



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	

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	

Key messages

- 1 Pro-forma ROTE¹ 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 ratio²

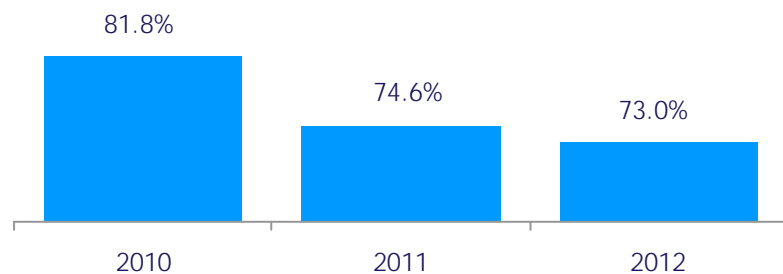
Good progress towards delivering our strategic targets

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

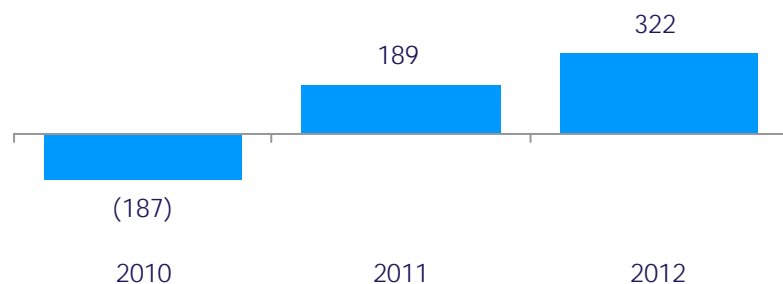
2012 financial highlights

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



...together with positive prior year development

Prior year releases
£m



Results from Ongoing operations¹

£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

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	

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
<i>Of which Ongoing operations¹</i>	<i>326.5</i>	<i>308.1</i>	<i>79.2</i>	<i>61.4</i>
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)

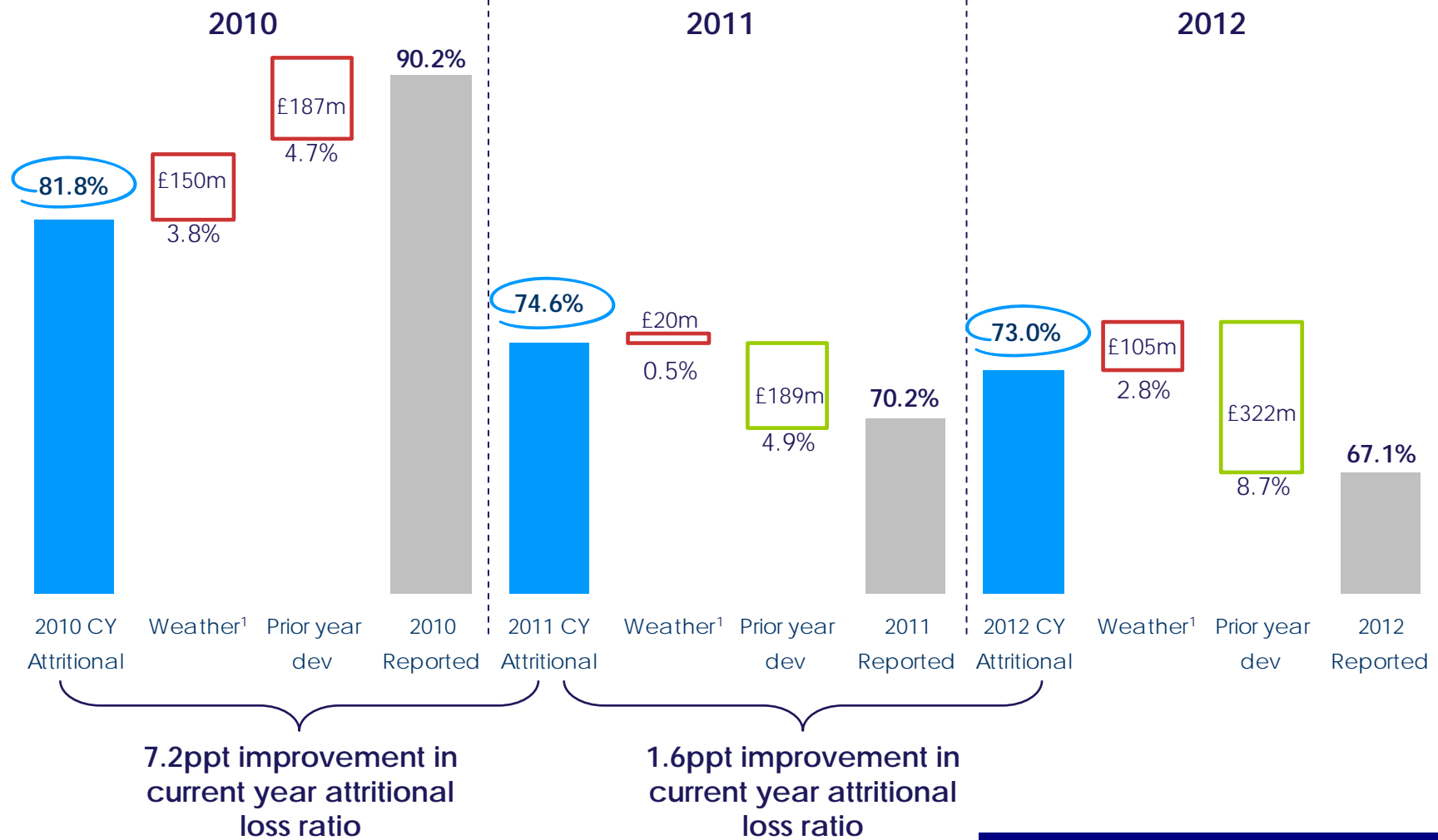
² Investment return includes realised gains and losses

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)

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

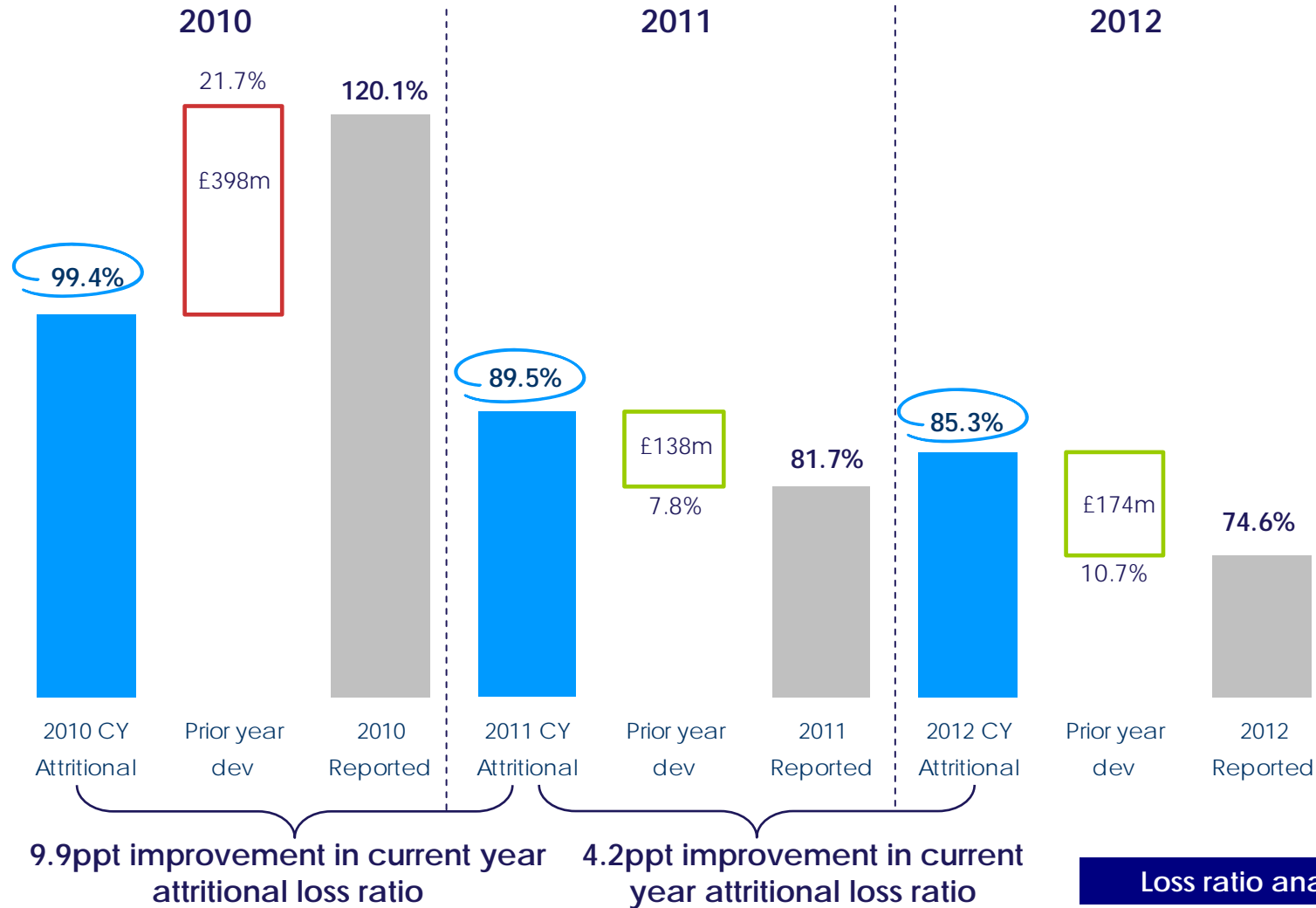
(£m unless stated)	2012	2011
Gross written premium	1,623.5	1,734.8
Net earned premium	1,629.2	1,771.6
Underwriting loss	(26.3)	(98.6)
<i>Of which prior year releases</i>	<i>174.3</i>	<i>138.2</i>
Instalment and other income	148.1	208.2
Investment return	140.0	145.2
Operating profit	261.8	254.8
Loss ratio – 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

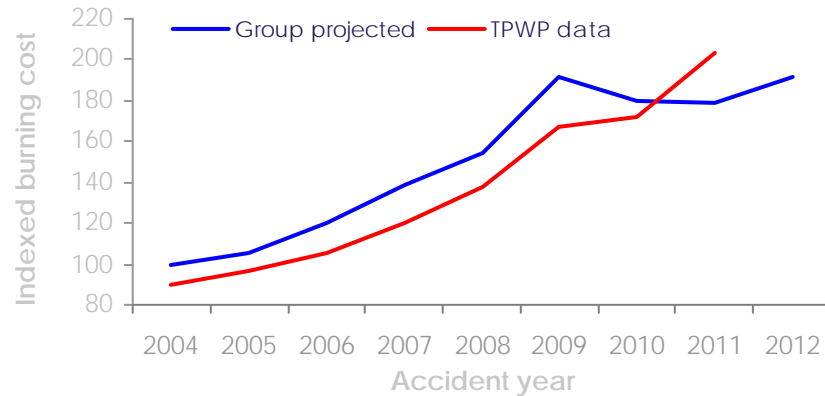
14ppt improvement in current year loss ratio since 2010



Loss ratio analysis, Motor

Motor claims trends

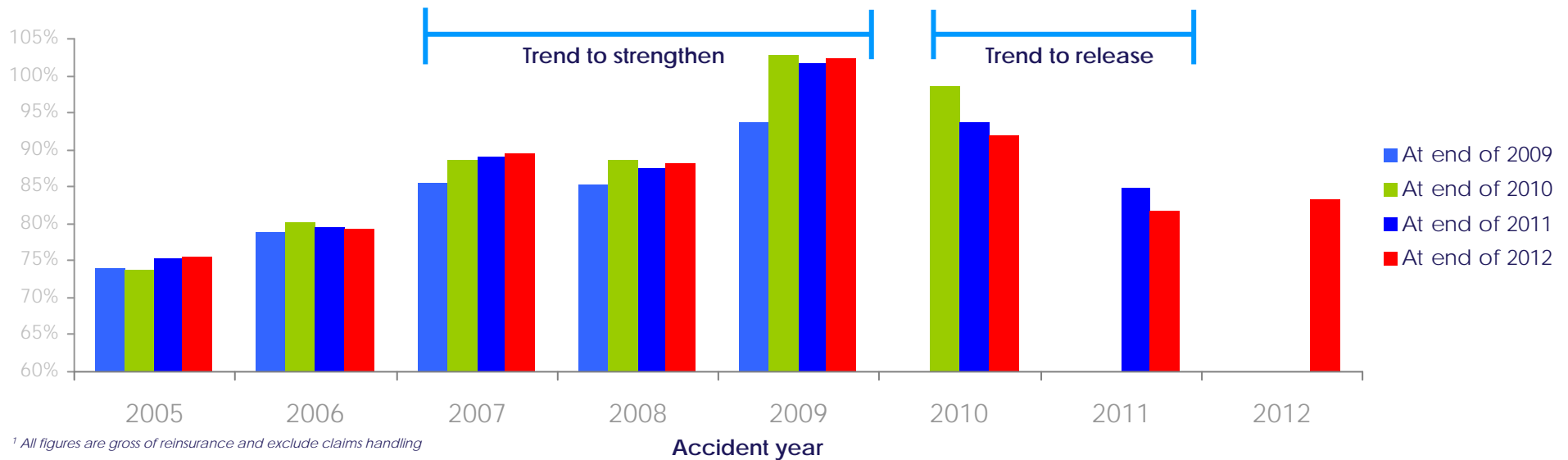
Burning cost inflation vs industry (BI capped)



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 (gross¹)



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
<i>Of which prior year releases</i>	<i>37.4</i>	<i>(48.5)</i>
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

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
<i>Of which reserve releases</i>	<i>23.9</i>	<i>52.8</i>
Instalment and other income	10.7	-
Investment return	7.5	9.5
Operating profit	84.4	63.3
<i>Of which Rescue</i>	<i>46.9</i>	<i>54.0</i>
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

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)
<i>Of which prior year releases</i>	<i>56.2</i>	<i>38.4</i>
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)
<i>Of which prior year releases</i>	<i>30.2</i>	<i>7.9</i>
Instalment and other income	7.1	7.2
Investment return	23.7	25.0
Operating profit	19.5	4.3
<i>Of which Italy</i>	<i>14.3</i>	<i>(2.0)</i>
<i>Of which Germany</i>	<i>5.7</i>	<i>6.3</i>
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

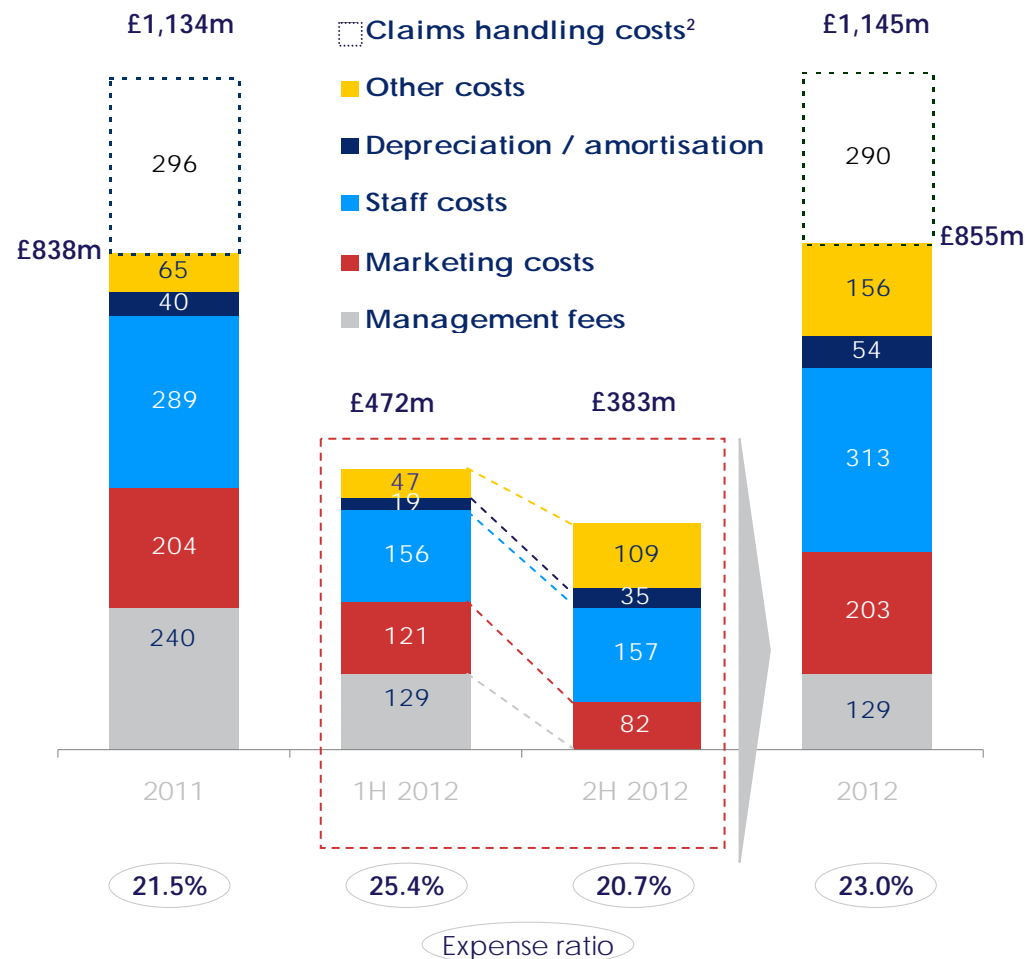
- Four-fold increase in operating profit in 2012
- 6% growth in IFPs
- 4% growth in gross premium in local currency
- 4.3ppt improvement in the combined operating ratio with improvement in both loss and expense ratios
- Combined operating ratio improvement in line with target to increase profitability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

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 target¹
 - 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

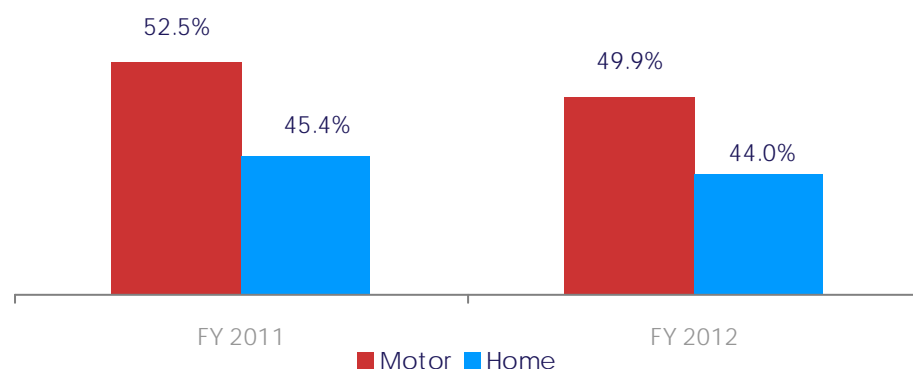
Observations

- 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

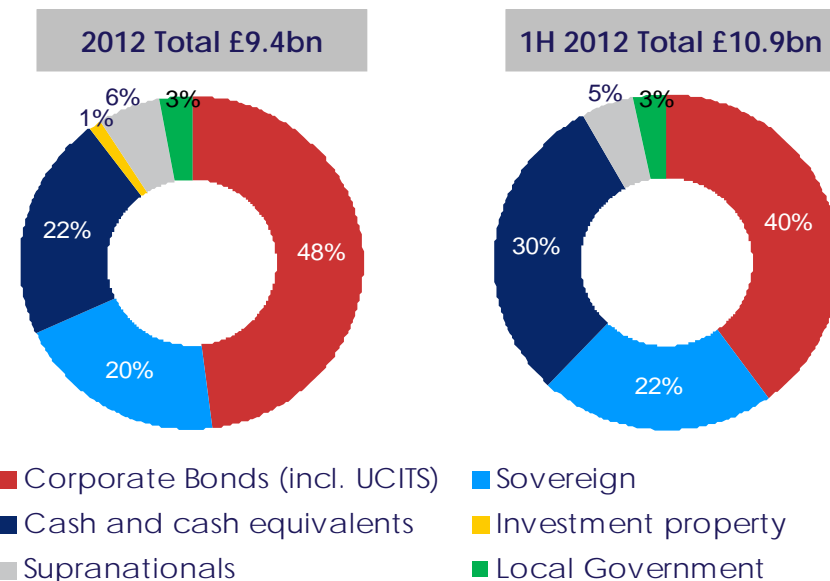
- Lower investment income reflects reduction in assets under management and low reinvestment yields
- High average cash holdings due to portfolio restructuring and funding of large cash payments
- Continued progress towards a target allocation to credit of 60% in Q4 2012
 - Reduction in short term deposits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

Investment income, ongoing operations

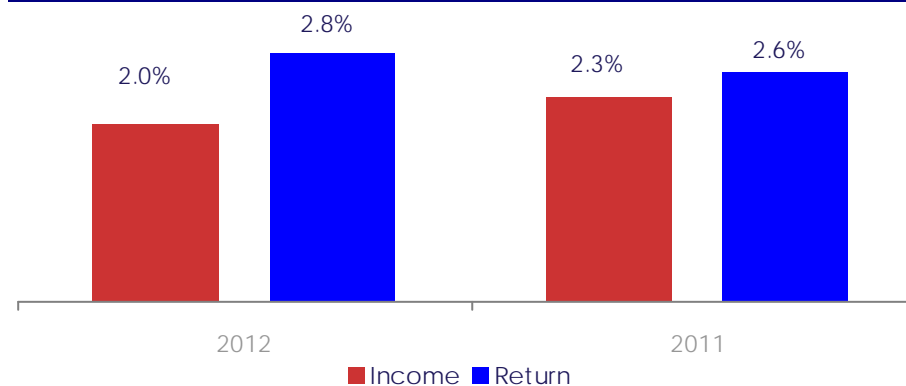
(P&L £m)	FY 2012	FY 2011	4Q 2012	4Q 2011
Investment income	179.9	210.9	42.2	49.6
Net realised and unrealised gains ¹ (allocated to income statement)	54.8	27.8	(0.2)	(6.3)
Total	234.7	238.7	42.0	43.3

¹ Unrealised gains relate to derivative hedges and property

Investment assets by type



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

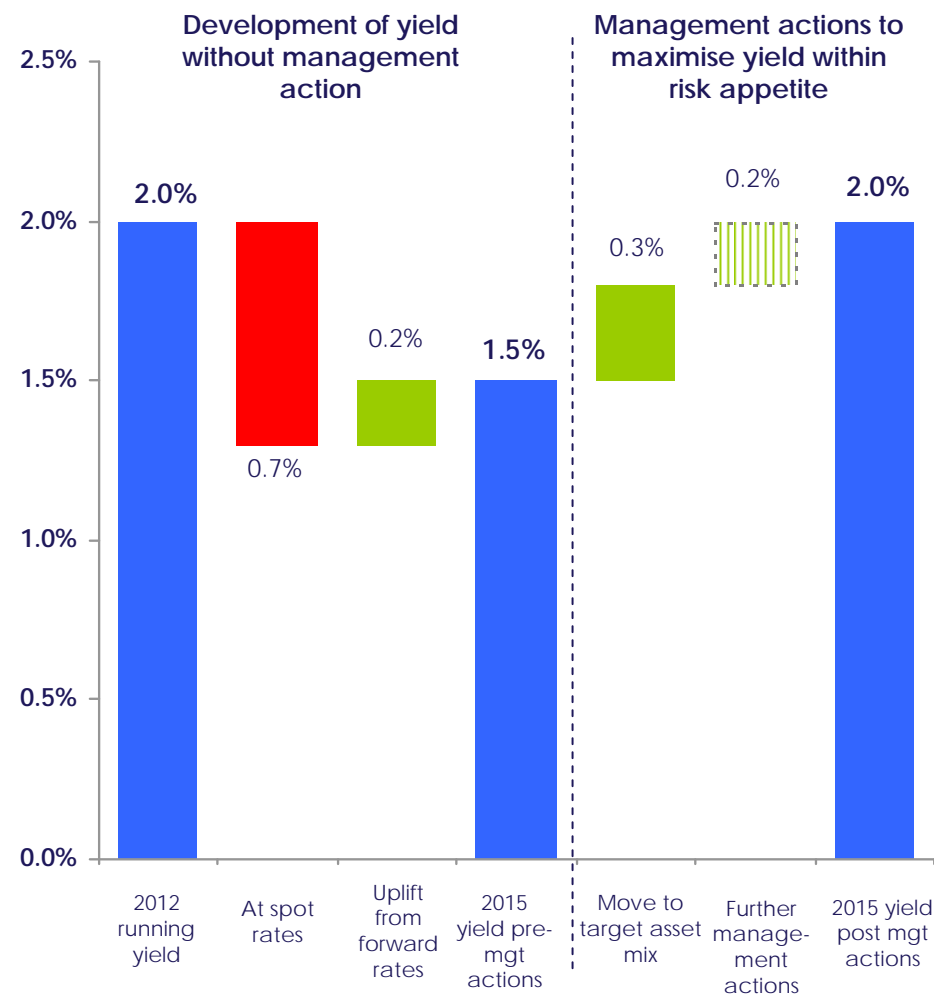
Observations

- 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

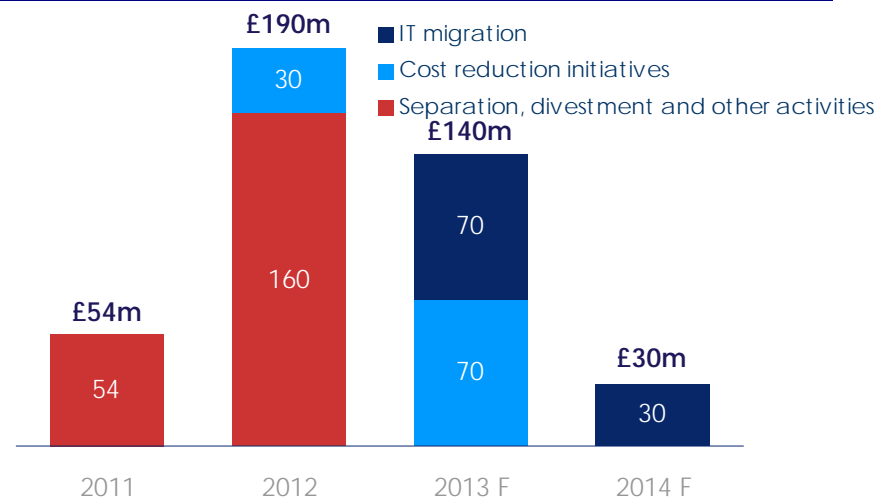
Observations

- 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%

¹ Includes financial investments, investment property, cash and cash equivalents.

² Total financial debt as a percentage of total capital employed

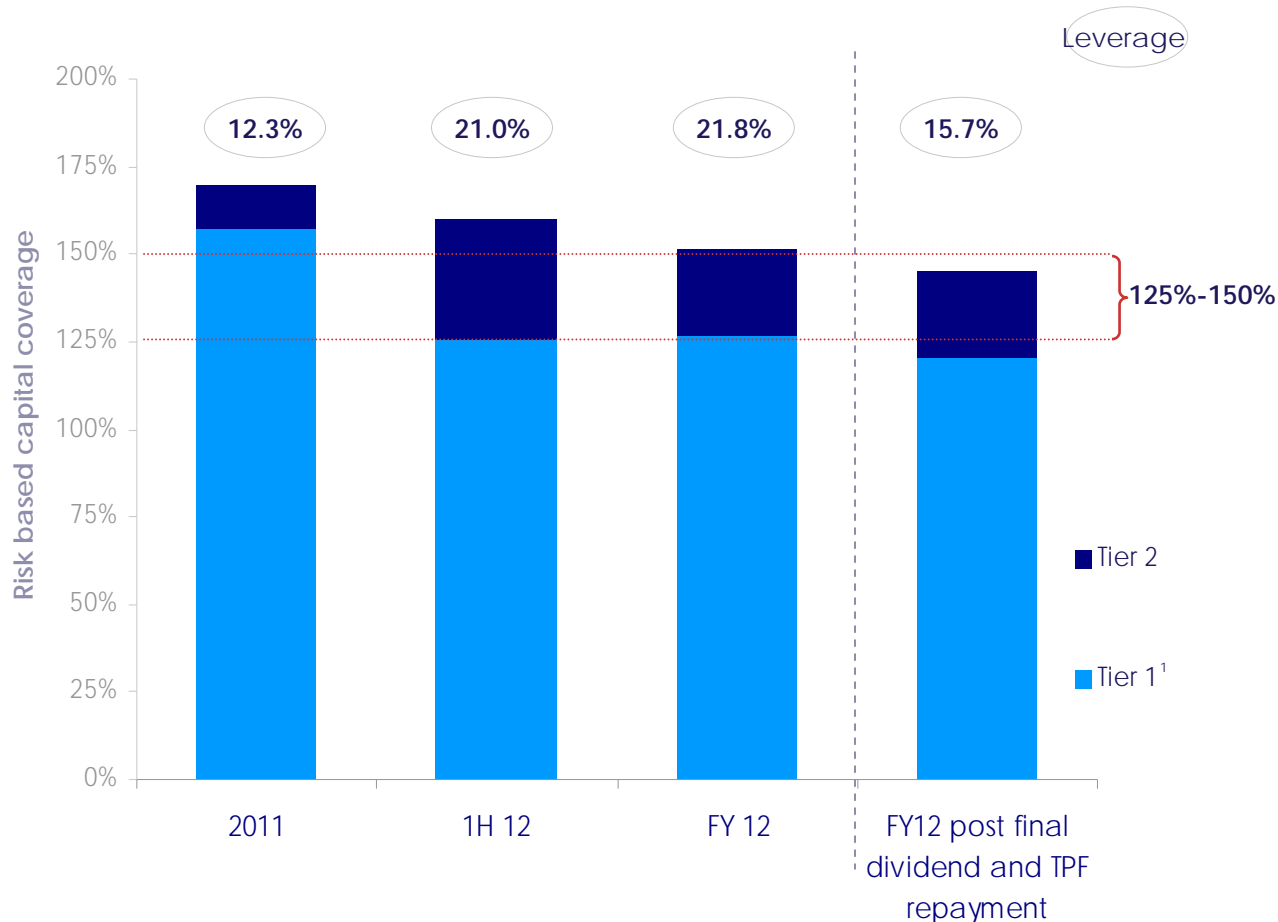
³ TPF Note and £3.5 million of solvency capital provided by TPF in relation to the TPF life insurance business reclassified from non-controlling interest to subordinated liabilities and fully repaid on 8 January 2013

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

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

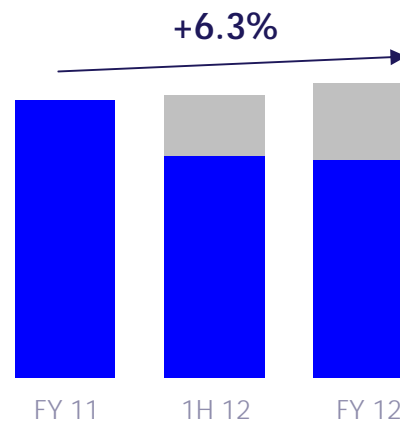
- Recommending a final dividend of 8 pence per share
- Pro-forma full year dividend of 12 pence represents a 55% payout ratio, in line with the 50-60% guidance previously communicated
- Progressive dividend policy based on pro-forma dividend, with aim to grow, in real terms

£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%

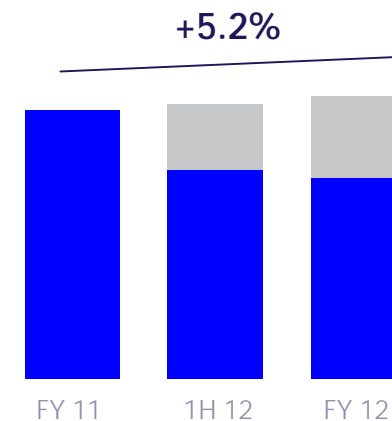
NAV and TNAV

- 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)

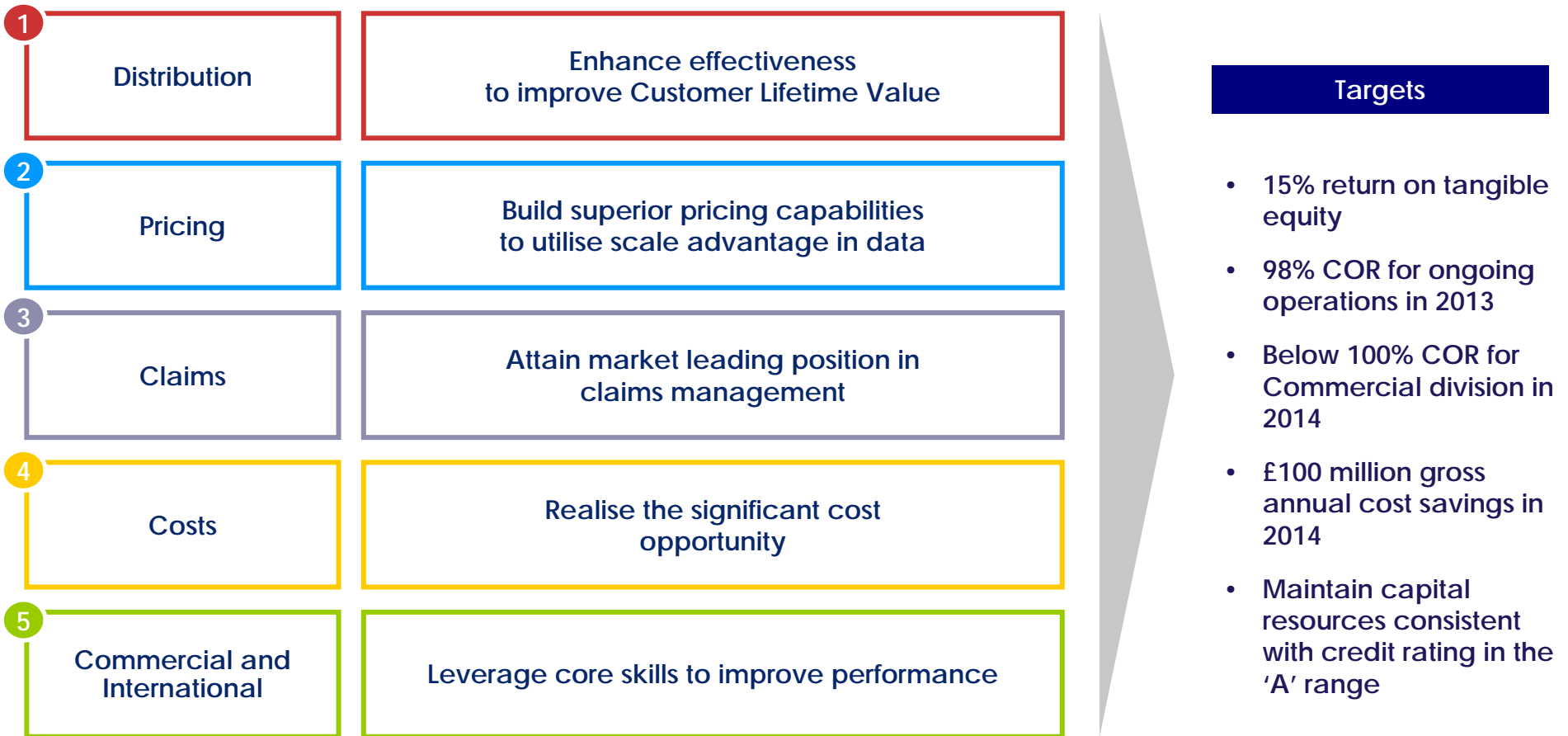


■ Dividends paid in 2012

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



Clear strategic plans in place to achieve our targets

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

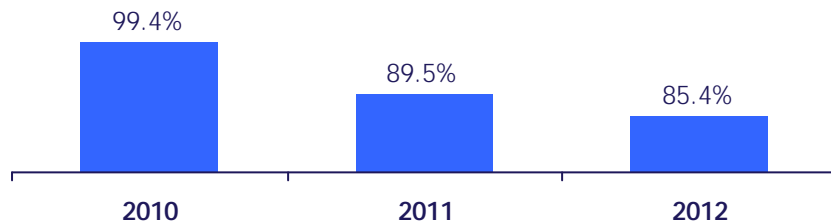
Aim to improve efficiency throughout the distribution model

2 Pricing

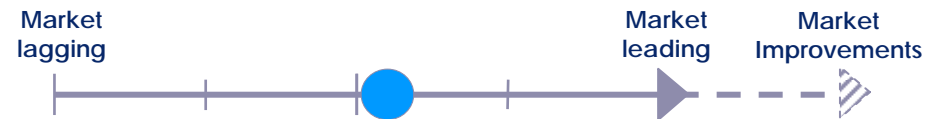
Progress to date

- 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

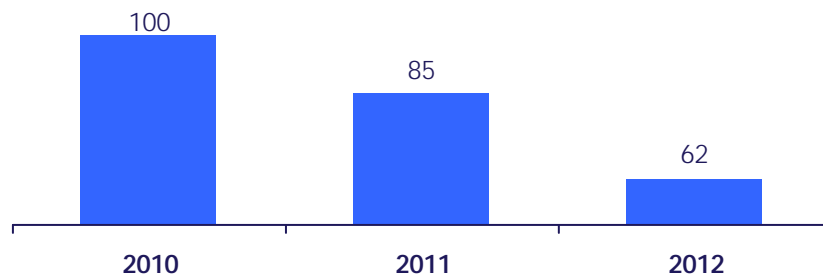
Crossing the half way line for pricing allows us to broaden target segments

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

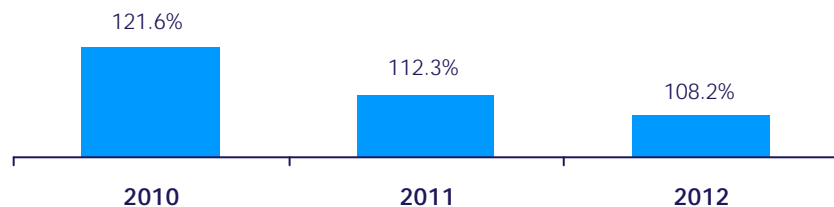
Delivery of cost savings well advanced

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

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

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	

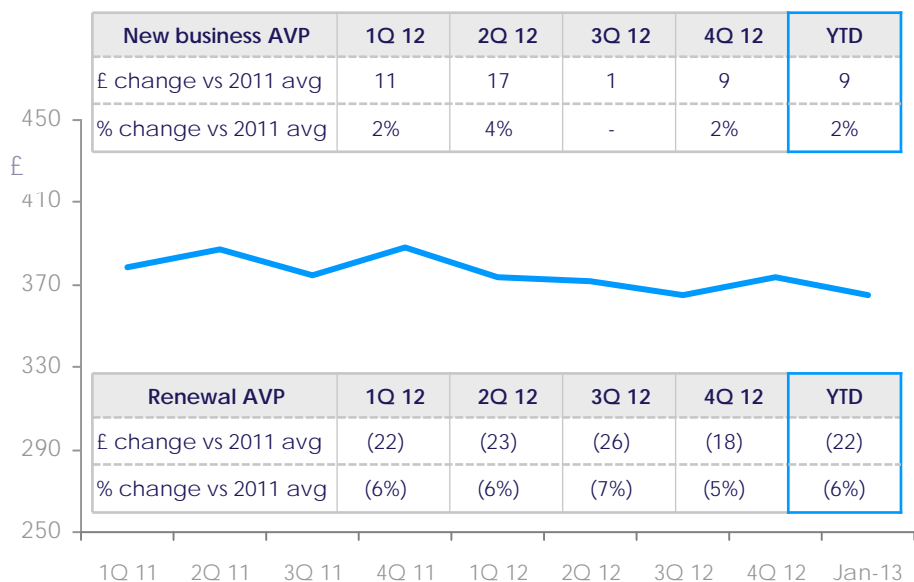
Motor legal reform

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 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

Motor and Home market conditions

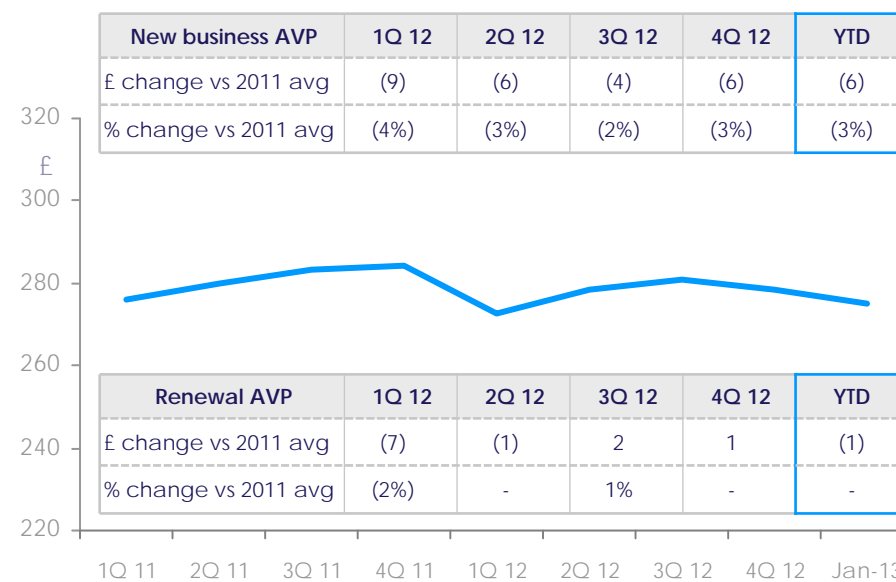
Motor AVP £



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 £



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

Key messages

- 1 Pro-forma ROTE¹ 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 ratio²

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

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	

Appendices

GWP and IFPs for ongoing operations

Observations

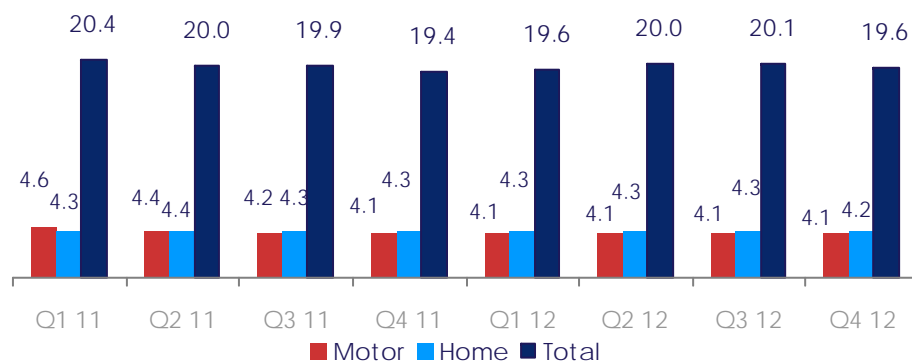
- IFPs up 1.4% in 2012
 - Stability in Motor and Home
 - Growth in Rescue and other personal lines from packaged bank accounts
 - Commercial IFP growth through DL4B
 - International IFPs up 5%
- GWP of £3,991m, 3% lower than 2011 reflecting lower Motor IFPs arising from risk mix improvements during 2011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

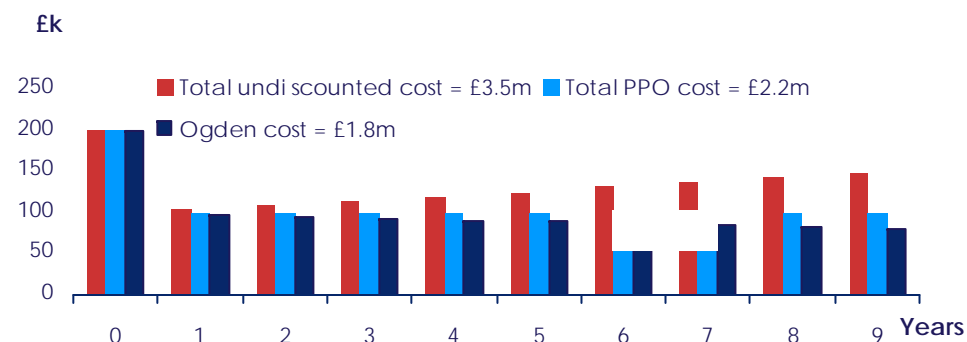
£m	2012	2011
Approved PPOs claims reserves	125.0	80.3
Anticipated PPOs	692.9	755.0
Net	817.9	835.3

Number of PPOs including anticipated

2012	2011
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

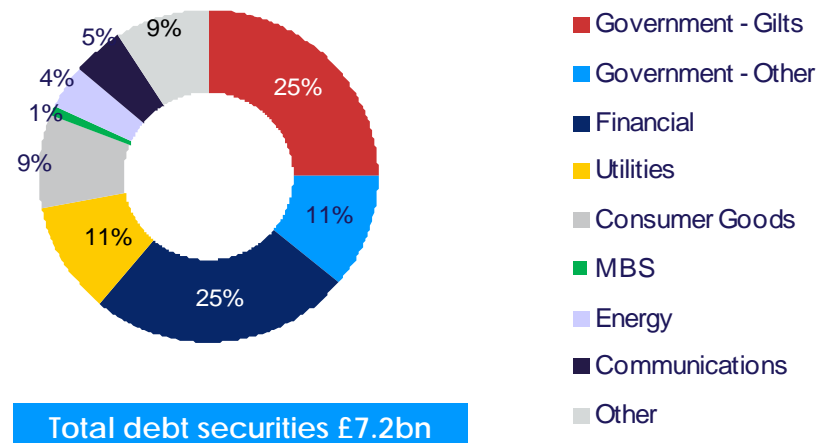
£m	Motor	Home	Rescue and other personal lines	Commercial	International	Total Ongoing
GWP	1,623.5	989.0	389.8	435.6	552.7	3,990.6
Net earned premium	1,629.2	950.8	382.8	402.8	343.1	3,708.7
Net claims – current year	(1,390.8)	(592.1)	(218.8)	(310.3)	(298.2)	(2,810.2)
Net claims – prior years	174.3	37.4	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

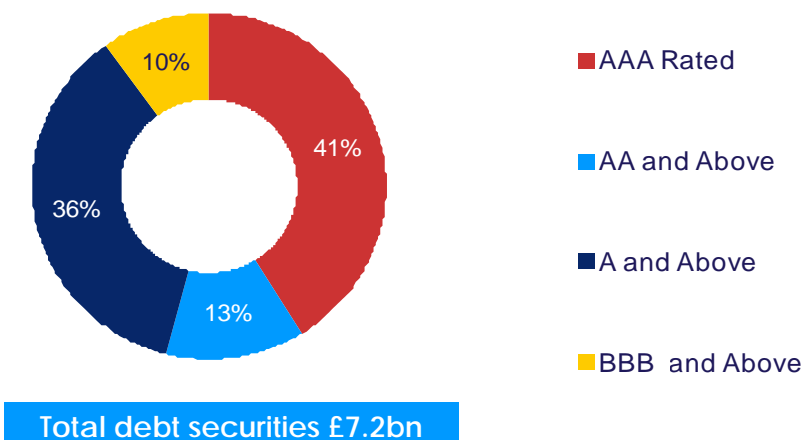
Observations

- 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



Fixed income by rating



Fixed income portfolio

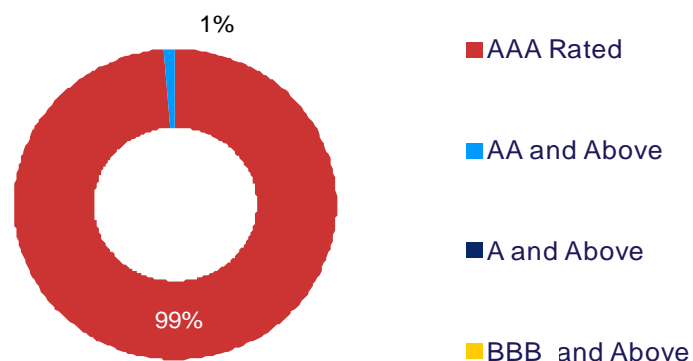
Sovereign exposure by country

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

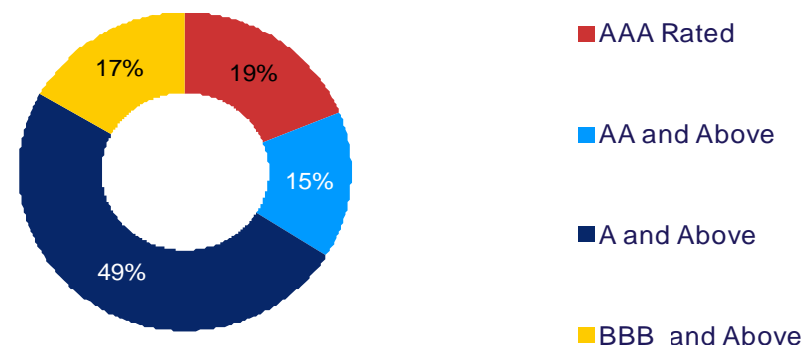
Key Eurozone countries £m	31-Dec-12
Germany	207.4
France	216.4
Netherlands	47.2
Ireland	5.4
Spain	4.2
Italy	33.7
Belgium	14.3
Austria	-
TOTAL	528.6

Sovereign exposure by rating



Total sovereign £1.8bn

Corporate exposure by rating



Total corporate £3.7bn

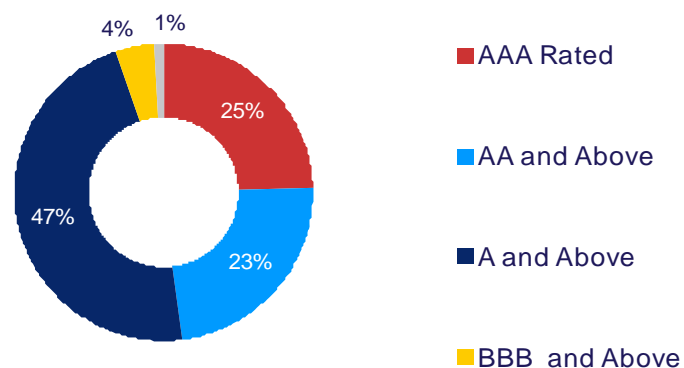
Fixed income portfolio

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)

General disclaimer

This document, which has been issued by Direct Line Insurance Group plc (“Direct Line Insurance Group”), comprises slides for a presentation concerning Direct Line Insurance Group. By reviewing or attending this presentation, you agree to be bound by the following conditions:

Certain sections in this presentation contain certain forward looking statements, beliefs or opinions, including statements with respect to the business, financial condition, results of operations and plans of Direct Line Insurance Group and/or its group. Forward-looking statements are sometimes identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “will”, “could”, “should”, “shall”, “risk”, “intends”, “estimates”, “aims”, “plans”, “targets”, “predicts”, “continues”, “assumes”, “positions” or “anticipates” or the negative thereof, other variations thereon or comparable terminology. Forward-looking statements at the presentation, in this document and in any related materials reflect Direct Line Insurance Group’s beliefs and expectations and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. No representation is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these statements and forecasts. Past performance of Direct Line Insurance Group cannot be relied on as a guide to future performance. Forward-looking statements speak only as the date of this presentation and Direct Line Insurance Group expressly disclaims any obligations or undertaking to release any update of, or revisions to, any forward looking statements in this presentation. No statement in this document or any related materials or given at this presentation is intended as a profit forecast or a profit estimate and no statement in this document or any related materials or given at this presentation should be interpreted to mean that earnings per share for the current or future financial periods would necessarily match or exceed historical published earnings per share. As a result, you are cautioned not to place any undue reliance on such forward-looking statements.

The information, statements and opinions contained in this presentation do not constitute a public offer under any applicable legislation or an offer to sell or solicitation of an offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments in the United States, Canada, Japan or any other jurisdiction. Any securities referred to in this presentation and herein have not been, and will not be, registered under the US Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold in the United States absent registration under the Securities Act or an exemption from the registration requirements of the Securities Act.

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.