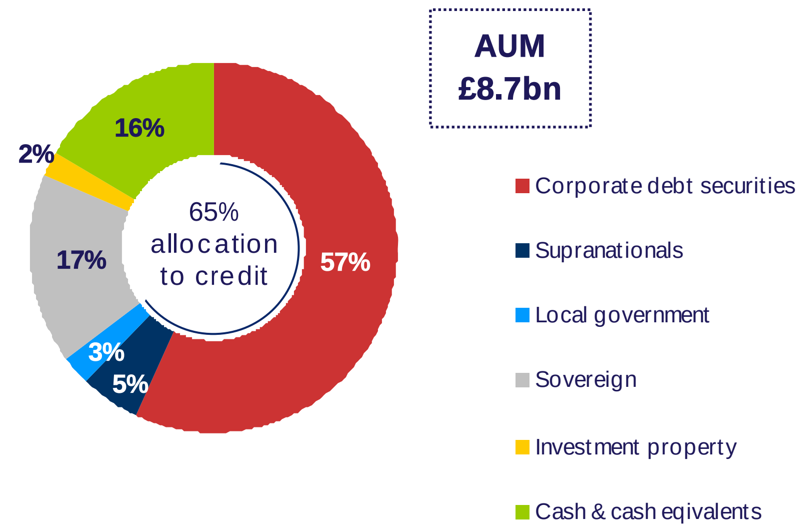
- Benefits from cost saving initiatives starting to be recognised
- Higher commission ratio due to favourable claims experience in Home
- Q3 COR of 97.0% in line with prior year

Investments

Observations

- Investment income yield of 2.1%, up versus prior period and starting to benefit from portfolio actions
- Investment return of 2.5% reflects higher gains in the third quarter 2013
- Planned investment of approximately 5% in structured credit in addition to current credit allocation plus increased weighting to BBB credit within corporate debt securities

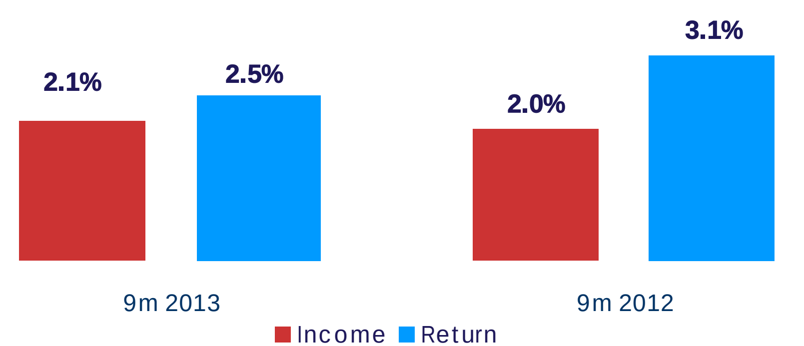
Investment assets by type as at 30 Sep 2013



Investment income - ongoing operations (£m)

	Q3 13	Q3 12	9m 2013	9m 2012
Investment income	45.8	40.4	129.2	137.7
Net investment gains[1]	14.6	6.9	28.7	55.0
Total	**60.4**	**47.3**	**157.9**	**192.7**

Investment yields



[1] *Net realised gain includes fair volume adjustments on investment properties re-valued*

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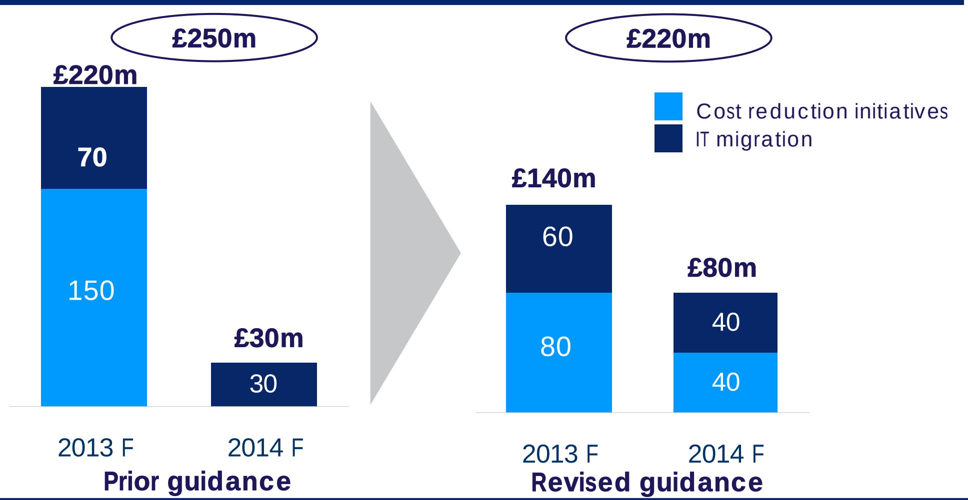
Operating profit reconciliation

Comments

- **Run-off profit of £20m in Q3 from positive prior year development**
- **Run-off expected to make a lower level of profit going forward**
- **2013 restructuring costs now expected to be £140m with £80m in 2014**
- **Net saving of £30m over two years due to lower than expected redundancy costs and savings on property exits**

Restructuring and other one-off costs breakdown



Operating profit

£m	9m 2013	9m 2012
Operating profit - ongoing operations	**417.8**	**347.9**
Run-off	30.8	(1.8)
Restructuring and other one-off costs	(87.2)	(136.9)
Operating profit	**361.4**	**209.2**
Finance costs	(28.4)	(20.3)
Profit before tax	333.0	188.9
Tax	(89.9)	(47.1)
Profit after tax / net income	**243.1**	**141.8**

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Business highlights

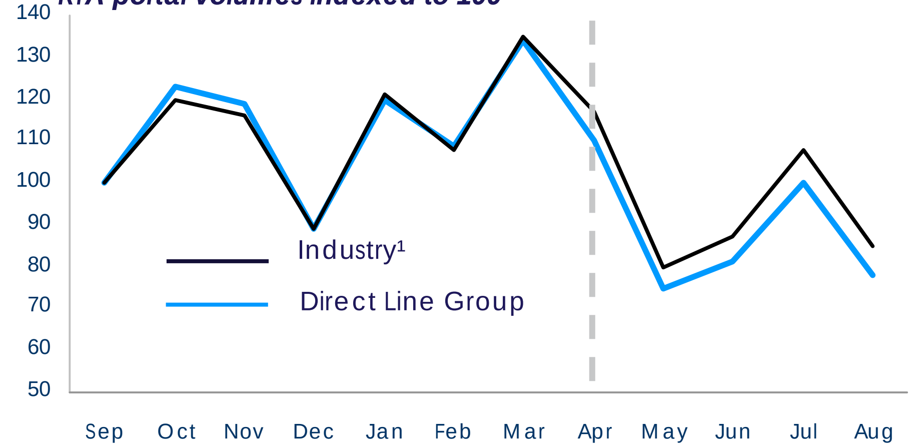
Remaining disciplined in a competitive market

UK Motor year on year

	Q1 2013	Q2 2013	Q3 2013
Risk mix:	-6%	-4%	-2%
Price:	+1%	-3%	-5%
Change in IFPs in the quarter	-5%	-1%	-1%

Impact of LASPO on RTA portal

RTA portal volumes indexed to 100



Telematics continues to grow

- ✓ Over 6,000 devices sold to date since June roll-out
- ✓ One in five Direct Line under 25s new business sales now includes telematics
- ✓ Recently launched Privilege telematics on comparethemarket.com

Investing in technology

- ✓ New data centres now open
- ✓ Upcoming launch of new customer websites
- ✓ 75% of NIG new business transacted through eTrading hub
- ✓ Claims smartphone pilot

1 Portal Source http://claimsportal.org.uk/media/158934/rta-ad-hoc-moj-portal-mi-and-graphs-31_08_13-ver-1.0.xlsx

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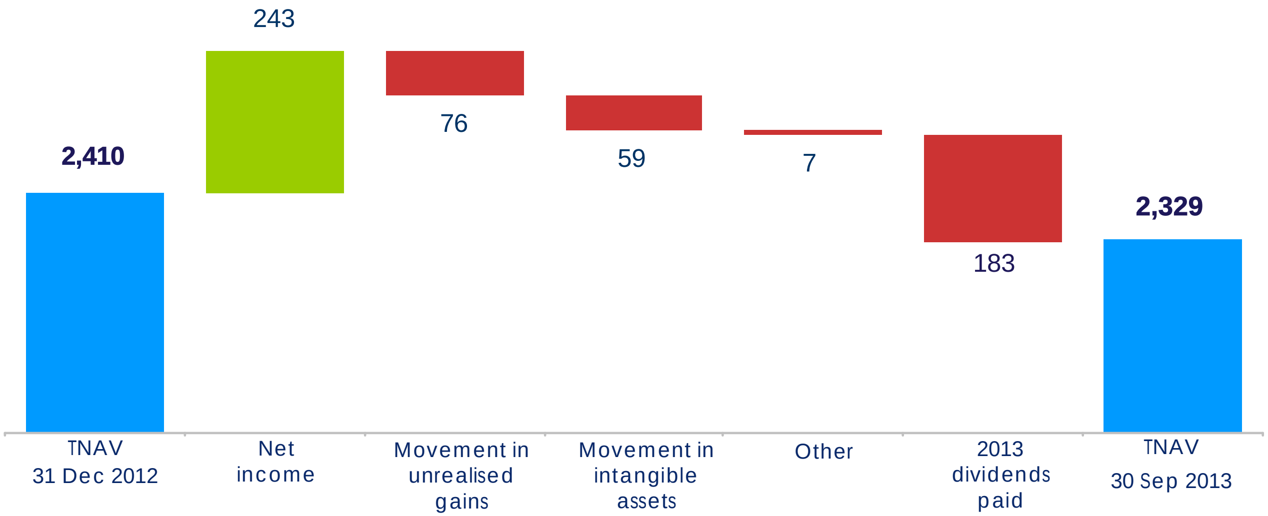
Appendices

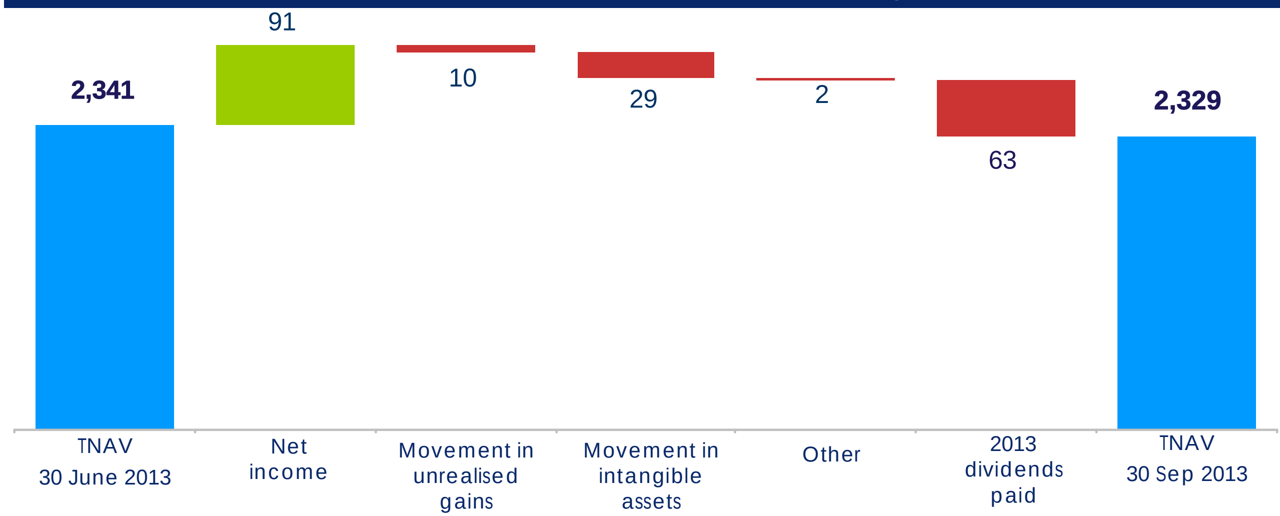
TNAV update

Movement in tangible net asset value 9M 13



Pence	30 Sep 2013	31 Dec 2012
Net asset value per share	187.9	189.1
Tangible net asset value per share	155.8	161.0

Movement in tangible net asset value Q3 13



Return on tangible equity

RoTE calculation

(£m)	9M 2013
Operating profit (total Group)	361.4
Add back: Run-off	(30.8)
Add back: Restructuring and other one off costs	87.2
Less: Finance costs	(28.4)
Profit before tax (ongoing operations)	389.4
Less: tax[1]	(90.5)
Profit after tax	**298.9**
Tangible equity b/f	2,410.1
Tangible equity c/f	2,328.5
Average tangible equity	**2,369.3**
Return on tangible equity (annualised)	**16.8%**

[1] *Standard tax rate: 9m 2013 - 23.25%,*

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