2014 preliminary results
3 March 2015

Today's agenda

Key messages	Paul Geddes - CEO
Financials	John Reizenstein - CFO
Strategy update	Paul Geddes - CEO
Q&A	

Key highlights

1. Met or exceeded all published IPO and 2014 targets

2. Ongoing investment in capability supporting profitability across the Group, all divisions now making a material contribution to profit

3. Announced the sale of our International division for €550m (£430m)

4. Continued active capital management with 32% of IPO share price returned to shareholders post 2014 final and special dividends

5. Focus on UK reaffirmed with clear strategic aim to make insurance much easier and better value for customers

Financial results

John Reizenstein - CFO

Financial highlights

Observations

1. **GWP of £3,099.4m, 3.8% lower than prior year**
2. **Underwriting profit[4] of £148.1m broadly in line with prior year**
3. **Instalment and other income reduced by £25.3m, mainly due to the sale of Tracker[5]**
4. **14.0% increase in investment return**
5. **Operating profit[2] broadly stable at £506m**
6. **COR[3] of 95.0%, broadly flat versus prior year**
7. **RoTE[6] of 16.8%, ahead of the 15% target**

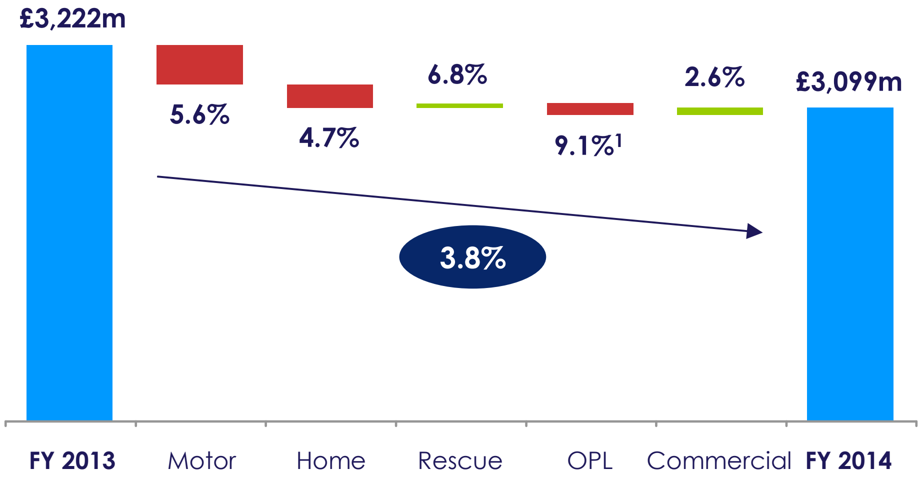
(£m unless stated)		FY 14	FY 13
Ongoing operations[1]			
Gross written premium	1	3,099.4	3,222.1
Underwriting profit	2	148.1	152.6
Instalment and other income	3	147.3	172.6
Investment return	4	210.6	184.7
Operating profit[2] – Ongoing operations	5	**506.0**	**509.9**
Profit before tax		456.8	407.3
Profit after tax		372.6	312.8
Of which Ongoing operations[1]		*368.0*	*362.4*
Combined operating ratio[3]	6	*95.0%*	*95.2%*
RoTE[6]	7	*16.8%*	*16.0%*

Operating profit- ongoing operations (£m)	FY 14	FY 13
Motor	297.1	347.7
Home	113.9	106.2
Rescue and other personal lines	48.0	46.5
Commercial	47.0	9.5

1. *Ongoing operations include Direct Line Group's (the 'Group') ongoing segments: Motor, Home, Rescue and other personal lines and Commercial. It excludes the International division which is classified as discontinued operations, the Run-off segment and Restructuring and other one-off costs.*
2. *Operating profit: The pre-tax profit generated by the Group's activities, including insurance and investment activity, but excluding finance costs*
3. *Combined operating ratio ("COR") is the sum of the loss, commission and expense ratios. The ratio is a measure of the amount of claims costs, and expenses compared to net earned premium generated. A ratio of less than 100% indicates profitable business*
4. *Underwriting profit: The profit or loss from operational activities, excluding investment performance. It is calculated as new earned premium less net insurance claims and total expenses*
5. *Tracker disposed on 5 February 2014 – the period ended 31 December 2014 includes Tracker related operating income: £1.4m (2013: £18.4m) and operating loss: £0.4m (2013: loss of 1.4m)*
6. *Return on tangible equity ("RoTE") is adjusted profit after tax from ongoing operations and the International division divided by the Group's average tangible shareholders' equity*

Encouraging quarterly trends in GWP and IFPs

Ongoing GWP



Motor and Home IFPs

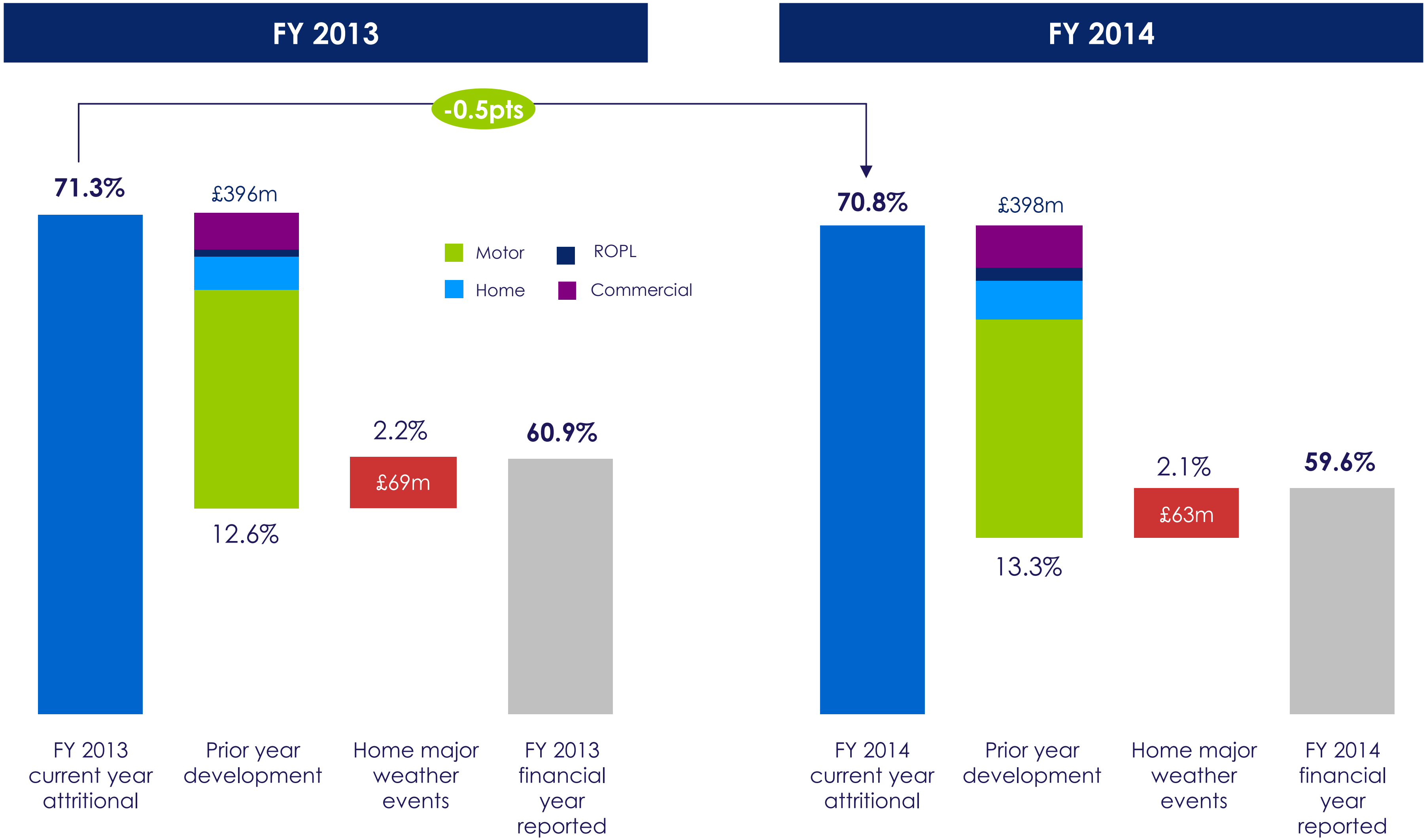
Quarterly GWP trend

	1Q vs. prior year	2Q vs. prior year	3Q vs. prior year	4Q vs. prior year	FY vs. prior year
Motor	(10.2%)	(7.8%)	(5.4%)	2.5%	(5.6%)
Home	(5.6%)	(4.5%)	(5.0%)	(3.8%)	(4.7%)
Rescue	6.2%	2.8%	8.4%	11.0%	6.8%
Other personal lines[2]	1.2%	(0.6%)	5.7%	(5.2%)	3.0%
Commercial	3.9%	5.1%	(1.1%)	2.0%	2.6%
Total	**(6.3%)**	**(4.7%)**	**(4.2%)**	**0.4%**	**(3.8%)**

1. *Including Life*
2. *Adjusted for the sale of Life*

Improvement in current year underwriting performance

Loss ratio analysis - ongoing operations[1]



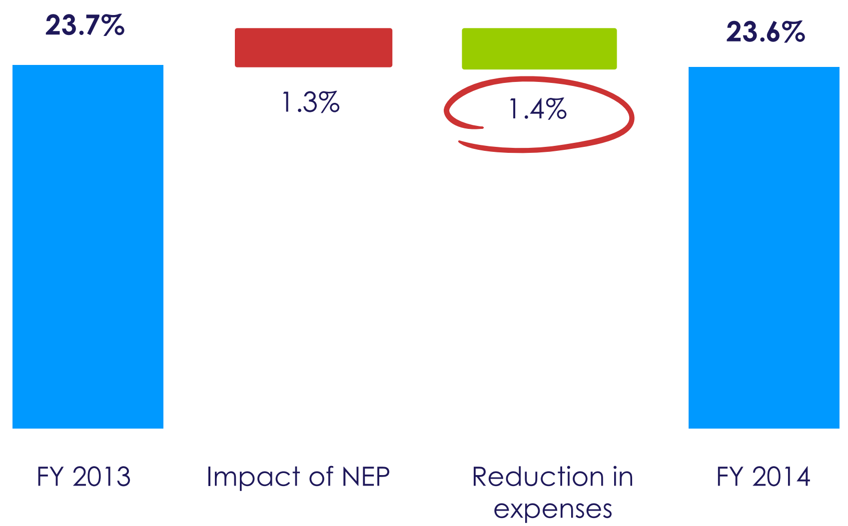
1. *Ongoing operations include the Group's ongoing segments: Motor, Home, Rescue and other personal lines and Commercial. It excludes the International division which is classified as discontinued operations, the Run-off segment and Restructuring and other one-off costs.*

Further reduction in our cost base

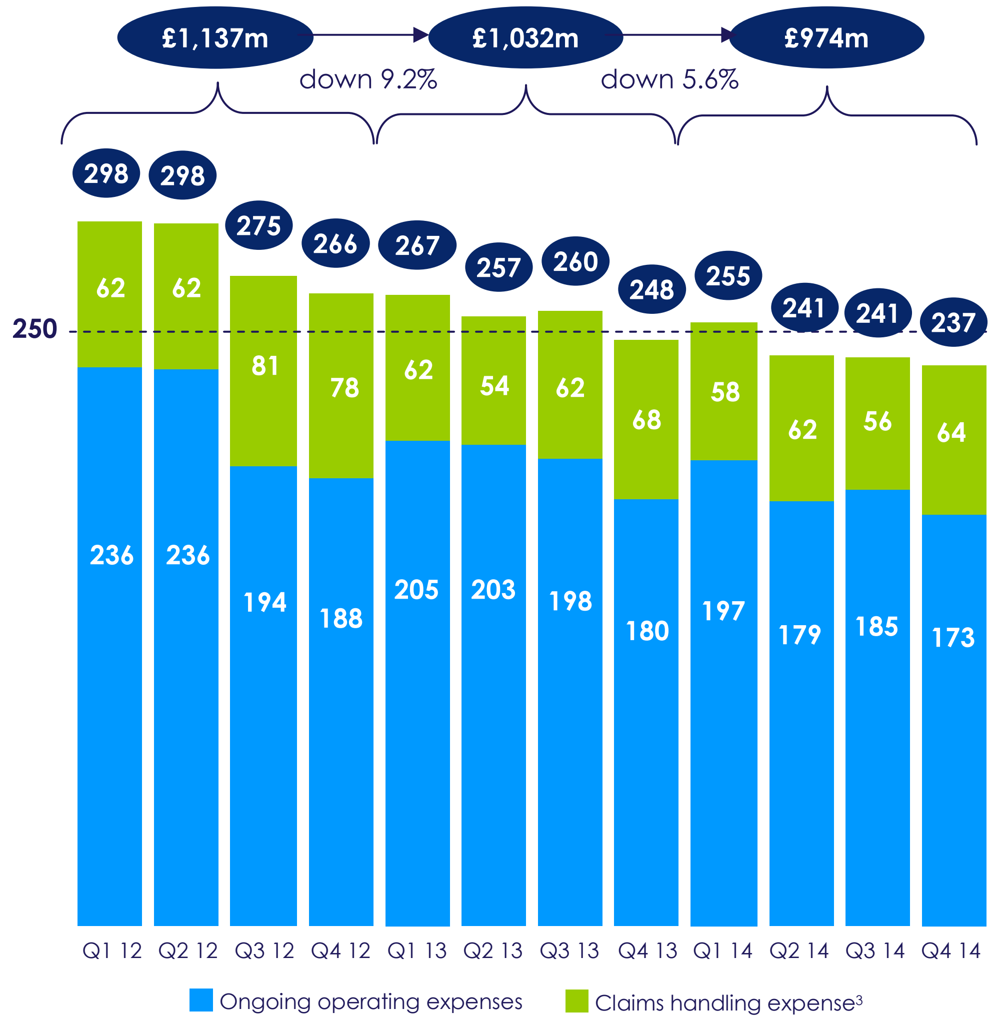
Observations

- **£1bn cost target achieved in 2014**
- **Total costs down by 5.6% to £974m**
- **Expense ratio broadly flat due to impact of lower earned premiums**

Expense ratio movement – ongoing operations[1]



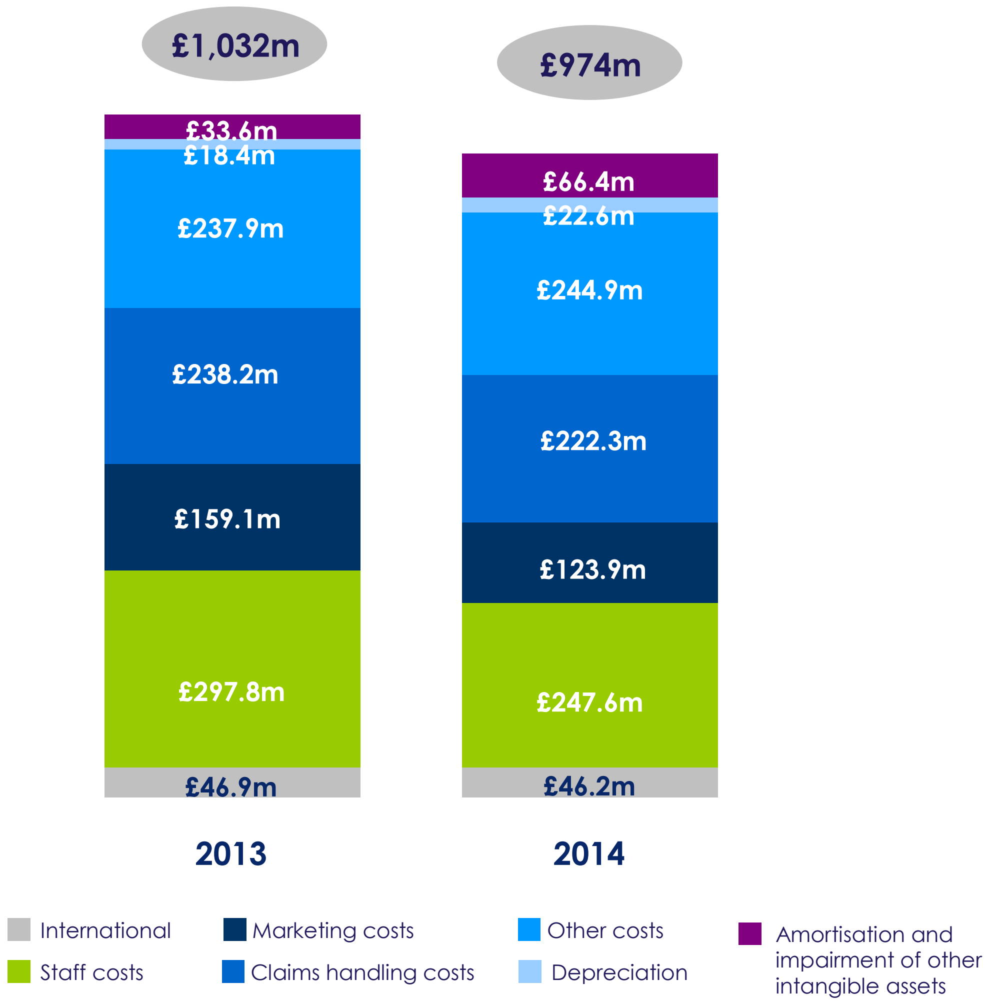
Cost base[2] (£m)



1. *Ongoing operations include the Group's ongoing segments: Motor, Home, Rescue and other personal lines and Commercial. It excludes the International division which is classified as discontinued operations, the Run-off segment and Restructuring and other one-off costs*
2. *Operating expenses and claims handling expenses from ongoing and International. It excludes the Run-off segment and Restructuring and other one-off costs.*
3. *Included in loss ratio*

Cost savings achieved through greater efficiency

Analysis of cost base[1]



Observations

- **Staff costs down 16.9% in 2014**
- **Making more efficient use of marketing with costs down 22.1%**
- **Increased depreciation and amortisation costs reflecting investment in the business**
- **Look to reduce costs in absolute terms in 2015**

1. *Operating expenses and claims handling expenses from ongoing and International. It excludes the Run-off segment and Restructuring and other one-off costs*

Direct Line Group

Motor highlights

Results

(£m unless stated)		FY 14	FY 13
In-force policies (000s)	1	**3,672**	**3,762**
Own brand in-force policies (000s)		3,415	3,466
Partnerships in-force policies (000s)		257	296
Gross written premium	2	1,342.0	1,421.1
Net earned premium		1,295.9	1,444.8
Loss ratio – current year		88.5%	85.3%
Loss ratio – prior years		(21.5%)	(20.2%)
Loss ratio	3	67.0%	65.1%
Commission ratio		3.2%	2.5%
Expense ratio		26.0%	25.6%
Combined operating ratio[1]	4	**96.2%**	**93.2%**
Underwriting profit / (loss)[2]		49.8	98.1
Of which prior year releases		278.4	291.9
Instalment and other income[3]	5	102.5	126.8
Investment return		144.8	122.8
Operating profit[4]	6	**297.1**	**347.7**

Observations

1. **IFPs down 2.4% since Dec 2013, with stability in the fourth quarter**
2. **GWP 5.6% lower than prior year although up 2.5% in the fourth quarter**
3. **Current year loss ratio increased by 3.2ppts reflecting adverse volatility in large bodily injury claims**
4. **Combined operating ratio 3.0ppts higher**
5. **Instalment and other income down £24.3m mainly due to the sale of Tracker and lower instalment income**
6. **Operating profit 14.6% lower at £297.1m**

1. *Combined operating ratio ("COR") is the sum of the loss, commission and expense ratios. The ratio is a measure of the amount of claims costs, and expenses compared to net earned premium generated. A ratio of less than 100% indicates profitable business*
2. *Underwriting profit: The profit or loss from operational activities, excluding investment performance. It is calculated as new earned premium less net insurance claims and total expenses*
3. *Tracker disposed on 5 February 2014 – the period ended 31 December 2014 includes Tracker related operating income: £1.4m (2013: £18.4m) and operating loss: £0.4m (2013: loss of £1.4m)*
4. *Operating profit: The pre-tax profit generated by the Group's activities, including insurance and investment activity, but excluding finance costs*

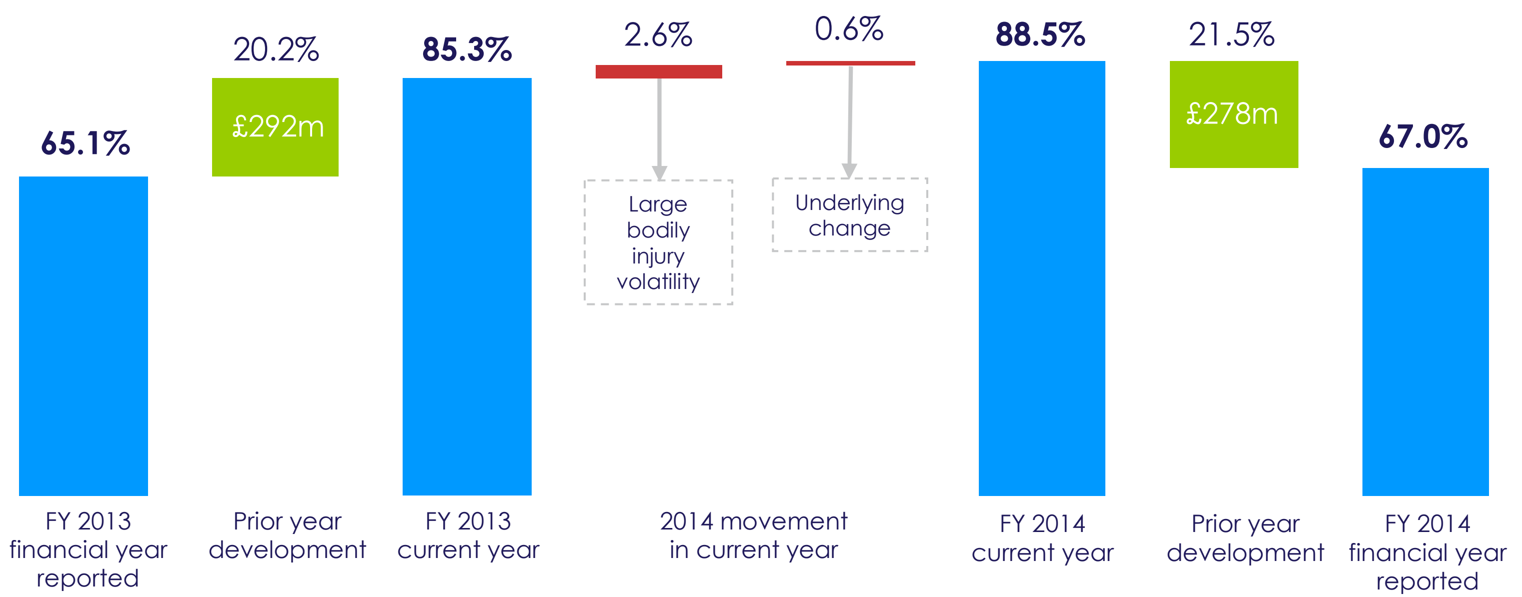
Direct Line Group

Motor average premiums and current year loss ratio

Average premium movement

UK Motor year on year	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Risk mix[1]:	-3%	-1%	-2%	-3%	-1%
Price:	-4%	-5%	-2%	0%	+2%
Change in GWP:	-9.1%	-10.2%	-7.8%	-5.4%	+2.5%
Change in IFPs in the quarter:	-1%	-1%	-1%	-1%	0%

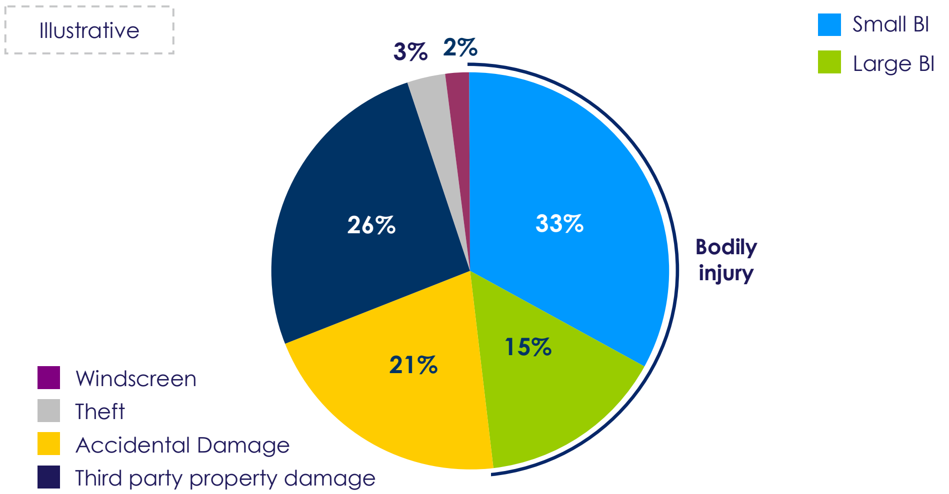
Current year loss ratio



1. Risk mix reflects the expected level of claims from the portfolio. It measures the estimated movement based on risk models used in that period and is revised when risk models are updated.

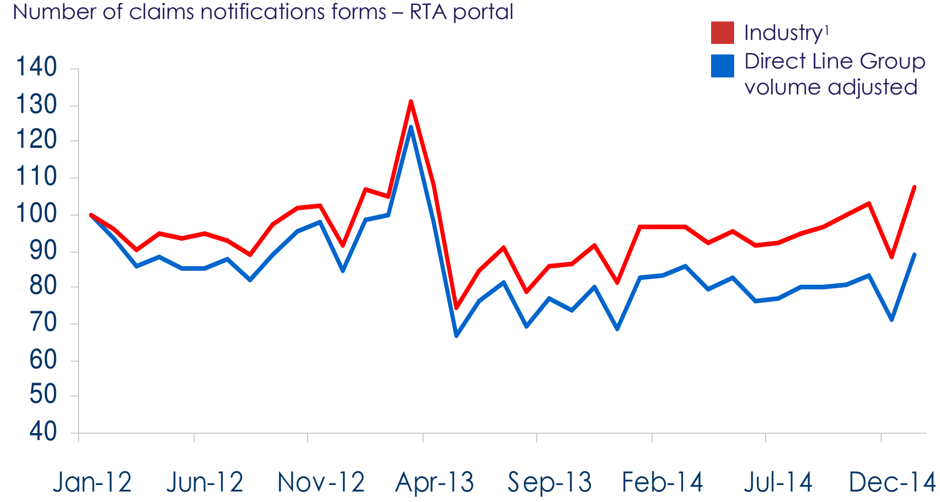
Motor claims picture has been mixed

Claims cost by peril



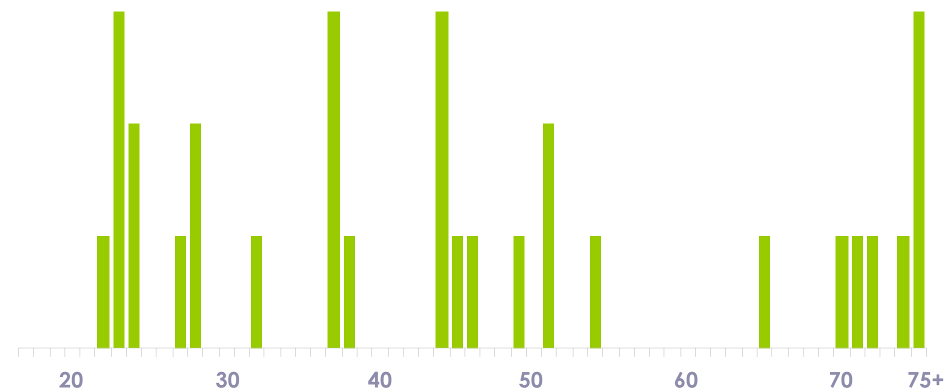
Small bodily injury

Number of claims notifications forms – RTA portal



Large bodily injury[2]

Distribution of 2014 reported super large bodily injury claims by driver age



Observations

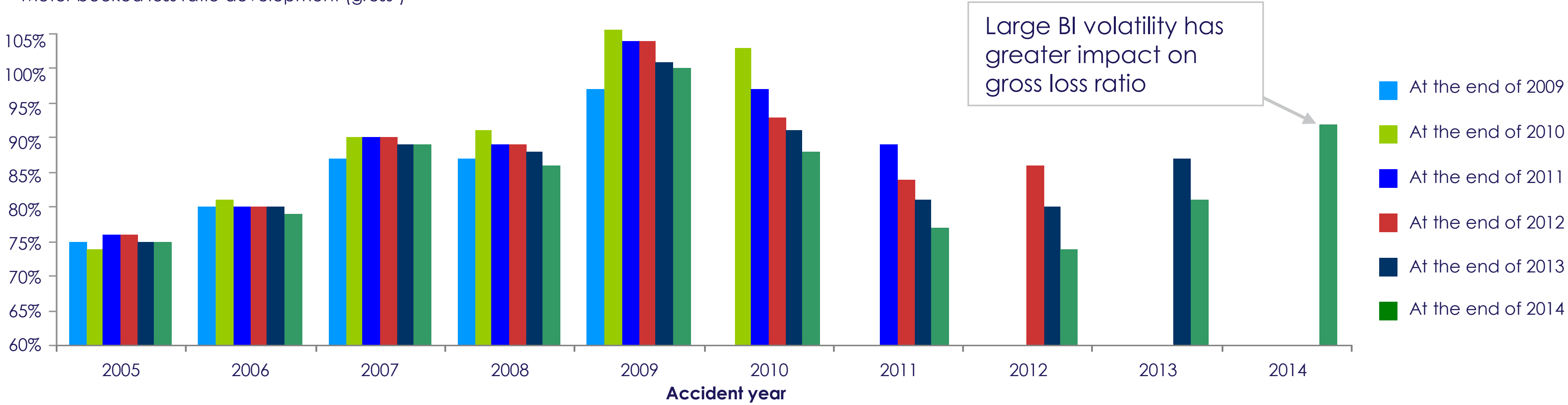
- **Overall claims experience has been mixed**
- **Good experience on small BI claims**
- **Volatility in large BI claims experience**
- **Normal market claims inflation of around 3-5%**

1. Portal Source http://claimsportal.org.uk/media/158934/rta-ad-hoc-moj-portal-mi-and-graphs-31_12_14-ver.1.0.xlsx
2. Number of large BI claims over £1m reported during 2014 by age

Motor reserving

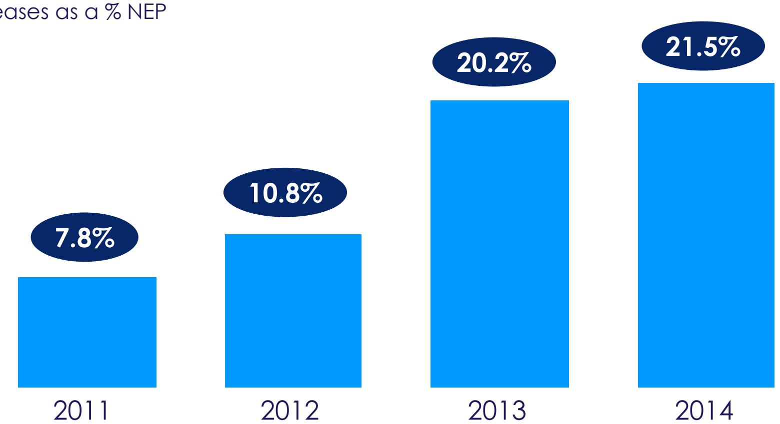
Conservatism reflected in high initial gross current year loss picks…

Motor booked loss ratio development (gross[1])

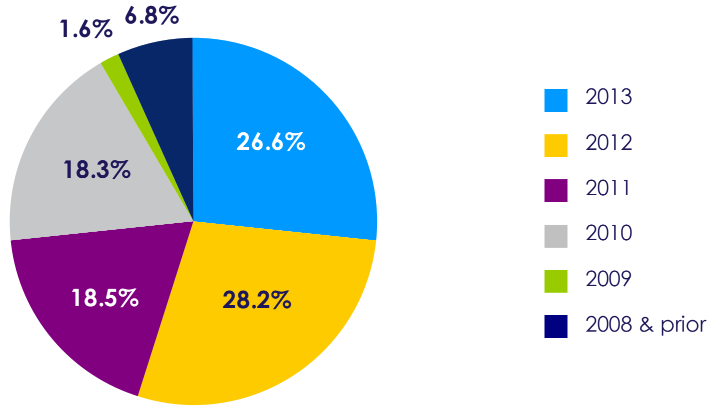


… leading to significant prior year reserve releases …

Releases as a % NEP



…mainly from more recent accident years[2]



1. Based on management best estimate, gross of reinsurance and excludes claims handling costs
2. 2014 prior year releases on a management best estimate basis

Home highlights

Results

(£m unless stated)		FY 2014	FY 2013
In-force policies (000s)	1	**3,526**	**3,719**
Own brand in-force policies (000s)		1,693	1,749
Partnerships in-force policies (000s)		1,833	1,970
Gross written premium	2	898.6	943.1
Net earned premium		875.3	908.9
Loss ratio – current year attritional	3	49.3%	51.1%
Major weather		7.2%	7.6%
Loss ratio – current year incl. weather		56.5%	58.7%
Loss ratio – prior years		(5.7%)	(4.8%)
Loss ratio		50.8%	53.9%
Commission ratio		21.7%	19.6%
Expense ratio		20.2%	20.3%
Combined operating ratio[1]	4	**92.7%**	**93.8%**
Underwriting profit / (loss)[2]		63.5	56.2
Of which prior year releases		49.8	43.3
Instalment and other income		24.7	25.9
Investment return		25.7	24.1
Operating profit[3]	5	**113.8**	**106.2**

Observations

1. **IFPs down 5.2% since Dec 2013, with a 1.0% reduction in the fourth quarter**
2. **GWP down 4.7% versus prior year and down 3.8% in the fourth quarter**
3. **Current year attritional loss ratio of 49.3%, 1.8ppts better than prior year**
   - **2014 weather-related claims of £63m, compared with £69m in 2013**
4. **1.1ppt improvement in combined operating ratio with a lower loss ratio offset by higher commission ratio due to partner profit shares**
5. **Operating profit up 7.2% to £113.8m versus 2013**

1. *Combined operating ratio ("COR") is the sum of the loss, commission and expense ratios. The ratio is a measure of the amount of claims costs, and expenses compared to net earned premium generated. A ratio of less than 100% indicates profitable business*
2. *Underwriting profit: The profit or loss from operational activities, excluding investment performance. It is calculated as new earned premium less net insurance claims and total expenses*
3. *Operating profit: The pre-tax profit generated by the Group's activities, including insurance and investment activity, but excluding finance costs*

Direct Line Group

Rescue and other personal lines[3] highlights

Results

(£m unless stated)

Rescue		FY 2014	FY 2013
In-force policies (000s)	1	**4,075**	**3,944**
Gross written premium		156.9	146.9
Combined operating ratio[1]	2	**81.5%**	**82.2%**
Operating profit[2]	3	**41.5**	**38.1**

Rescue and other personal lines[3]		FY 2014	FY 2013
In-force policies (000s)	1	**8,592**	**8,801**
Gross written premium	2	371.8	383.4
Gross written premium (excluding Life[4])		*371.8*	*355.6*
Net earned premium		369.1	365.8
Combined operating ratio[1]		**92.0%**	**92.4%**
Underwriting profit[5]		29.6	27.9
Of which prior year releases		*15.7*	*9.0*
Operating profit[2]	3	**48.0**	**46.5**

Observations

1. **3.3% IFP growth and 6.8% growth in GWP versus prior year**
2. **0.7ppt improvement in COR**
3. **Operating profit of £41.5m, 8.9% higher than 2013**

1. **IFPs 2.4% lower since December 2013, mainly due to reduction in partnership travel policies**
2. **4.6% increase in GWP, excluding Life**
3. **Operating profit of £48.0m, 3.2% higher than 2013**

1. *Combined operating ratio ("COR") is the sum of the loss, commission and expense ratios. The ratio is a measure of the amount of claims costs, and expenses compared to net earned premium generated. A ratio of less than 100% indicates profitable business*
2. *Operating profit: The pre-tax profit generated by the Group's activities, including insurance and investment activity, but excluding finance costs*
3. *ROPL is made up of a number of products, including Rescue, Pet, Travel , Creditor and Life*
4. *Life business which was disposed of on 28 November 2013 was recorded in two segments: Rescue and other personal lines (net earned premium: £11.8 million, net insurance claims: £1.8 million and operating profit: £6.4 million) and Run-off (net earned premium: £2.8 million, net insurance claims: £0.7 million and operating profit: £1.2 million)*
5. *Underwriting profit: The profit or loss from operational activities, excluding investment performance. It is calculated as new earned premium less net insurance claims and total expenses*

Direct Line Group

Commercial highlights

Results

(£m unless stated)		FY 2014	FY 2013
In-force policies (000s)	1	**611**	**583**
Gross written premium	2	487.0	474.5
Net earned premium		446.8	434.6
Loss ratio – current year		69.2%	74.1%
Loss ratio – prior years		(12.1%)	(11.8%)
Loss ratio	3	57.1%	62.3%
Commission ratio		19.7%	21.2%
Expense ratio		22.0%	23.3%
Combined operating ratio[1]	4	**98.8%**	**106.8%**
Underwriting profit/loss[2]		5.2	(29.6)
Of which prior year releases		*53.7*	*51.6*
Instalment and other income		7.8	9.5
Investment return		34.0	29.6
Operating profit[3]	5	**47.0**	**9.5**

Observations

1. **4.8% growth in IFPs since December 2013, with strong growth in Landlord and Tradesmen products**
2. **2.6% increase in GWP year on year with growth across all channels (Direct, eTrade, Regional)**
3. **4.9ppt improvement in current year loss ratio, due to disciplined underwriting and non repeat of above average level of large claims in 2013**
4. **Combined operating ratio improved to 98.8% ahead of target with reductions seen across loss, expense and commission ratios**
5. **Operating profit of £47.0m, up substantially on 2013**

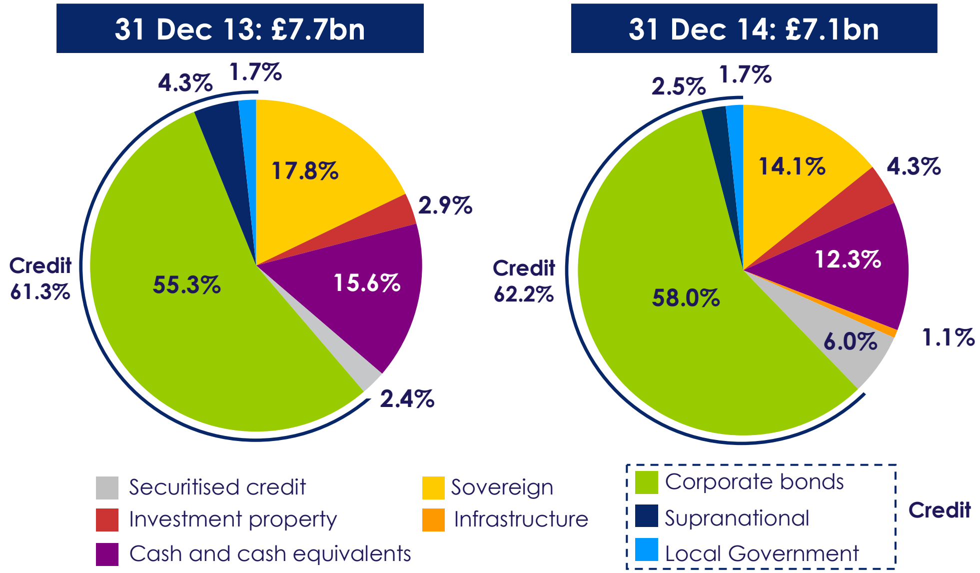
1. *Combined operating ratio ("COR") is the sum of the loss, commission and expense ratios. The ratio is a measure of the amount of claims costs, and expenses compared to net earned premium generated. A ratio of less than 100% indicates profitable business*
2. *Underwriting profit: The profit or loss from operational activities, excluding investment performance. It is calculated as new earned premium less net insurance claims and total expenses*
3. *Operating profit: The pre-tax profit generated by the Group's activities, including insurance and investment activity, but excluding finance costs*

Growing investment returns from a high quality portfolio

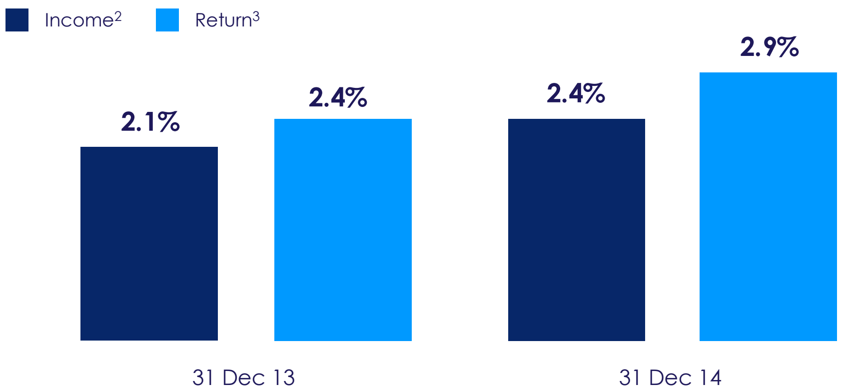
Observations

- Investment income yield increased to 2.4% from 2.1%, as actions to diversify portfolio took effect
- Overall investment return of 2.9%, compared with 2.4% in 2013
- Higher gains mainly due to fair value increases in investment property
- Three new asset classes approved during 2014

UK investment assets by type[1]



Group investment yields



Investment return - ongoing operations (£m)

	FY 2014	FY 2013
Investment income	171.7	157.1
Net realised gains and unrealised gains	38.9	27.6
of which investment property	*28.7*	*7.5*
Total	**210.6**	**184.7**

1. Asset allocation for Total Group, excluding International
2. Investment income yield excludes net gains and is shown on an annualised basis
3. Investment return includes net gains and is shown on an annualised basis

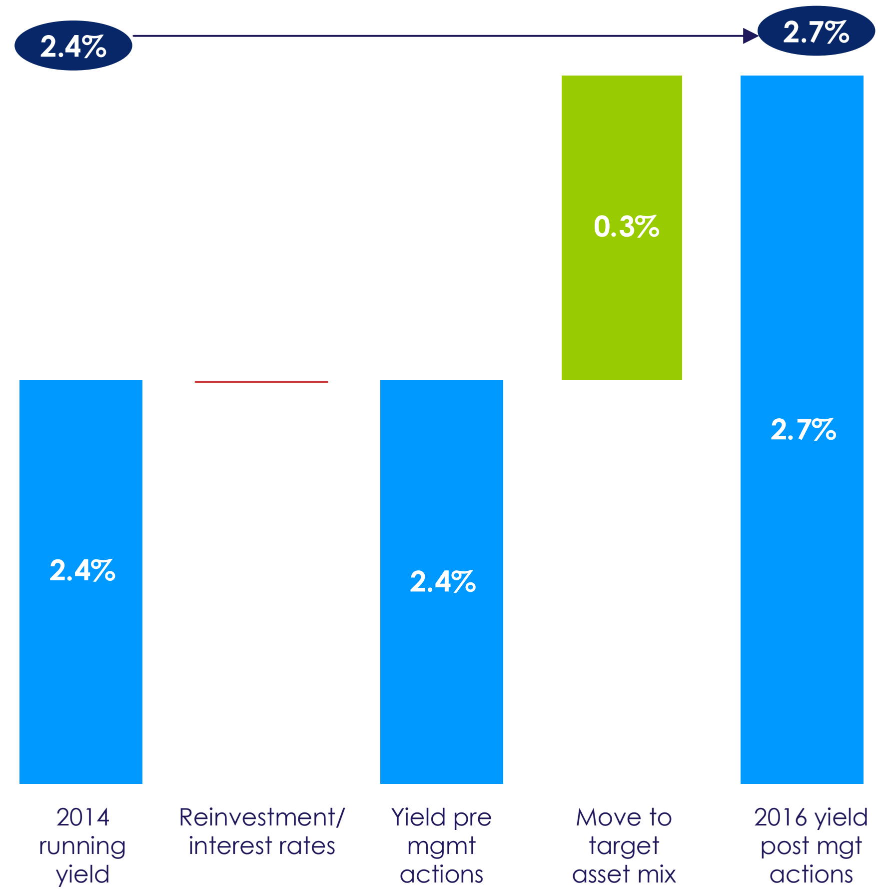
Direct Line Group

Investment yield outlook

Income yield[2]

31 December 14	Target allocation[1]	Actual allocation	Income yield[1]	Duration (years)
Credit	63.0%	62.2%	2.8%	2.5
Securitised credit[2]	6.0%	6.0%	2.0%	0.2
Sovereign	13.0%	14.1%	1.9%	1.2
Total debt securities	**82.0%**	**82.3%**	**2.6%**	**2.1**
Infrastructure	6.0%	1.1%	n.m.[3]	n.m.[3]
Investment property	5.0%	4.3%	6.1%	-
Cash and cash equivalents	7.0%	12.3%	0.5%	0.0
Total	**100.0%**	**100.0%**	**2.4%**	**1.7[4]**

Income yield outlook



1. Target allocation and income yield for U K Insurance Limited
2. Securitised credit is all in the form of prime mortgage backed securities, collateralised loan obligations, securitised student loans and commercial mortgage backed securities
3. Not meaningful
4. Excludes investment property

Ongoing operating profit reconciliation

Observations

1. **Run-off segment profit of £55.3m due to prior year reserve releases mainly from large bodily injury**
2. **Restructuring and other one-off costs of £69.6m, £70.9m lower than 2013**
3. **EPS growth of 15.4%, due to lower restructuring and other one-off costs, adjusted EPS grew 2.0%**

Outlook

- **2015 restructuring and other one off costs expected to be around £50m**
- **Profit from run off is expected to offset restructuring and other one off costs over the next three years**

Operating profit

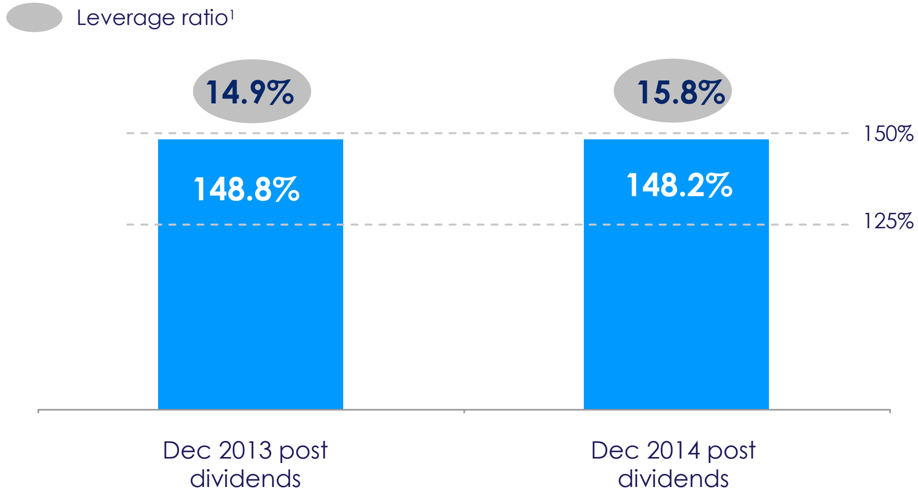
£m		FY 2014	FY 2013
Operating profit - ongoing operations		**506.0**	**509.9**
Run-off	1	55.3	63.6
Restructuring and other one-off costs	2	(69.6)	(140.5)
Operating profit		**491.7**	**433.0**
Finance costs		(37.2)	(37.7)
Gain on disposal of subsidiary[1]		2.3	12.0
Profit before tax		**456.8**	**407.3**
Tax		(97.5)	(96.5)
Profit from discontinued, net of tax[2]		13.3	2.0
Profit after tax / net income		**372.6**	**312.8**
EPS – reported (pence)[3]	3	**24.0**	**20.8**
EPS – adjusted (pence)[4]	3	**25.5**	**25.0**

1. *2014 relates to Tracker disposed on 5 February 2014 – the period ended 31 December 2014 includes Tracker related operating income: £1.4m and operating loss: £0.4m*
2. *Relates to the International division which is now treated as a discontinued operation*
3. *Earnings per share is calculated by dividing earnings attributable to the owners of the Company by the weighted average number of Ordinary Shares during the period. Earnings per share is calculated by dividing earnings attributable to the owners of the Company by the weighted average number of Ordinary Shares during the period*
4. *Adjusted earnings per share – diluted includes ongoing operations and the International division and excludes the Run-off segment and restructuring and other one-off costs (using UK standard tax rate)*

Direct Line Group

Strong capital position

Capital position and leverage



Observations

- RBC coverage remains at top end of range post dividends
- Leverage of 15.8% remains conservative
- Credit ratings 'A' (strong) S&P, 'A2' (good) Moody's

Solvency II

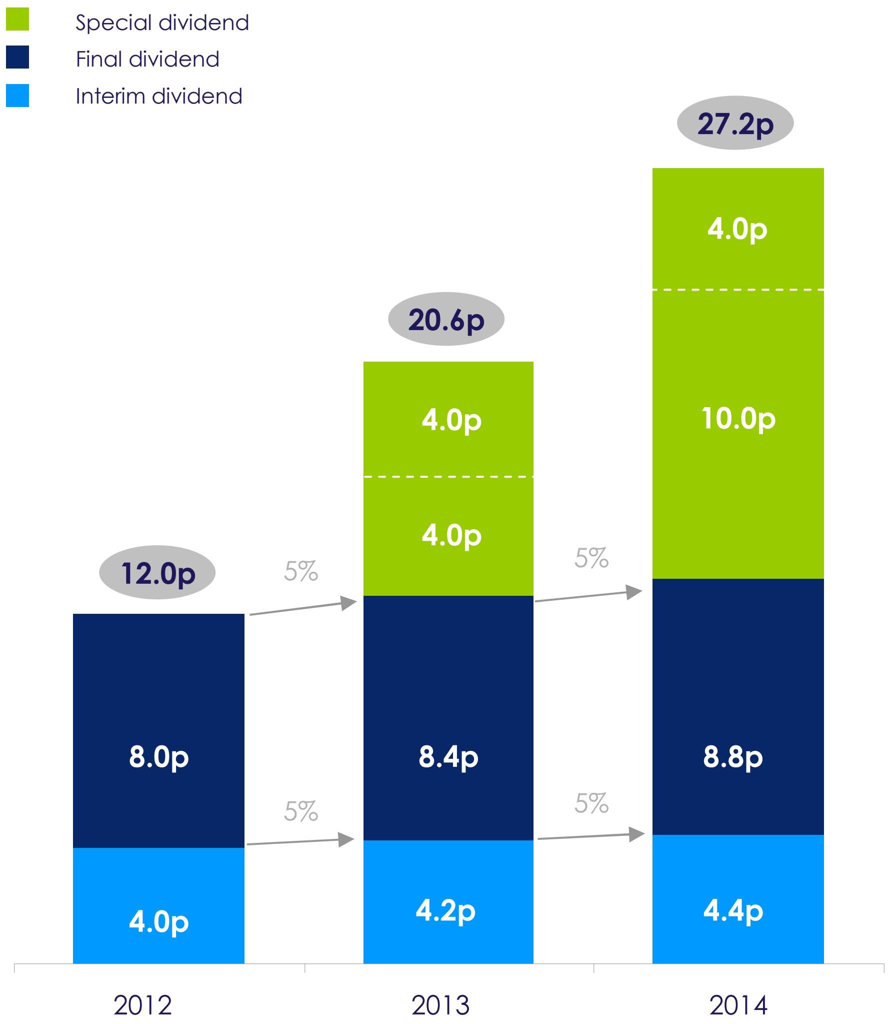
- Capital position remains conservative ahead of Solvency II
- Internal model approval submission during 2015
- The Group is expected to operate under standard formula for at least the first six months of 2016
- Review and recalibration of risk appetite during 2015
- Board next likely to consider any return of capital at 2015 full year results

1. *Leverage ratio stated pre-dividends*

Direct Line Group

Dividends

Dividends



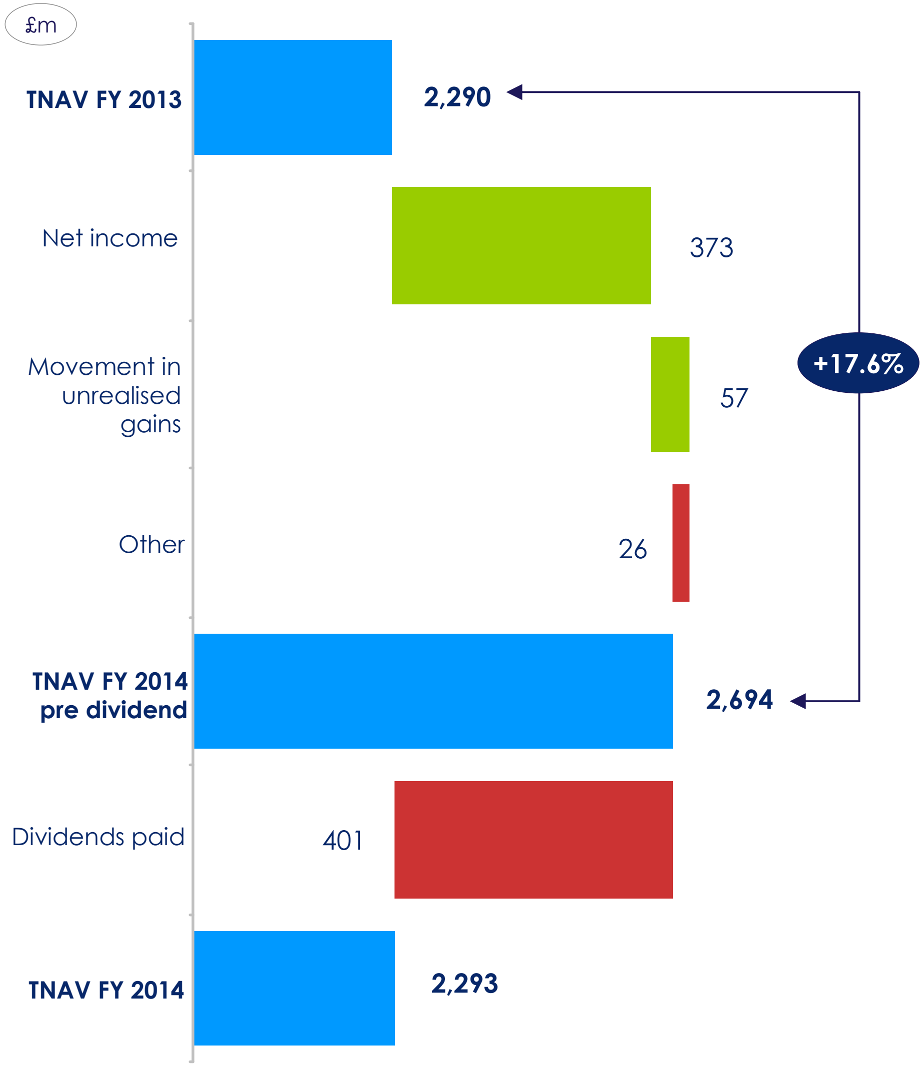
Commentary

- **5% growth in regular final dividend to 8.8p**
- **Announcing second special of 4p, taking total specials to 14p for 2014**
- **Dividends paid since IPO equivalent to 25% of IPO price rising to 32% including final and second special**
- **Expect to return substantially all of net proceeds from sale of International. Special dividend to be accompanied by and conditional on share consolidation**

Date	Event
12 March 15	Ex-dividend date
13 March 15	Record date
17 April 15	Payment date

Post dividends book value and TNAV

Movement in tangible net asset value



NAV and TNAV per share

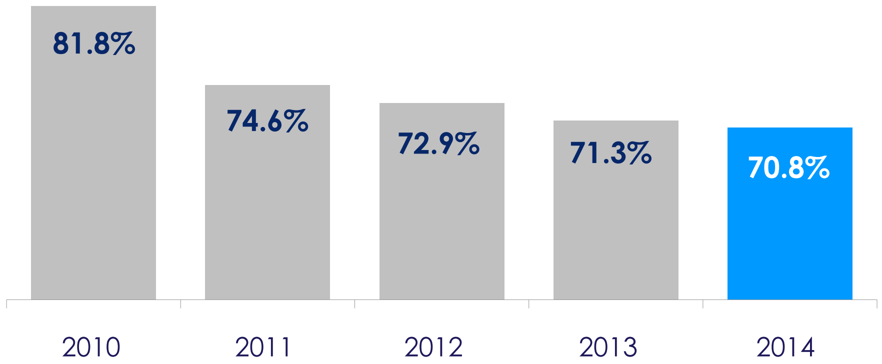
Pence	2014	2013
Net asset value per share	188.2	186.6
Tangible net asset value per share	153.1	153.2

Observations

- **TNAV and NAV per share are broadly flat versus full year 2013**
- **TNAV growth of 17.6% before dividends**
- **Total unrealised gains of £116m (net of tax) and £94m (net of tax) excluding International**

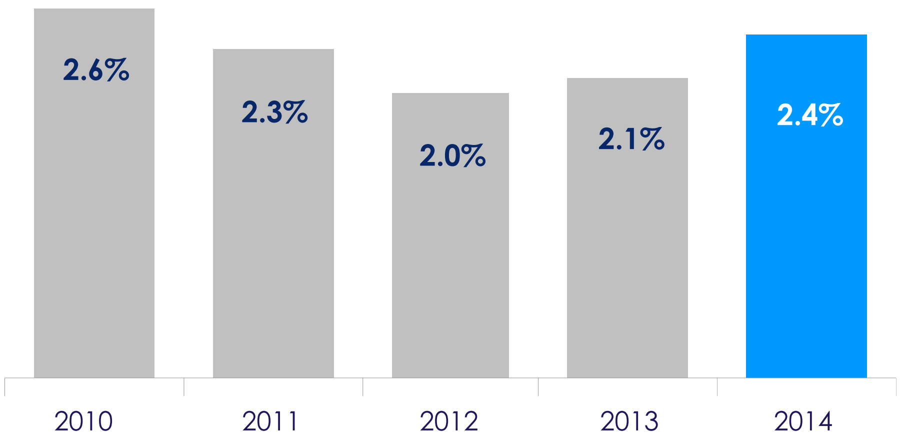
Progress on key financials

Current year attritional loss ratio[1]

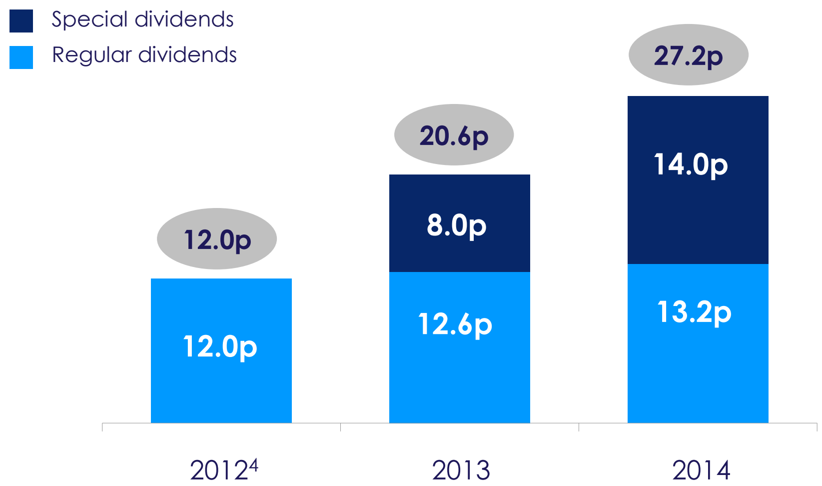


Total costs[2]

Investment income yield[3]



Dividends



1. Current-year attritional-loss ratio: The loss ratio for the current accident year, excluding the impact of movement of claims reserves relating to previous accident years and claims relating to weather events in the Home division. Includes International for 2010-2012
2. Operating expenses and claims handling expenses from ongoing and International. It excludes the Run-off segment and Restructuring and other one-off costs.
3. Investment income yield excludes net gains and is shown on an annualised basis
4. 2012 pro-forma dividend

Strategy update

Paul Geddes - CEO

We delivered against our agenda in 2014

1 Distribution
Aim to improve our distribution efficiency and effectiveness through a focus on digital capability and customer value

- Complete the roll-out of our new smartphone and tablet optimised websites and leverage the new digital platform
- Continue to develop and differentiate the Direct Line customer proposition
- Evolve the Telematics propositions based on customer feedback and performance

2 Pricing
Aim to leverage our substantial data and the investments we have made to provide leading technical and market pricing

- 30 major programmes due to be delivered in 2014
- A number of specific pricing initiatives to enhance trading capability on PCWs
- Use Telematics experience and data to support technical pricing

3 Claims
Aim to maintain top quartile performance by achieving efficient and effective claims management

- Continue to improve customers' experience by rolling out further claims initiatives e.g. smartphone technology
- Further enhance claims leakage and fraud identification
- Generate further efficiency through the repair network

4 Costs
Aim to improve efficiency throughout the business to reduce costs, enable faster decision making and improve customer propositions

- Make substantial progress on the migration of IT applications, reducing dependency on RBS systems
- Build a low-cost self-service digital structure
- Reduce total costs to approximately £1,000 million

5 Commercial
Leverage core skills to improve performance in adjacent business areas

- Embed and extract value from ClaimCenter and etrade roll out
- Develop Van proposition including Telematics and Churchill Brand

Direct Line Group

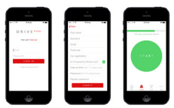
Increased capability in distribution and pricing

Distribution

We have improved customers' experience while differentiating the Direct Line customer proposition

94% of customers rate our sales and service consultants as good or excellent[1]	**81%** increase in Motor insurance purchased on a smartphone
50% telematics take-up by under 21's[2]	**1,800** webchats per day

- Launched new websites for Motor



- Re-engineered and optimised the 'quote to buy' journey
- Differentiated the Direct Line customer proposition focusing on improving claims performance
- Continued growth in the telematics portfolio with the launch of a self-install device

Pricing

During 2014, we made major progress in our ambitions around pricing sophistication

30 Major pricing initiatives delivered in 2014	**81%** Home own brands retention rate
80% Motor own brands retention rate	**40%** Differential in pricing from telematics data[3]

- Began using telematics generated data to inform pricing decisions for telematics customers
- Delivered 30 pricing programmes relating to technical and market pricing
- Pricing projects helped deliver increased Home retention and better risk selection, contributing to underwriting performance

1. Group own brands and strategic partners: Direct Line, Churchill, Privilege, Green Flag, Sainsbury, RBS, NatWest, Prudential, Nationwide, Citroen and Peugeot © NICE systems, [MyCustomer – Fizzback] year ending 31 December 2014, [472,828 sample size] adult interviews for motor, home, pet, travel and rescue customers. 'Good or Excellent' represented by scores of 7-10 out of 10
2. Direct Line new policies taken out by under 21s over the phone in 2014
3. Price differential in addition to traditional rating factors when telematics data is considered

Direct Line Group

Improving efficiency across the business

Claims

We have continued improving our claims service

Home customers choosing digital claims processes
81%
where offered to customers[1]

158,000
Vehicles repaired by our accident repair centres and network garages

Fraud detection
2.6x
(fraud detection performance ahead of the market[2])

Launched **7 day** car repair

- **Smartphone photos and videos help us to settle claims quicker, improve customers' claims experience and reduce fraud**
- **Improved Direct Line claims proposition - seven day car repairs, sourcing a replacement car in the event of total loss and replacing certain household goods within eight hours**
- **Emergency response vehicles can be deployed to help our customers when weather impacts an area**

Costs

We beat our target of reducing costs to around £1,000m

Reduced our cost base by
5.6%
in 2014

£974m
total cost base[3]

£58m
Reduction in cost base following a focus on cost control and operating efficiency[4]

Staff costs down
17%
year on year

- **Delivered a 5.6% reduction in our cost base and beat our £1bn cost target**
- **Continued to improve efficiency, reduce costs, enabling faster decisions and improved customer propositions**
- **Progressed substantially in migrating IT applications from RBS Group infrastructure and expect to complete this in 2015, which will lead to future operational efficiencies**

1. *Percentage of in-scope claims where offered and accepted, six months to 18 January 2015*
2. *2013 ABI fraud benchmarking data*
3. *Ongoing expenses and claims handling expenses from ongoing and International. It excludes the Run-off segment and Restructuring and other one-off costs*
4. *Total cost base for the year ended 31 December 2014 in comparison to the previous year*

Actively managing our portfolio

Commercial

We delivered on our target of below 100% combined operating ratio

98.8% Commercial COR	**7.1%** GWP increase in eTrade products[1]
Our Commercial projects **11.5%** GWP increase in Landlord product[2]	**5,100** Landlord app smartphone downloads

- **Continued improvement in profitability, through disciplined underwriting and tight cost control, achieving a COR of 98.8%**
- **Award winning eTrade platform delivered further growth with continued improvements in products and propositions**
- **Strong growth in Direct market, DL4B GWP up 11.2% excluding Van.**
- **Improved direct digital functionality and extended PCW distribution to the van business through Churchill for Business**

International

Announced sale of our International operations to Mapfre, S.A.

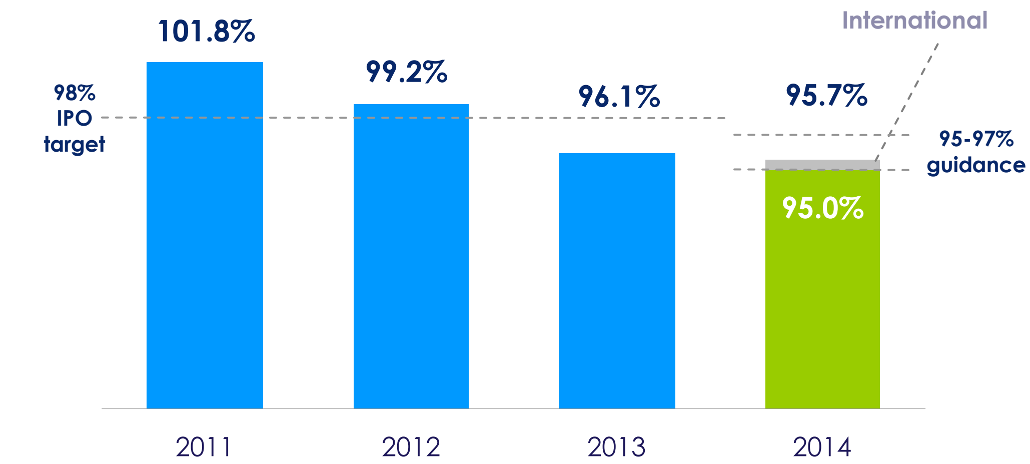
Total cash proceeds of **€550m** for the sale of the Group's Italian and German operations	Pre-tax gain on disposal of **c.£160m**
1.9x 2013 net asset value	**Substantially all net proceeds to be returned to shareholders**

- **Strategic review initiated to consider how best to maximise shareholder value, while offering our customers stability and colleagues opportunity**
- **Substantially all of the net proceeds to be returned to shareholders**

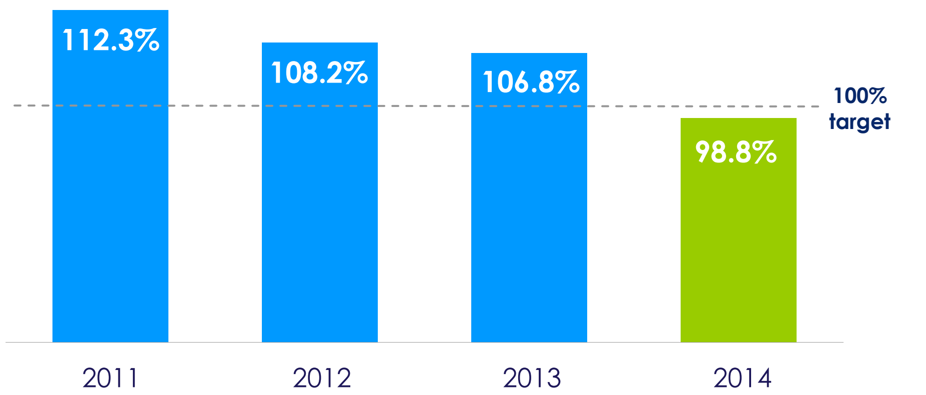
1. *Excluding migrated products*
2. *Gross written premium for the year ended 31 December 2014 in comparison to the previous year*

Track record of delivering against targets

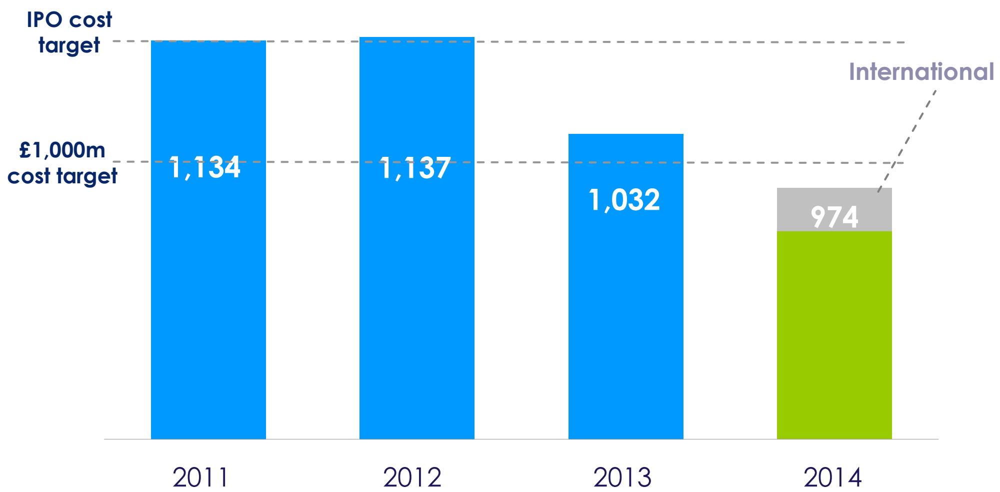
COR[1,2]



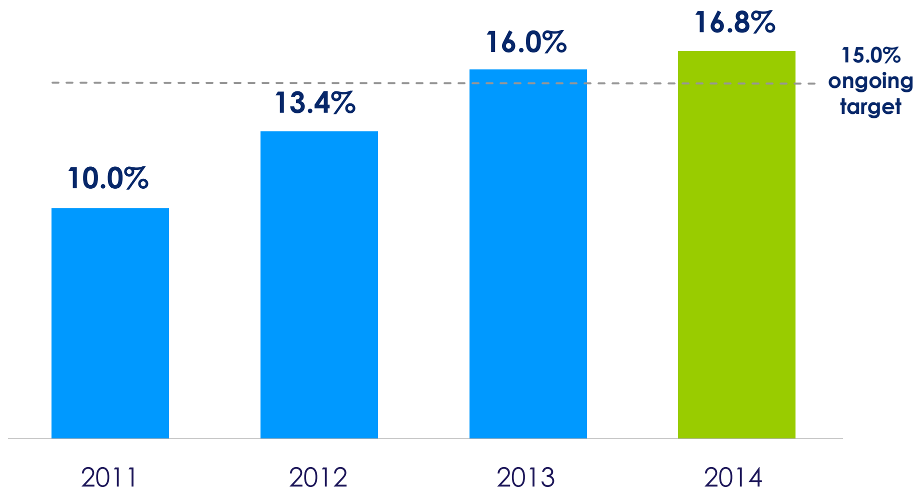
Commercial COR[1]



Total cost base[3] £m



RoTE[4]



1. Combined operating ratio ("COR") is the sum of the loss, commission and expense ratios. The ratio is a measure of the amount of claims costs, and expenses compared to net earned premium generated. A ratio of less than 100% indicates profitable
2. Ongoing operations include Direct Line Group's (the 'Group') ongoing segments: Motor, Home, Rescue and other personal lines and Commercial. It excludes the International division which is classified as discontinued operations, the Run-off segment and Restructuring and other one-off costs.
3. Operating expenses and claims handling expenses from ongoing and International. It excludes the Run-off segment and Restructuring and other one-off costs.
4. Return on tangible equity ("RoTE") is adjusted profit after tax from ongoing operations and the International division divided by the Group's average tangible shareholders' equity. Profit after tax is adjusted to exclude the Run-off segment and Restructuring and other on-off costs and is stated after charging tax (using the UK standard tax rate of 21.5% (2013 23.25%). For 2012, pro forma RoTE is based on the return on tangible equity, but assumes that the capital actions taken by the Group prior to the initial public offering (£1 billion dividend payment and £500 million long-term subordinated debt issue) occurred on 1 January 2012.

Direct Line Group

We now have a profitable, well diversified UK portfolio

	COR	Operating profit	Brands	Franchise
Motor	96.2%	£297.1m	direct line, churchill, privilege, Brand Partners	#1[1] Personal Lines insurer. Stable own brand IFPs in H2
Home	92.7%	£113.9m		
Rescue & other personal lines	92.0%	£48.0m	GreenFlag No Matter What	#3[2] Rescue provider. Growing IFPs and GWP
Commercial	98.8%	£47.0m	NIG, direct line for business	#2[3] Direct commercial insurer. Growing IFPs and GWP

1. *Ranked by total in-force policies in the motor and home markets, including partner brands. GFK NOP Financial Research Survey (FRS) 6 months ending December 2014, 12,973 adults were interviewed for motor insurance and 12,181 for home insurance.*
2. *Mintel Vehicle Recovery - UK, September 2014*
3. *Management estimate*

Our mission…

…is to make insurance much easier and better value for our customers

direct line

churchill™

privilege®

GreenFlag
No Matter What

NIG

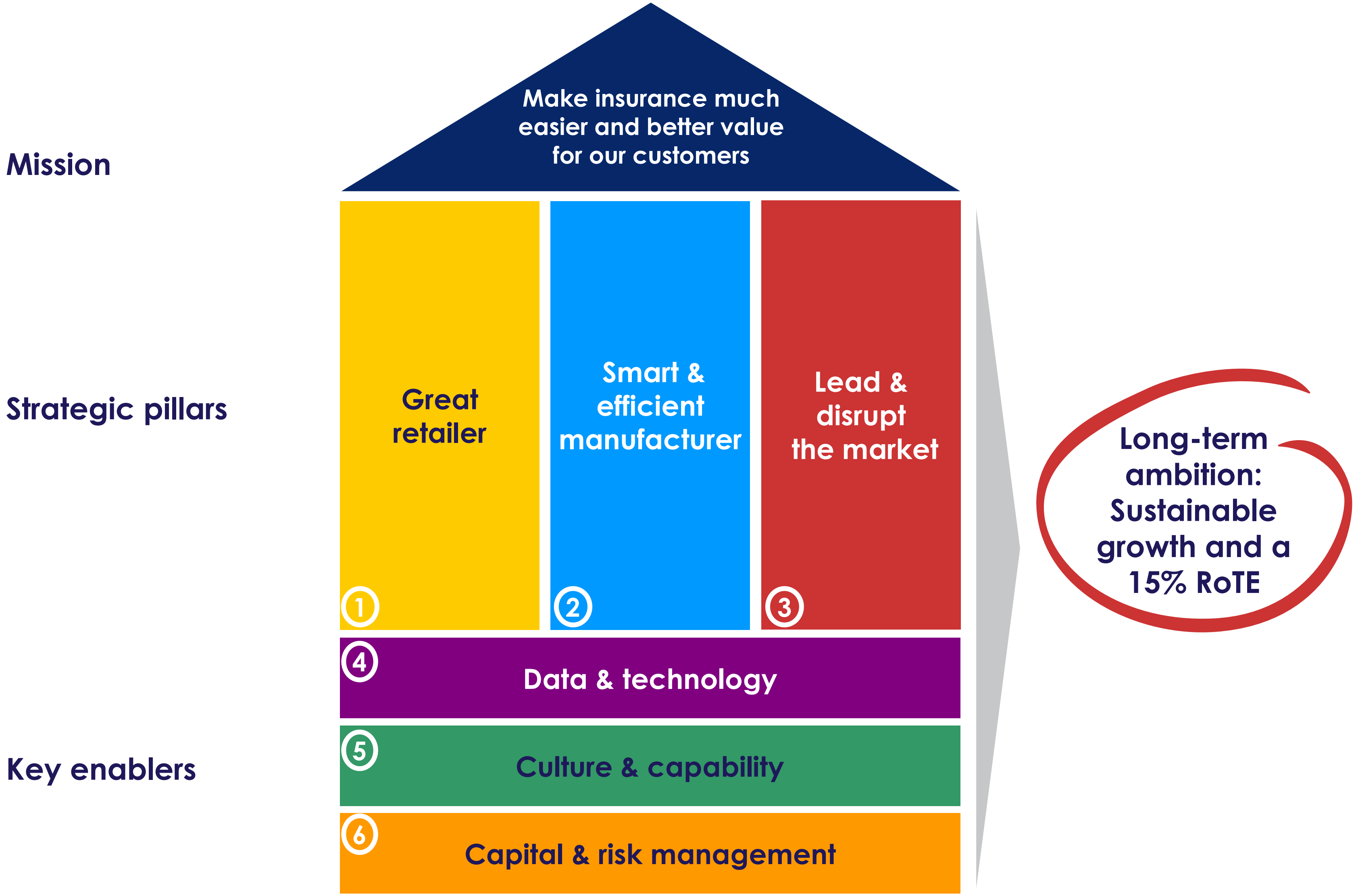
direct line for business

DriveXpert™ from privilege

direct line DRIVE PLUS™

Direct Line Group

We have re-articulated our ambitions



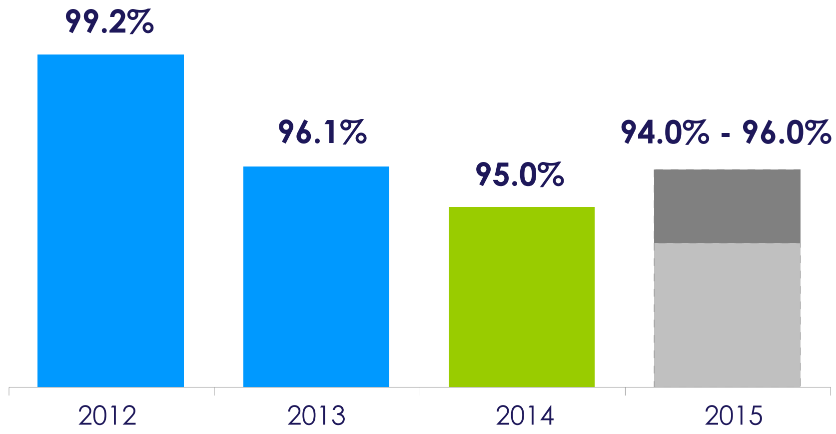
We have specific 2015 deliverables…

1 Great retailer	2 Smart & efficient manufacturer	3 Lead & disrupt the market	4 Data & technology	5 Culture & capability	6 Capital & risk management
Compelling brands, propositions and customer experience to meet diverse, long term customer needs	Efficiency and flexibility to deliver better claims and customer service at lower cost	Maximise existing growth opportunities while creating and driving future areas of value	Harness the power of technology and scale of our data	Unlock and accelerate our people potential	Sound foundation of capital and risk management
• Further differentiate our brands including refresh of Churchill • Launch customer experience programmes to increase NPS, reduce frictional costs and reduce complaints • Improve trading capability to maxmise sales, cross-sales and retention while optimising margin	• Continue to build technical pricing excellence • Beat market claims inflation via further claims programmes • Reduce level of overall costs by improving efficiency	• Continue to grow Green Flag • Capitalise on market trends towards direct and eTrade to grow Commercial • Double number of telematics policies in-force	• Complete migration of IT infrastructure • Continue to implement next generation of customer systems including policy system • Update Motor pricing engine	• Invest in developing our employees' skills to capitalise on new systems • Build superior people engagement via focus on leadership and people management	• Be ready for Solvency II implementation on 1 January 2016 and submit internal model for approval

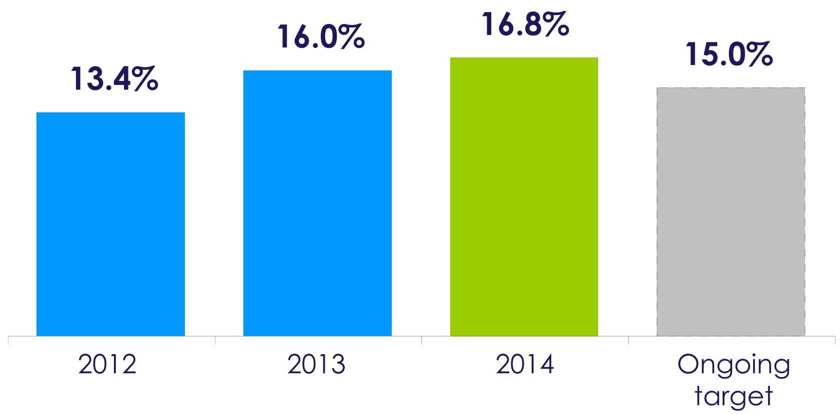
Outlook

1. Motor and Home markets remain highly competitive
2. Aim to reduce costs in absolute terms
3. Strong reserve and capital position
4. Ongoing investment in capability
5. Target COR of 94-96% with range reflecting uncertainty of claims inflation versus market pricing in motor

COR[1]



ROTE[2]



Our mission is to make insurance much easier and better value for our customers

1. *Combined operating ratio ("COR") is the sum of the loss, commission and expense ratios. The ratio is a measure of the amount of claims costs, and expenses compared to net earned premium generated. A ratio of less than 100% indicates profitable*
   Ongoing operations include Direct Line Group's (the 'Group') ongoing segments: Motor, Home, Rescue and other personal lines and Commercial. It excludes the International division which is classified as discontinued operations, the Run-off segment and Restructuring and other one-off costs
2. *Return on tangible equity ("RoTE") is adjusted profit after tax from ongoing operations and the International division divided by the Group's average tangible shareholders' equity. Profit after tax is adjusted to exclude the Run-off segment and Restructuring and other on-off costs and is stated after charging tax (using the UK standard tax rate of 21.5% (2013 23.25%).*

Direct Line Group

Key highlights

1. Met or exceeded all published IPO and 2014 targets

2. Ongoing investment in capability supporting profitability across the Group, all divisions now making a material contribution to profit

3. Announced the sale of our International division for €550m (£430m)

4. Continued active capital management with 32% of IPO share price returned to shareholders post 2014 final and special dividends

5. Focus on UK reaffirmed with clear strategic aim to make insurance much easier and better value for customers

Q&A

Appendix

UK regulatory themes

	What's happening?
MedCo	• MedCo launched in December 2014, due to go live 6 April 2015. • MedCo will oversee an IT Portal system which will allocate independent accredited medical experts to soft tissue RTA claims valued up to £25,000. • As well as overseeing the administration of the IT Portal system, MedCo will oversee the training and accreditation process for medical experts, as well as the ongoing audit and sanction regime. • Whilst the process will go live from April 2015, the training/accreditation of experts will take place retrospectively after launch and be completed by 1 January 2016. • Separately, a strike out option for fundamentally dishonest PI claims and the ban on solicitors offering inducements came into effect with the Criminal Justice and Courts Act on 12 February.
FCA thematic review of PCWs	• FCA concluded in 2014 that PCWs fail to meet consumers' expectations by: failing to provide clear information – i.e. making clear to consumers their role as distributer; not disclosing potential conflicts; and failure to fully implement FCA guidance published in 2011. • FCA expecting insurers and PCWs to work together – six working groups being held across 2014-15. • FCA is now providing individual feedback and engaging with the wider industry on its findings to address the specific issues.
FCA market study into the sale of add ons	• GAP consultation issued in December. Further consultation on other add-on remedies (claims ratios, opt outs and PCWs) expected early 2015. • FCA has held working groups on claims ratios and PCWs but no update on next steps for opt-outs. • Claims ratio remedy is no longer being targeted at add-ons only but now includes standalone products too. Some exceptions will apply to the products in scope, albeit these have not yet been confirmed. • PCW remedy focusing on improved information provision.
ABI proposal on renewal disclosures	• In 2014 the ABI announced that it had written to the FCA proposing improved disclosure on customers' renewal documentation. This included details of the previous year's premium and information on introductory discounts applied. • FCA has not publicly commented on the proposals. • No formal communication has been issued by the ABI on next steps. • Anticipating an update later in 2015.

Supportive of a level playing field

Instalment and other operating income

Observations

- **Other operating income of £61.6m down £14.7m from FY 2013**
- **Reduction mainly due to the sale of the Tracker business and ending of solicitors' referral fee income from 1 April 2013**
- **Instalment income reduction broadly reflects premium trends**

Instalment and other operating income

(£m)	FY 14	FY 2013
Instalment income	100.4	111.0
Other operating income	46.9	61.6
Total – ongoing operations	**147.3**	**172.6**

Breakdown of other operating income

(£m)	FY 14	FY 2013
Vehicle replacement referral fee income	15.8	15.7
Revenue from vehicle recovery and repair services[1]	18.0	31.8
Fee income from insurance intermediary services	2.1	1.7
Other income	11.0	12.4
Other operating income	**46.9**	**61.6**

1. Vehicle recovery includes post-accident and pay-on-use recovery, and vehicle tracking. Repair service includes providing non-insurance related repairs

Direct Line Group

Small BI inflation, reinsurance and risk based capital

BI capped severity inflation[1]

	2014 vs. 2013	2013 vs. 2012	2012 vs. 2011	2011 vs. 2010	2010 vs. 2009
Inflation at latest settlement rate point	(4.9%)	(11.0%)	(0.2%)	(0.7%)	(3.7%)
Inflation in booked best estimate[2]	0.4%	(6.4%)	(2.1%)	0.7%	(3.3%)
Indexed (2009 = 100)					
Inflation at settlement point	80.7	84.9	95.4	95.7	96.3
Inflation in booked best estimate[1]	89.6	89.3	95.4	97.4	96.7

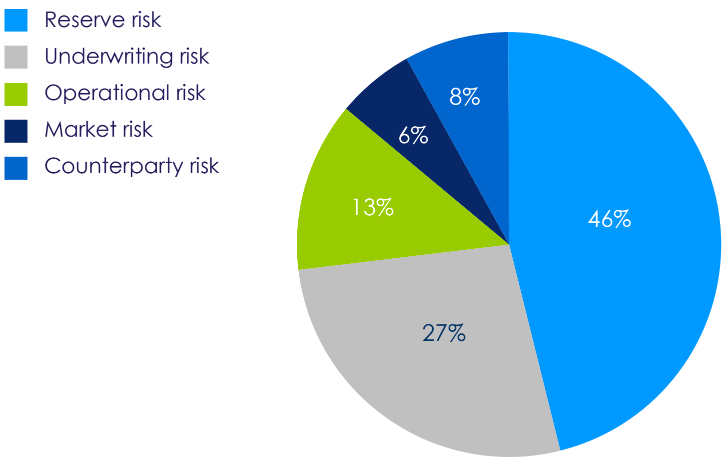
Motor excess of loss reinsurance[3]

£m	2011	2012	2013	2014	2015
Limit	Unlimited				
Deductible	3[4]	3	3[4]	1[4]	1

Property catastrophe reinsurance[5]

£m	2011/12	2012/13	2013/14	2014/15
Limit	1,100	1,125	1,300	1,400
Deductible	125	125	150	150

Risk based capital



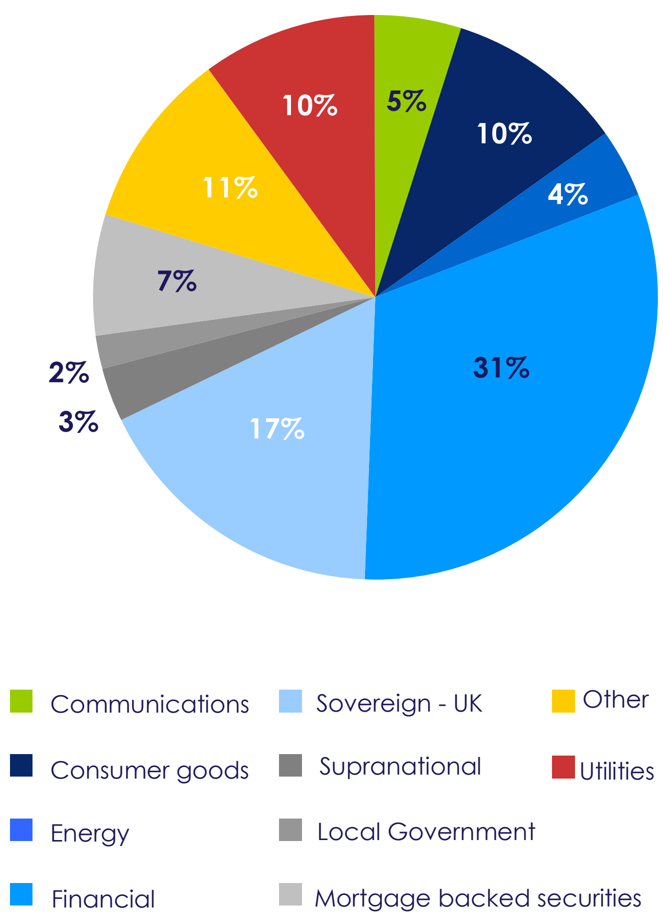
- **A risk based capital model is used to determine capital requirements for the Group as part of its Internal Capital Assessment (ICA)**
- **The model is calibrated to a 99.5% confidence interval over a one year period and allows for uncertainty until ultimate settlement**
- **The risk based capital model has been enhanced to meet Solvency II requirements**
- **Direct Line Group seeks to hold capital coverage in the range of 125% -150% of risk based capital requirements**

1. *Small bodily injury capped at £50k (in 1999)*
2. *Excludes margin*
3. *Renews on 1 January*
4. *Partial placement on lower layers up to £5m*
5. *Renews on 1 July*

Investments - fixed income portfolio

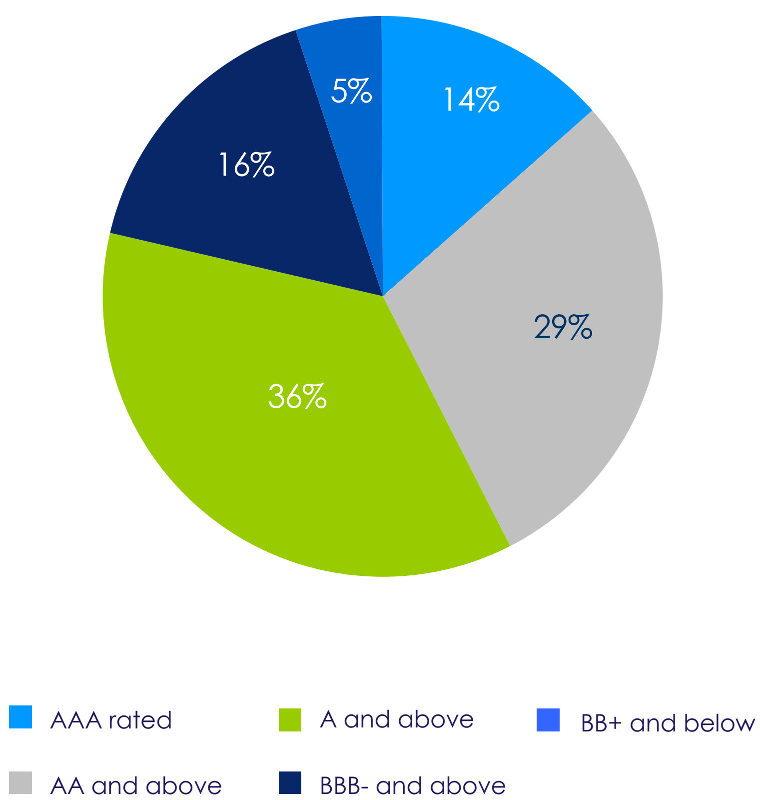
Fixed income by sector

Total debt securities £5.8bn



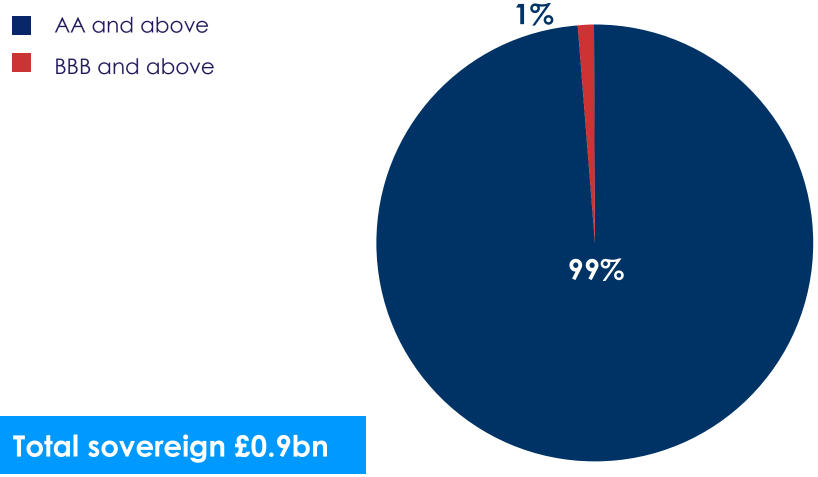
Fixed income by rating

Total debt securities £5.8bn



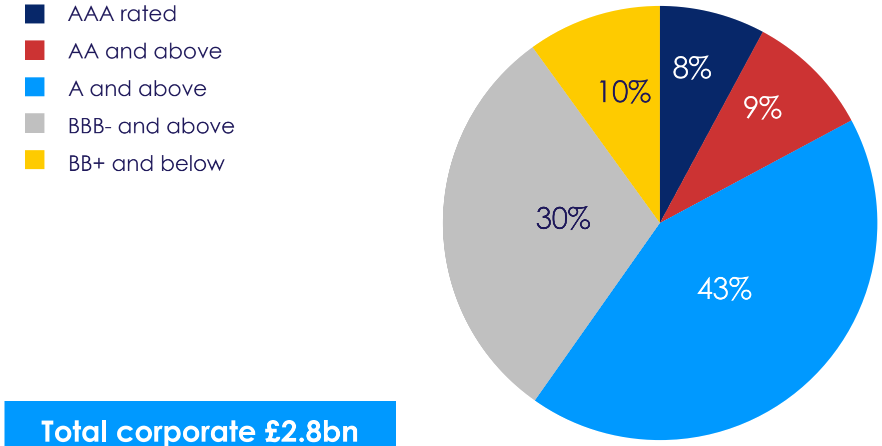
Investments - fixed income portfolio

Sovereign exposure by rating



Total sovereign £0.9bn

Corporate exposure by rating



Total corporate £2.8bn

Eurozone sovereign exposure by country

£m	31 Dec 14
Belgium	3.6
Total	**3.6**

Eurozone corporate exposure by country

£m	31 Dec 14
Germany	192.1
France	224.9
Netherlands	12.0
Spain	30.6
Italy	15.5
Belgium	33.8
Finland	14.2
Total	**523.1**

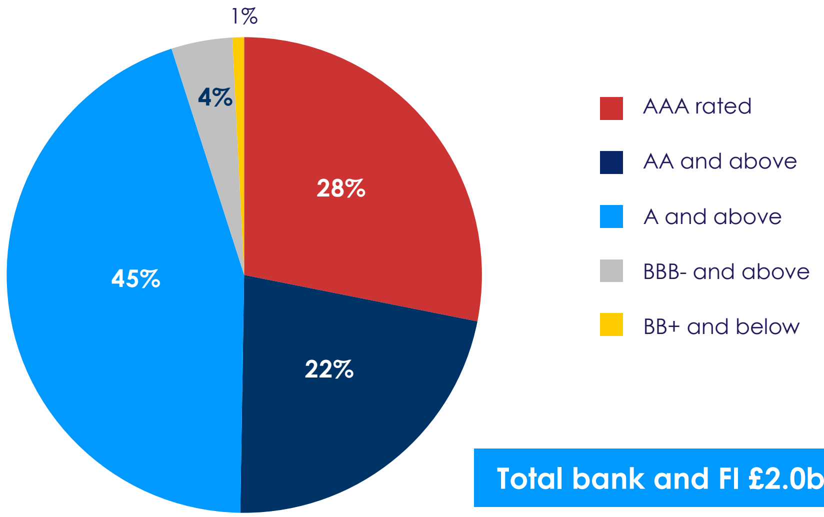
Investments - fixed income portfolio

Bank and other financial institutions exposure

£m	31 Dec 14
Secured	104.1
Unsecured	1,058.3
Subordinated	165.9
Other financial institutions	712.6
Total	**2,041**

Eurozone exposure £m	31 Dec 14
Germany	123.2
France	73.6
Netherlands	142.3
Total	**339.1**

Bank and other financial institutions by rating



Total bank and FI £2.0bn

RoTE calculation

RoTE calculation

(£m)	FY 14	FY 13
Ongoing operating profit	506.0	509.9
International	21.0	16.6
Operating profit	**527.0**	**526.5**
Less: Finance costs	(37.2)	(37.7)
Profit before tax (ongoing operations)	489.8	488.8
Less: tax[1]	(105.3)	(113.6)
Profit after tax	**384.5**	**375.2**
Invested tangible equity b/f	2,289.9	2,410.1
Invested tangible equity c/f[2]	2,287.4	2,289.1
Average invested tangible equity	**2,288.7**	**2,350.0**
Return on tangible equity	**16.8%**	**16.0%**

Adjusted EPS calculation

(£m)	FY 14	FY 13
Ongoing operating profit	506.0	509.9
International	21.0	16.6
Operating profit	**527.0**	**526.5**
Less: Finance costs	(37.2)	(37.7)
Profit before tax	489.8	488.8
Less: tax[1]	(105.3)	(113.6)
Profit after tax	**384.5**	**375.2**
Weighted average number of shares	**1,495.0**	**1,495.4**
Adjusted EPS (pence)	25.7	25.1
Weighted average number of share (diluted)	**1,507.9**	**1,501.2**
Adjusted EPS (diluted) (pence)	**25.5**	**25.0**

1. *UK standard tax rate of 21.5%; 2013: 23.25%*
2. *Adjusted for intangibles in the International division of £5.6m*

Direct Line Group

Segmental performance: 2014

£m	Motor	Home	Rescue and other personal lines	Commercial	Total Ongoing
GWP	1,342.0	898.6	371.8	487.0	**3,099.4**
Net earned premium	1,295.9	875.3	369.1	446.8	**2,987.1**
Net insurance claims	(868.1)	(444.3)	(211.9)	(255.3)	**(1,779.6)**
Commission expenses	(41.4)	(190.3)	(34.5)	(87.8)	**(354.0)**
Operating expenses	(336.6)	(177.2)	(93.1)	(98.5)	**(705.4)**
Underwriting result	**49.8**	**63.5**	**29.6**	**5.2**	**148.1**
Investment return	144.8	25.7	6.1	34.0	**210.6**
Instalment income and other operating income	102.5	24.7	12.3	7.8	**147.3**
Operating profit/(loss)	**297.1**	**113.9**	**48.0**	**47.0**	**506.0**
Loss ratio – current year	88.5%	56.5%	61.7%	69.2%	**70.7%**
Loss ratio – prior year	(21.5%)	(5.7%)	(4.3%)	(12.1%)	**(11.1%)**
Commission ratio	3.2%	21.7%	9.4%	19.7%	**11.8%**
Expense ratio	26.0%	20.2%	25.2%	22.0%	**23.6%**
Combined operating ratio	**96.2%**	**92.7%**	**92.0%**	**98.8%**	**95.0%**

Direct Line Group

Segmental performance: 2013

£m	Motor	Home	Rescue and other personal lines	Commercial	Total Ongoing
GWP	1,421.1	943.1	383.4	474.5	**3,222.1**
Net earned premium	1,444.8	908.9	365.8	434.6	**3,154.1**
Net insurance claims	(940.2)	(490.4)	(219.8)	(270.6)	**(1,921.0)**
Commission expenses	(36.3)	(177.9)	(27.3)	(92.2)	**(333.7)**
Operating expenses	(370.2)	(184.4)	(90.8)	(101.4)	**(746.8)**
Underwriting result	**98.1**	**56.2**	**27.9**	**(29.6)**	**152.6**
Investment return	122.8	24.1	8.2	29.6	**184.7**
Instalment income and other operating income	126.8	25.9	10.4	9.5	**172.6**
Operating profit/(loss)	**347.7**	**106.2**	**46.5**	**9.5**	**509.9**
Loss ratio – current year	85.3%	58.7%	62.5%	74.1%	**71.3%**
Loss ratio – prior year	(20.2%)	(4.8%)	(2.4%)	(11.8%)	**(10.4%)**
Commission ratio	2.5%	19.6%	7.5%	21.2%	**10.6%**
Expense ratio	25.6%	20.3%	24.8%	23.2%	**23.7%**
Combined operating ratio	**93.2%**	**93.8%**	**92.4%**	**106.8%**	**95.2%**

Direct Line Group

Balance sheet overview

(£m)	FY 2014	FY 2013
Assets		
Goodwill, and other intangible assets	517.5	500.1
Financial investments	5,961.2	7,441.2
Cash and cash equivalents	880.4	908.3
Assets held for sale	1,208.4	1.0
Other assets	2,658.1	2,937.2
Total assets	**11,225.6**	**11,787.8**
Liabilities		
Insurance liabilities and unearned premium reserve	6,108.3	7,576.1
Borrowings	69.8	55.1
Other liabilities	2,237.0	1,366.6
Total liabilities	**8,415.1**	**8,997.8**
Equity		
Total invested equity	**2,810.5**	**2,790.0**
Net asset value per share (pence)	**188.2**	**186.6**
Net tangible asset value per share (pence)	**153.1**	**153.2**

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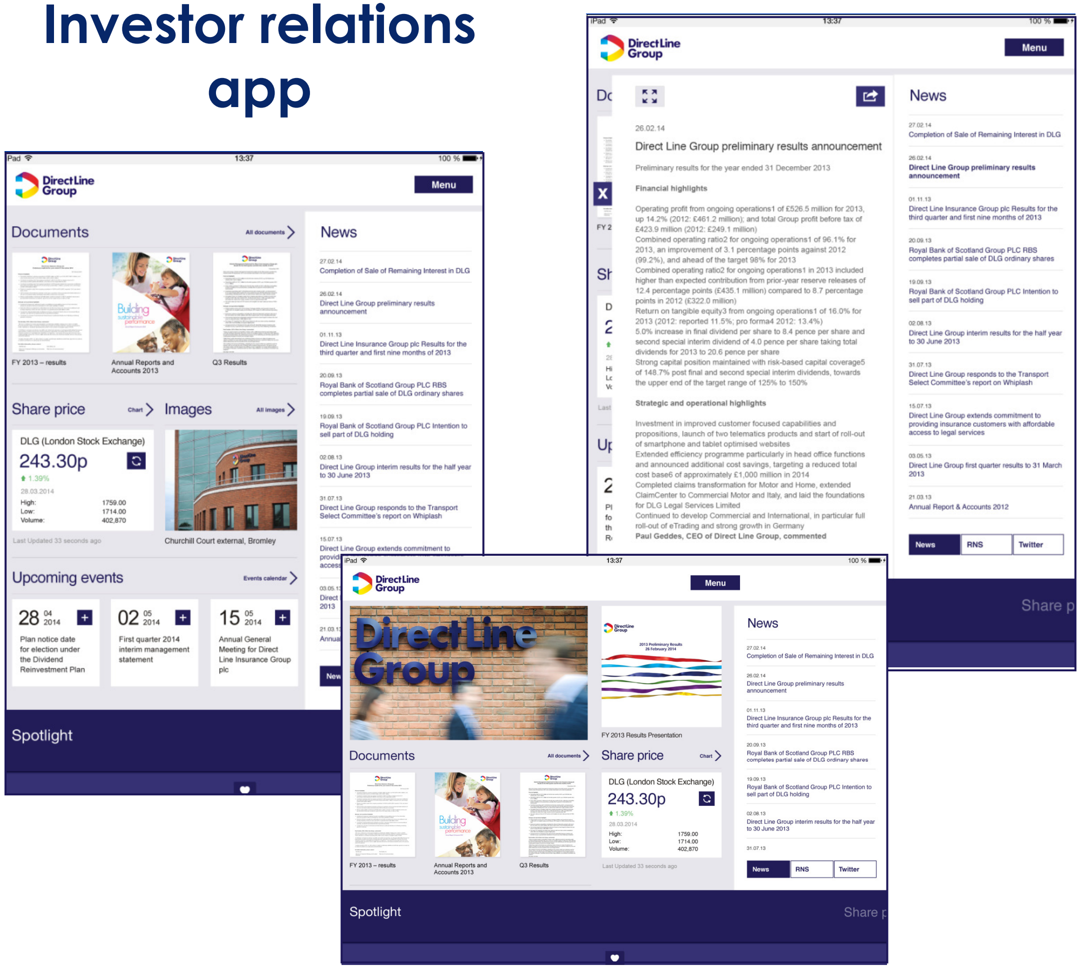
Investor relations app



General disclaimer

Forward-looking statements

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", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "outlook", "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 and certain assumptions of the Directors concerning, among other things: the Group'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: return on tangible equity, the Group's combined operating ratio, the combined operating ratio for the Group's Commercial division, 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.

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