



**Results for the first half 2013  
2 August 2013**



# Agenda and presenters

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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

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<b>Key messages and financial highlights</b>	<b>Paul Geddes - CEO</b>
Financials	John Reizenstein - CFO
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# Key messages

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- 1 Operating profit of £286.6m, up 27.8%
- 2 Ongoing COR 94.6% with further improvement in attritional loss ratio
- 3 Doubled contribution from Commercial and International
- 4 Further cost savings announced, targeting costs of £1,000m in 2014
- 5 Proposed interim dividend of 4.2 pence per share, represents 5% growth

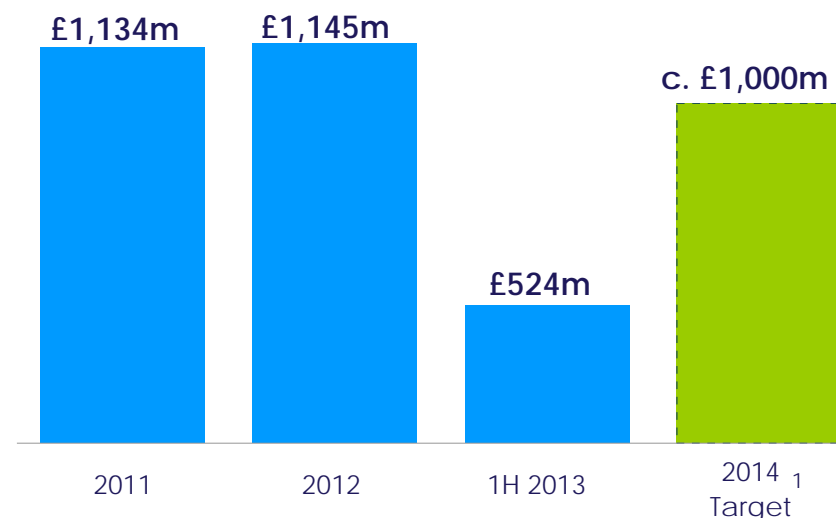
Good progress towards delivering our strategic targets

# Delivering our financial targets

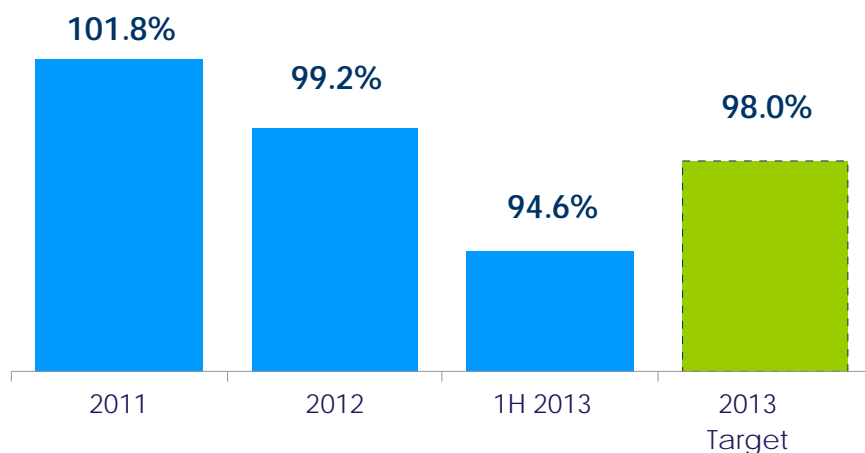
## Observations

- Pricing and claims transformation delivering improvements in underwriting profit and COR
- Further cost reduction initiatives recently announced
- Good progress towards 15% RoTE

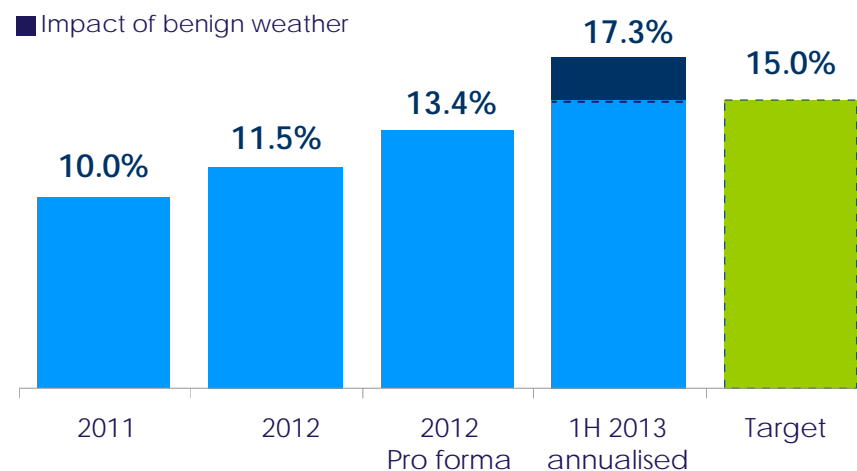
## Targeting £1,000m net costs in 2014



## 98%<sup>1,2</sup> COR in 2013



## 15% RoTE<sup>3</sup>



<sup>1</sup> Ongoing operations exclude Run-off and Restructuring and other one-off costs

<sup>2</sup> Combined operating ratio is the sum of loss, commission and expense ratios (all expressed as a percentage of net earned premium). The ratio excludes investment return, and instalment income and other operating income

<sup>3</sup> RoTE is annualised adjusted profit after tax from ongoing operations divided by the Group's average tangible shareholders' equity. Profit after tax is adjusted to exclude Run-off operations and Restructuring and other one-off costs and is stated after charging tax (using UK standard tax rate of 23.25%, 2012 24.5%). Proforma RoTE is based on RoTE but assumes that the capital actions taken by the Group prior to the IPO (£1 billion dividend payment and £500 million long-term subordinated debt issue) occurred on 1 January 2012

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# Financial highlights

## Observations

- 1 GWP of £1,975.9m down 4% versus the first half of 2012
- 2 £116m improvement in underwriting return and COR of 94.6%, a 6.5ppt improvement
- 3 Total investment return down from £145.3m to £97.5m
- 4 28% increase in operating profit from ongoing operations to £286.6m
- 5 83% increase in profit after tax with after restructuring costs of £70m, compared with £109m in 1H 2012
- 6 Annualised RoTE of 17.3%
- 7 Interim dividend of 4.2 pence

(£m unless stated)	2Q 13	2Q 12	1H 13	1H 12
<b>Ongoing operations</b>				
Gross written premium	970.3	1,005.9	1,975.9	2,058.4
Underwriting profit/(loss)	78.3	22.4	95.9	(20.0)
Instalment and other income	43.7	47.9	93.2	98.8
Investment return	57.1	73.0	97.5	145.4
<b>Operating profit – Ongoing operations</b>	<b>179.1</b>	<b>143.3</b>	<b>286.6</b>	<b>224.2</b>
Profit before tax	114.5	42.4	208.8	106.5
Net income / profit after tax	80.2	26.1	151.8	82.8
<i>Of which Ongoing operations<sup>1</sup></i>	<i>130.4</i>	<i>101.7</i>	<i>205.8</i>	<i>161.6</i>
Combined operating ratio	91.2%	97.6%	94.6%	101.1%
Investment return <sup>2</sup>	2.7%	3.3%	2.3%	3.4%
RoTE (annualised) <sup>3</sup>	-	-	17.3%	10.2%
Adjusted EPS <sup>1</sup> – diluted	-	-	13.7p	10.8p
Interim dividend	-	-	4.2p	-

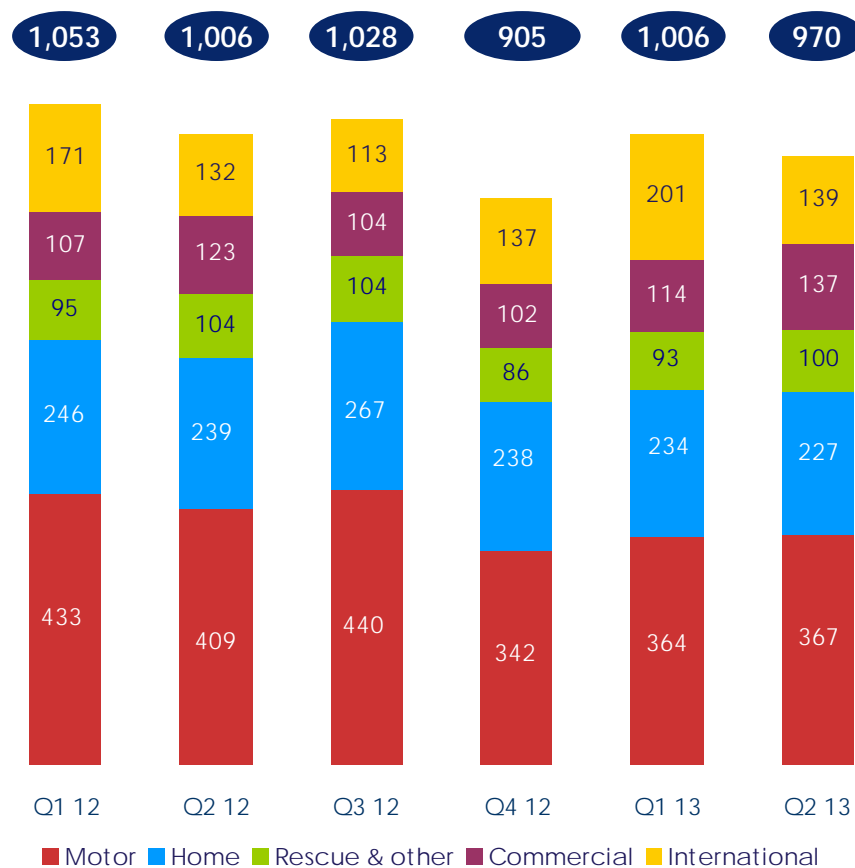
<sup>1</sup> Adjusted to exclude Run-off operations and Restructuring and other one-off costs (using UK standard tax rate 23.25%)

<sup>2</sup> Includes realised gains and losses and unrealised gain and losses allocated to the income statement

<sup>3</sup> RoTE is annualised adjusted profit after tax from ongoing operations divided by the Group's average tangible shareholders' equity. Profit after tax is adjusted to exclude Run-off operations and Restructuring and other one-off costs and is stated after charging tax (using UK standard tax rate of 23.25%, 2012 24.5%).

# Competitive market conditions reflected in IFPs and GWP

## Quarterly GWP - ongoing operations (£m)



## IFPs – ongoing operations (000s)

	30 Jun 13	31 Mar 13	31 Dec 12	30 Jun 12
Motor	3,829	3,865 <sup>1</sup>	4,050	4,135
Home <sup>2</sup>	3,753	4,199	4,239	4,304
Rescue and other personal lines	9,014	9,197	9,431	9,693
Commercial	561	550 <sup>1</sup>	466	460
International	1,586	1,572	1,462	1,441
<b>Total</b>	<b>18,743</b>	<b>19,383</b>	<b>19,648</b>	<b>20,033</b>

## GWP - ongoing operations adjusted for van<sup>1</sup> (£m)

	1Q vs. prior year	2Q vs. prior year	1H vs. prior year <sup>3</sup>
Motor	(14.3%)	(8.4%)	(11.4%)
Home	(5.0%)	(4.9%)	(5.0%)
Rescue and other personal lines	(2.4%)	(3.7%)	(3.1%)
Commercial	(1.3%)	4.7%	1.9%
International	17.5%	5.6%	12.4%
<b>Total</b>	<b>(4.5%)</b>	<b>(3.5%)</b>	<b>(4.0%)</b>

<sup>1</sup> DL4B Van now reported in Commercial

<sup>2</sup> Home Response policies removed from some packaged bank accounts during 1H 2013. Circa. 420k policies

<sup>3</sup> Adjustment made to GWP and IFPs for DL4B Van historically reported in personal lines Motor (GWP: £13.0m 1H 2013, £16.3m 1H 2012. IFPs: 66k June 2013, 81k June 2012). New business written in Commercial segment from September 2010

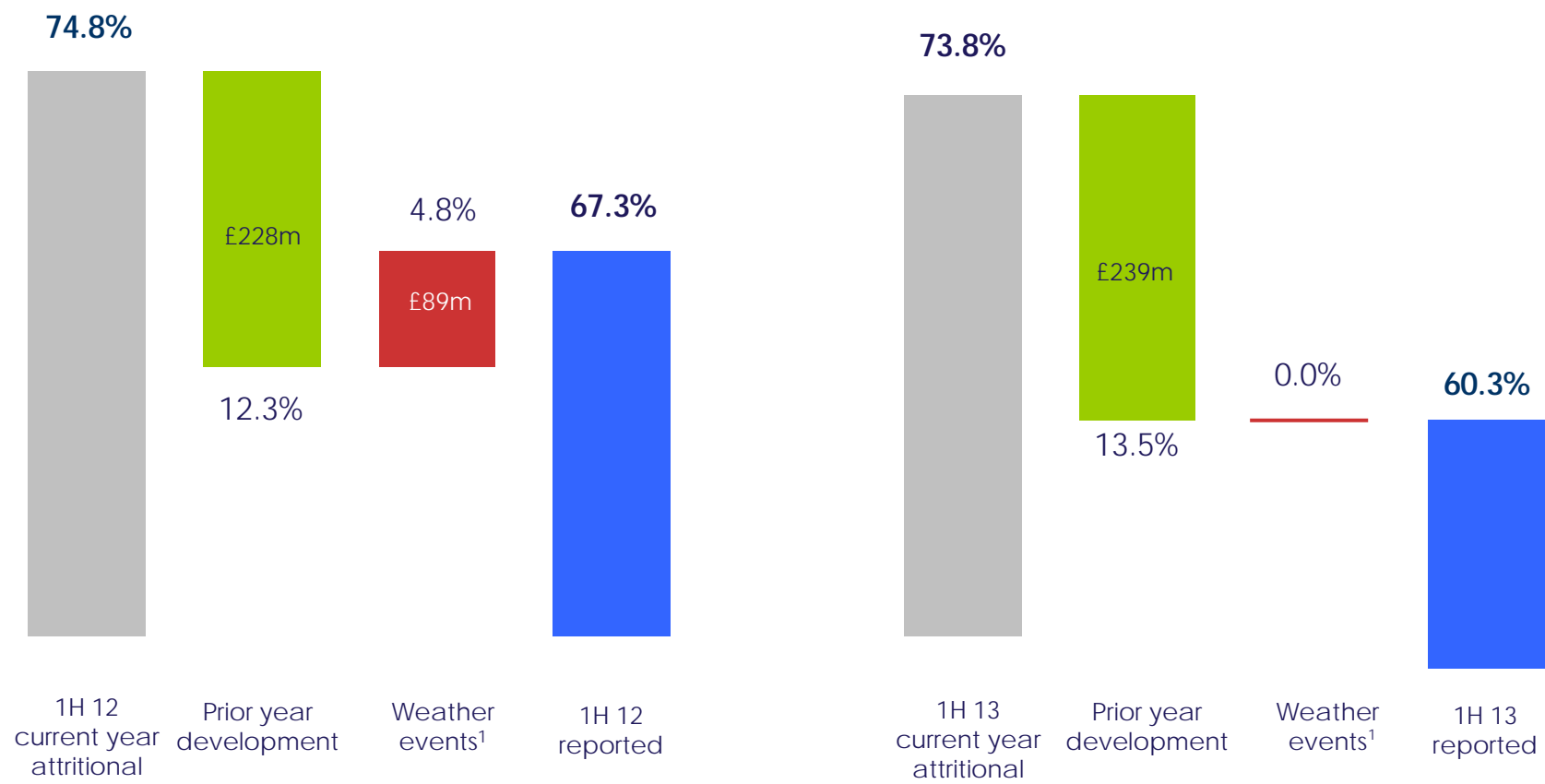


# Continued improvement in underwriting performance

## Loss ratio analysis - ongoing operations

1H 2012

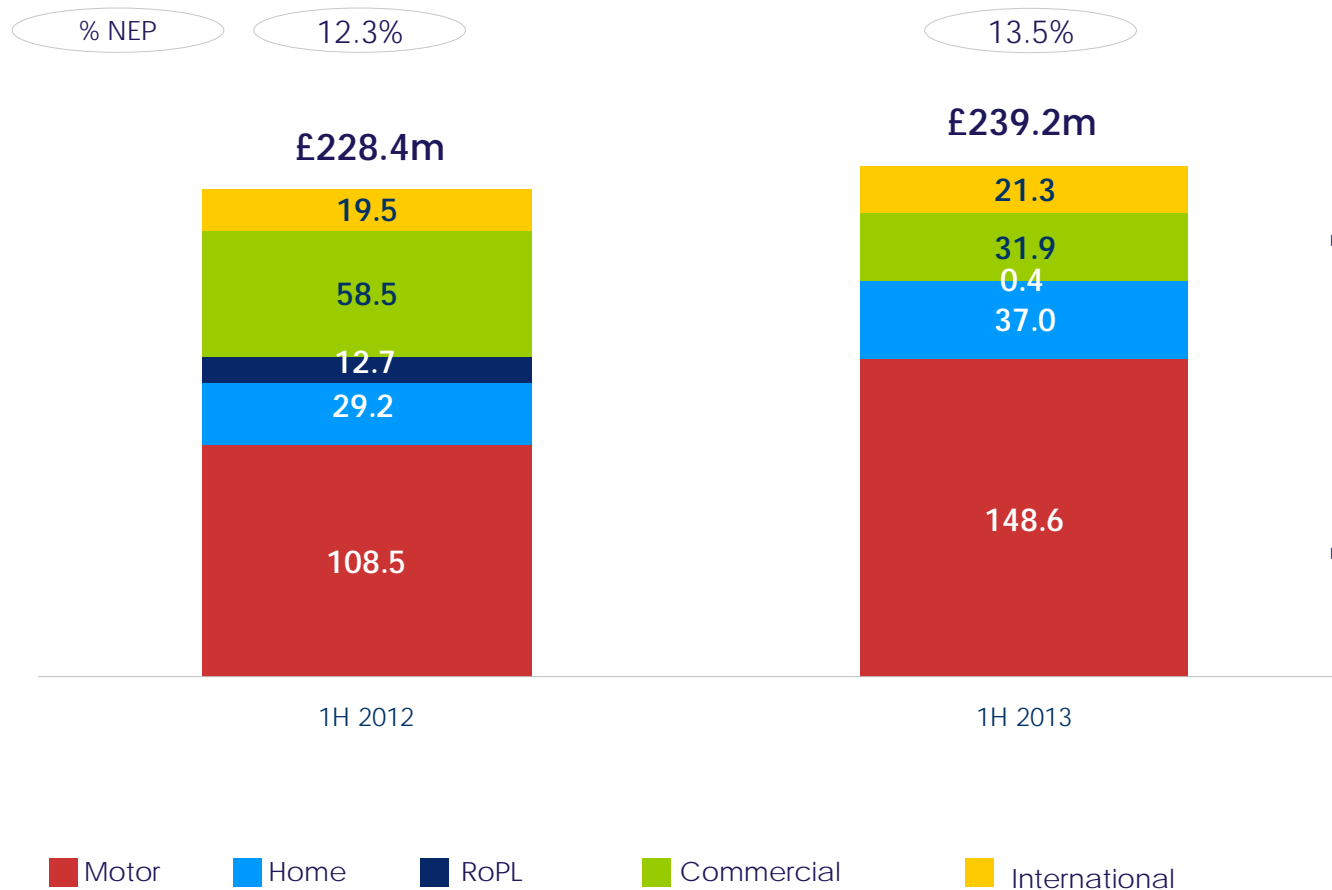
1H 2013



<sup>1</sup> Home weather only

# Consistent picture of prior year reserve releases

## Reserve releases by division<sup>1</sup>



## Observations

- Prior year releases for ongoing operations in 1H 2013 of £239m compared with £228m in 1H 2012
- Favourable run-off from recent accident years primarily due to pricing and claims transformation in Motor
- Reserving assumptions remain conservative

<sup>1</sup> All figures are net of reinsurance

# Motor highlights

Results		Observations	
(£m unless stated)		1H 2013	1H 2012
In-force policies (000s) <sup>1</sup>	1	3,829	4,135
Gross written premium <sup>1</sup>	2	731.4	842.1
Net earned premium		738.5	817.8
Loss ratio – current year		87.1%	85.8%
Loss ratio – prior years		(20.2%)	(13.3%)
Loss ratio	3	66.9%	72.5%
Commission ratio		2.6%	1.1%
Expense ratio		26.3%	28.8%
<b>Combined operating ratio</b>		<b>95.8%</b>	<b>102.4%</b>
Underwriting profit / (loss)	4	31.1	(19.5)
<i>Of which prior year releases</i>		<i>148.6</i>	<i>108.5</i>
Instalment and other income	5	67.1	79.3
Investment return		58.8	86.4
<b>Operating profit</b>	6	<b>157.0</b>	<b>146.2</b>

1 IFPs down 5.5% since December 2012 and broadly stable across the second quarter

2 GWP down 13.1% versus 1H 2012 or down 11.4% adjusted for van

3 5.6ppt improvement in loss ratio

4 £50.6m improvement in underwriting profit

- 6.6ppt improvement in combined operating ratio

5 Instalment and other income down £12.2m due to falling volumes and the banning of referral fees

6 7.4% improvement in operating profit

<sup>1</sup> DL4B Van now reported in Commercial. GWP and IFPs for DL4B Van historically reported in personal lines Motor (GWP: £13.0m 1H 2013, £16.3m 1H 2012. IFPs: 66k June 2013, 81k June 2012). New business written in Commercial segment from September 2010

# Motor claims trends

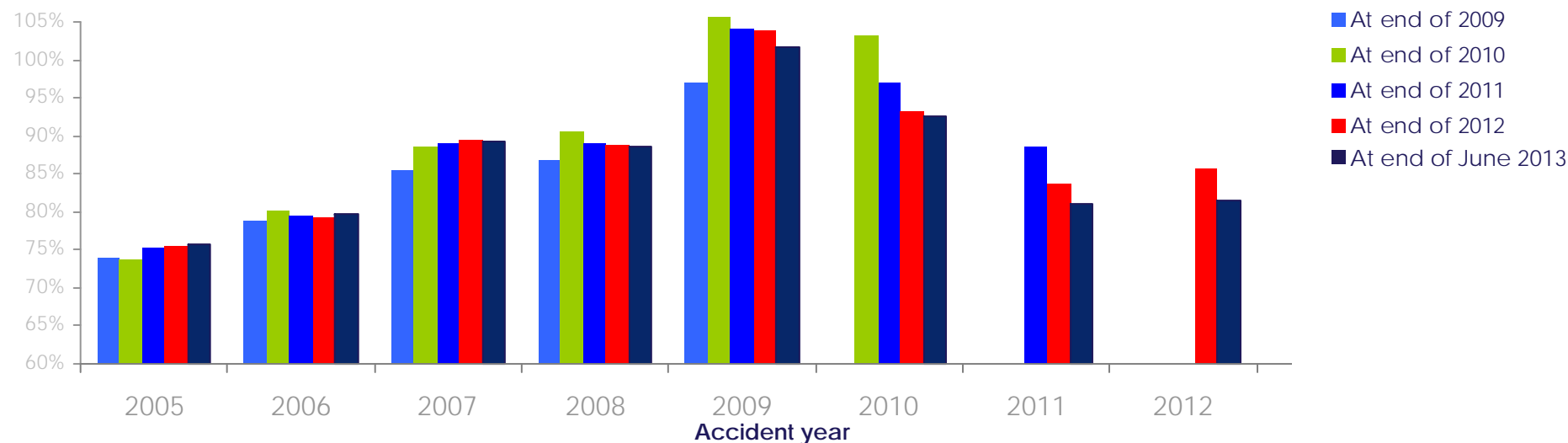
## BI capped severity average cost per claim vs TPWP<sup>1</sup>

	2012	2011	2010	2009
Average cost per claims versus TPWP (£)	(103)	(384)	(251)	73
% settled	33%	74%	84%	92%

## Severity inflation<sup>2</sup> (BI capped)

	2013 vs. 2012	2012 vs. 2011	2011 vs. 2010	2010 vs. 2009
Inflation at latest settlement rate point	(5.2%)	1.1%	(3.0%)	(4.1%)
Inflation in reserving ultimates	2.3%	7.8%	0.5%	(1.5%)

## Motor ultimate loss ratio development (gross<sup>3</sup>)



<sup>1</sup> TPWP: IFOA Third Party working party preliminary report 2013. The measures are settlement speed adjusted excluding nils

<sup>2</sup> Based on actuarial best estimate

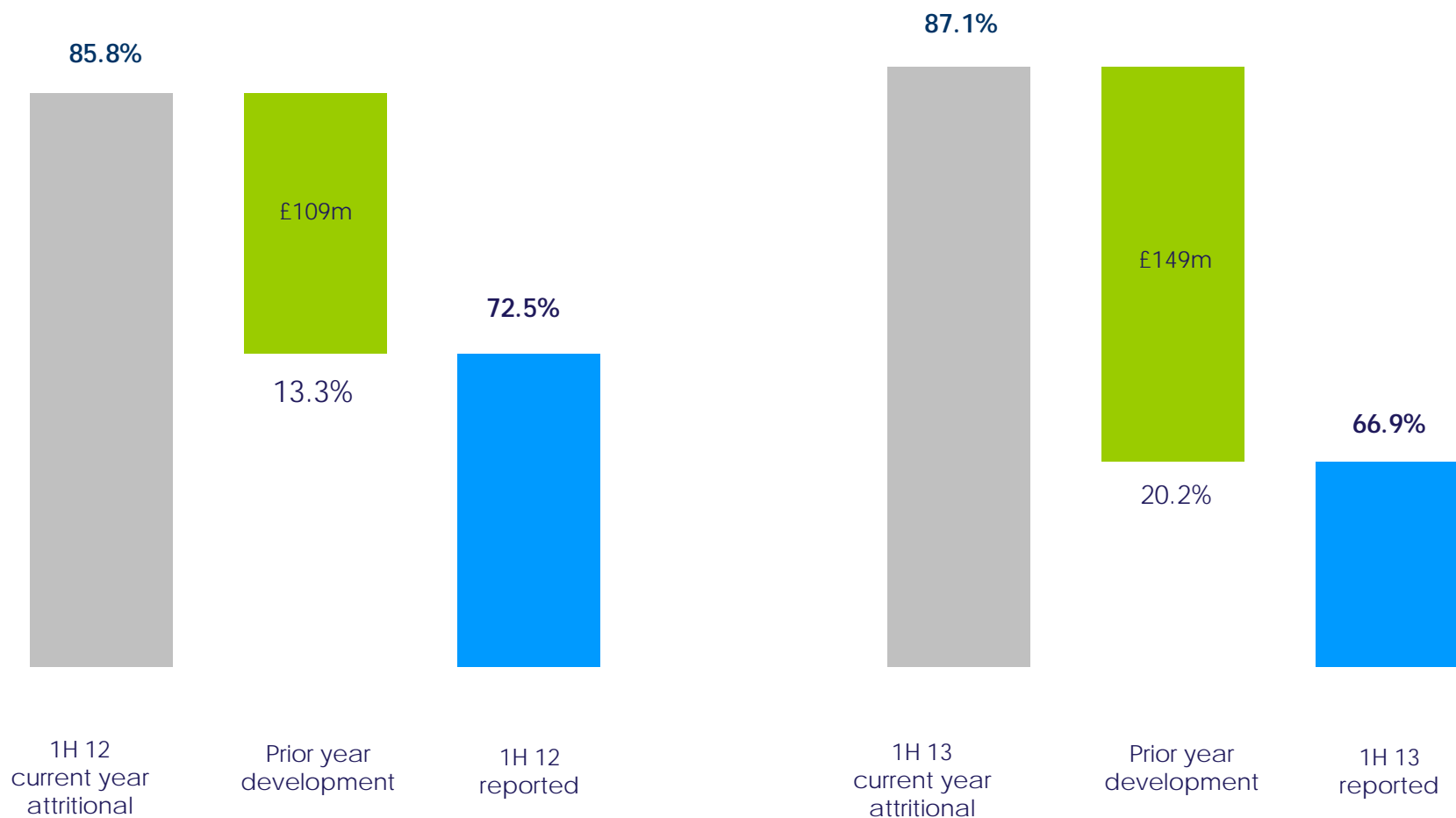
<sup>3</sup> Based on management best estimate, gross of reinsurance and excludes claims handling costs

# Motor underwriting performance

## Loss ratio analysis - Motor

1H 2012

1H 2013



# Home highlights

## Results

(£m unless stated)		1H 2013	1H 2012
In-force policies (000s)	1	3,753	4,304
Gross written premium	2	460.4	484.4
Net earned premium		452.6	477.4
Loss ratio – current year	3	51.7%	69.6%
Loss ratio – current year attritional		51.7%	50.8%
Loss ratio – prior years		(8.2%)	(6.1%)
Loss ratio		43.5%	63.5%
Commission ratio		21.8%	16.2%
Expense ratio		21.0%	23.7%
<b>Combined operating ratio</b>	<b>4</b>	<b>86.3%</b>	<b>103.4%</b>
Underwriting profit / (loss)		61.8	(16.6)
<i>Of which prior year releases</i>		<i>37.0</i>	<i>29.2</i>
Instalment and other income		12.9	12.8
Investment return		12.0	22.2
<b>Operating profit</b>	<b>5</b>	<b>86.7</b>	<b>18.4</b>

## Observations

- 1 IFPs down 11% since year end mainly due to removal of HR24<sup>1</sup> on some packaged bank accounts; underlying fall of 2%
- 2 GWP down 5% versus the prior year
- 3 Current year attritional loss ratio of 51.7%
  - Prior year includes approx £90m of weather-related claims
  - Reserve releases of £37m due to positive loss experience
- 4 Combined operating ratio of 86.3%, 17.1ppts lower than 2012
- 5 Operating profit of £86.7m

<sup>1</sup> Home response policies removed from some packaged bank accounts during 1H 2013, circa 420k policies

# Rescue and other personal lines highlights

## Results

(£m unless stated)		1H 2013	1H 2012
In-force policies (000s)	1	9,014	9,693
Gross written premium	2	193.2	199.3
Net earned premium		182.6	191.7
Loss ratio – current year		60.6%	54.0%
Loss ratio – prior years		(0.3%)	(6.6%)
Loss ratio	3	60.4%	47.4%
Commission ratio		6.1%	5.0%
Expense ratio		25.7%	23.3%
<b>Combined operating ratio</b>		<b>92.2%</b>	<b>75.7%</b>
Underwriting profit		14.3	46.6
<i>Of which prior year releases</i>		<i>0.4</i>	<i>12.7</i>
Instalment and other income		4.7	(1.6)
Investment return		2.9	4.2
<b>Operating profit</b>	4	<b>21.9</b>	<b>49.2</b>
<i>Of which Rescue</i>	5	<i>18.9</i>	<i>27.0</i>

## Observations

- 1 Reduction in IFPs due to reduced volumes in packaged bank accounts partially offset by growth in Green Flag direct sales
- 2 GWP reduction mainly due to run-off of creditor book; Rescue up 8% to £74m
- 3 Loss ratio increased to 60.4% due to non repeat of positive one-offs in 2012 including creditor run-off, and adverse experience in Travel
- 4 Operating profit of £21.9m down from £49.2m due to non-repeat of creditor book run-off in 2012
- 5 Lower Rescue profit due to non repeat of one-offs in 2012 and higher marketing spend in 2013

# Commercial highlights

## Results

(£m unless stated)		1H 2013	1H 2012
<b>In-force policies (000s)</b>	<b>1</b>	<b>561</b>	<b>460</b>
Gross written premium	<b>2</b>	250.7	229.8
Net earned premium		216.0	198.6
Loss ratio – current year		74.9%	94.4%
Loss ratio – prior years		(14.8%)	(29.5%)
Loss ratio	<b>3</b>	60.1%	64.9%
Commission ratio		21.2%	20.0%
Expense ratio		24.0%	27.8%
<b>Combined operating ratio</b>	<b>4</b>	<b>105.3%</b>	<b>112.7%</b>
Underwriting loss		(11.4)	(25.2)
<i>Of which prior year releases</i>		31.9	58.5
Instalment and other income		4.7	4.8
Investment return		13.7	19.0
<b>Operating profit / (loss)</b>	<b>5</b>	<b>7.0</b>	<b>(1.4)</b>

## Observations

- 1** 22% growth in IFPs mainly driven by Direct Line for Business including van transfer
- 2** GWP up 9.1% to £250.7m mainly due to the transfer of the Van business (underlying growth 1.9%<sup>1</sup>)
- 3** Loss ratio improved to 60.1%
  - Fewer large losses reported in the first half
  - Lower reserve releases
- 4** Combined operating ratio of 105.3% shows progress towards 2014 target
- 5** Operating profit of £7.0m compared with a loss of £1.4m in the prior year driven by improved underwriting profitability

<sup>1</sup> DL4B Van now reported in Commercial. GWP and IFPs for DL4B Van historically reported in personal lines Motor (GWP: £13.0m 1H 2013, £16.3m 1H 2012. IFPs: 66k June 2013, 81k June 2012). New business written in Commercial segment from September 2010



# International highlights

## Results

(£m unless stated)		1H 2013	1H 2012
<b>In-force policies (000s)</b>	1	<b>1,586</b>	<b>1,441</b>
Gross written premium		340.2	302.8
Net earned premium		182.6	175.3
Loss ratio – current year		86.6%	89.5%
Loss ratio – prior years		(11.6%)	(11.1%)
Loss ratio	2	74.9%	78.4%
Commission ratio		13.8%	11.4%
Expense ratio		11.2%	13.2%
<b>Combined operating ratio</b>	3	<b>99.9%</b>	<b>103.0%</b>
<i>Of which Italy</i>		<i>100.1%</i>	<i>104.1%</i>
<i>Of which Germany</i>		<i>99.4%</i>	<i>100.0%</i>
Underwriting profit / (loss)		0.1	(5.3)
<i>Of which prior year releases</i>		<i>21.3</i>	<i>19.5</i>
Instalment and other income		3.8	3.5
Investment return		10.1	13.6
<b>Operating profit</b>	4	<b>14.0</b>	<b>11.8</b>
<i>Of which Italy</i>		<i>8.7</i>	<i>6.8</i>
<i>Of which Germany</i>		<i>5.3</i>	<i>5.0</i>

## Observations

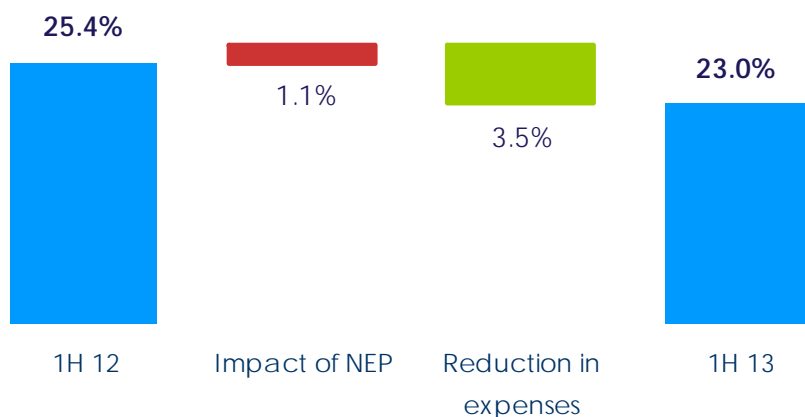
- 1 IFPs up 10.1% and GWP up 12.4% (9.2% in local currency) driven by strong performance in German 1 January renewals
- 2 Improved current year loss ratio with stable contribution from reserve releases
- 3 COR below 100% for International with particular improvement in Italy due in part to lower claims frequency
- 4 Operating profit of £14.0m, up 19% versus the prior year with profit growth in both Italy and Germany

# Improving expense ratio

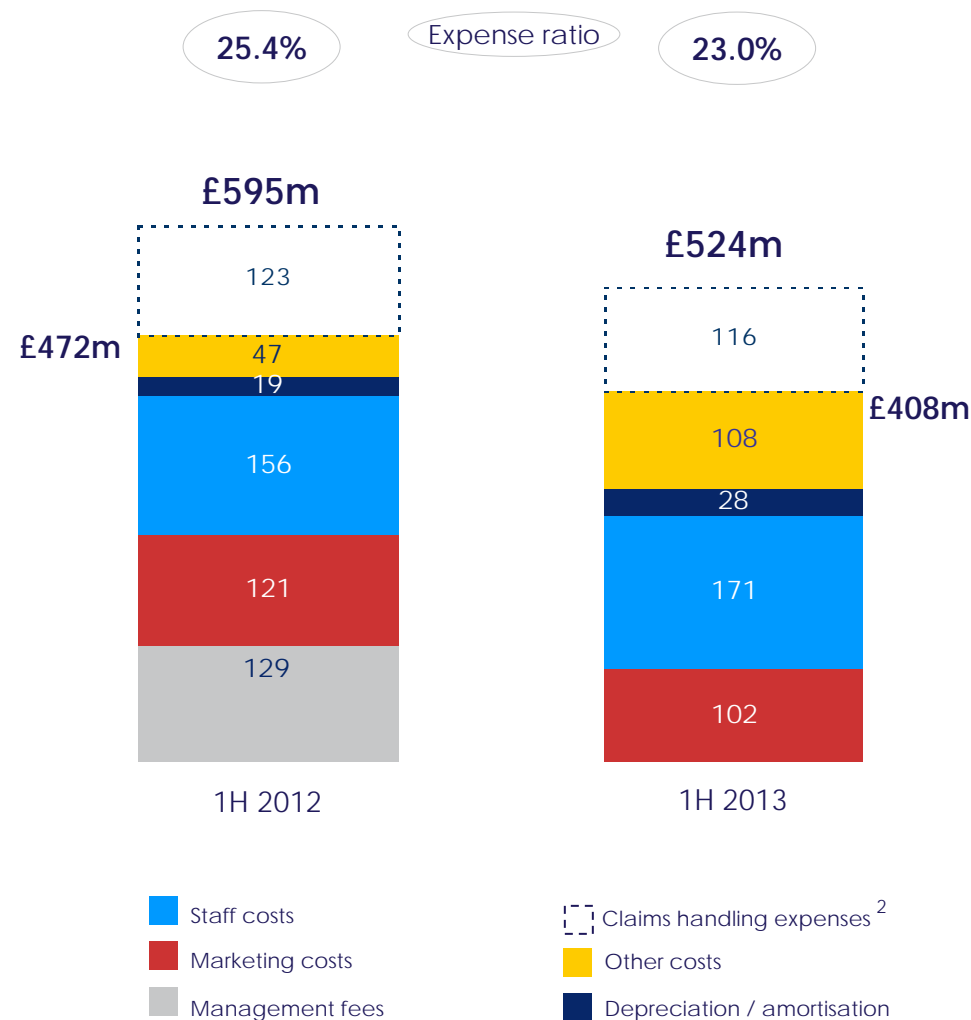
## Observations

- Expense ratio down 2.4ppts to 23.0%
- Operating expenses of £408.5m, £63.3m lower than 1H 2012
- Expense ratio of 22.9% in Q2 2013 versus 25.4% prior year
- Additional costs savings announced, now targeting costs of £1,000m in 2014<sup>1</sup>

## Expense ratio movement - ongoing operations



## Expense analysis - ongoing operations



18 <sup>1</sup> Cost savings expected to be recognised in operating costs for Ongoing operations and claims handling expenses  
<sup>2</sup> Included in loss ratio

# Instalment and other operating income

## Observations

- Instalment and other operating income in 1H 2013 of £93.2m was £5.6m lower than 1H 2012
- Reduction mainly due to the cessation of solicitors' referral fee income from 1 April 2013
- Instalment income reduction broadly reflects premium trends

## Instalment and other operating income

(£m)	1H 2013	1H 2012
Instalment income	60.0	62.1
Other operating income	33.2	36.7
<b>Total – ongoing operations</b>	<b>93.2</b>	<b>98.8</b>

## Breakdown of other operating income

(£m)	1H 2013	1H 2012
Solicitors' referral fee income	6.1	10.9
Vehicle replacement referral fee income	8.1	8.3
Revenue from vehicle recovery and repair services	15.5	14.9
Fee income from insurance intermediary services	0.9	0.7
Other income	2.6	1.9
<b>Other operating income</b>	<b>33.2</b>	<b>36.7</b>

# Investments

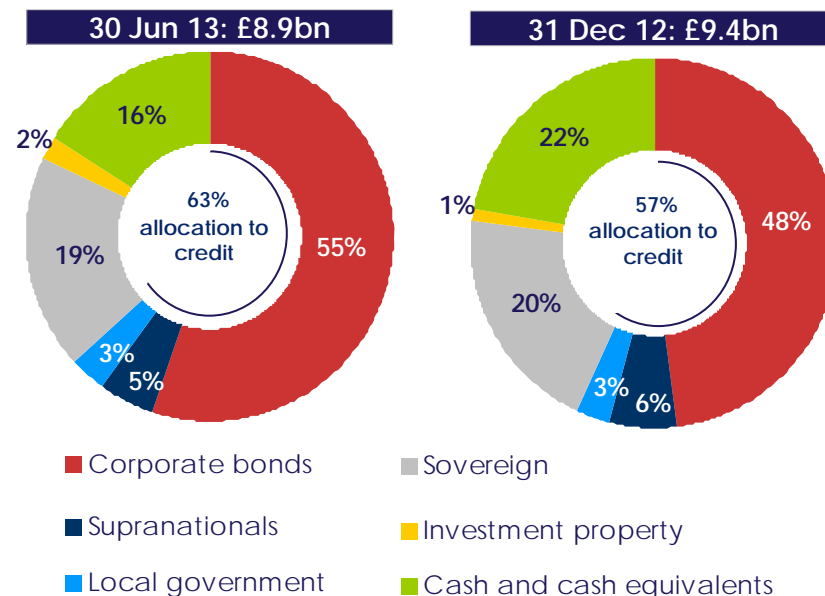
## Observations

- Ongoing investment return of £97.5m with a yield including net realised gains of 2.3%
- Reduction compared with 1H 12 mainly due to gains in 2012 arising from portfolio restructuring and lower AUM
- Target allocation in credit reached and continue to build out property portfolio
- Yield of 2.0% modestly lower than 1H 12 (2.1%)

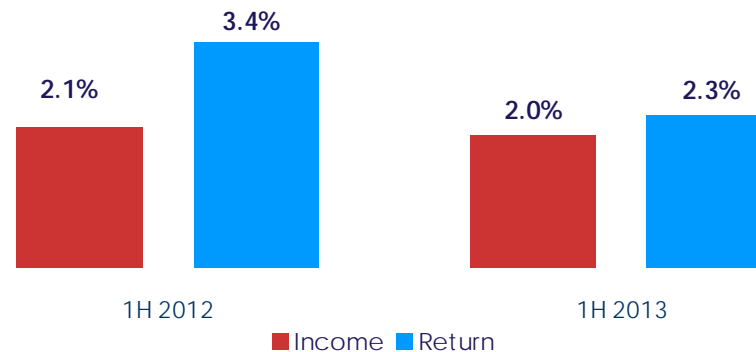
## Investment return - ongoing operations (£m)

	1H 13	1H 12	Q2 13	Q2 12
Investment income	83.4	97.3	43.3	46.5
Net realised and unrealised gains <sup>1</sup>	14.1	48.1	13.8	26.5
<b>Total</b>	<b>97.5</b>	<b>145.4</b>	<b>57.1</b>	<b>73.0</b>

## Investment assets by type



## Investment yields



<sup>1</sup> Unrealised gains relate to derivative hedges and property

# Investment yield outlook

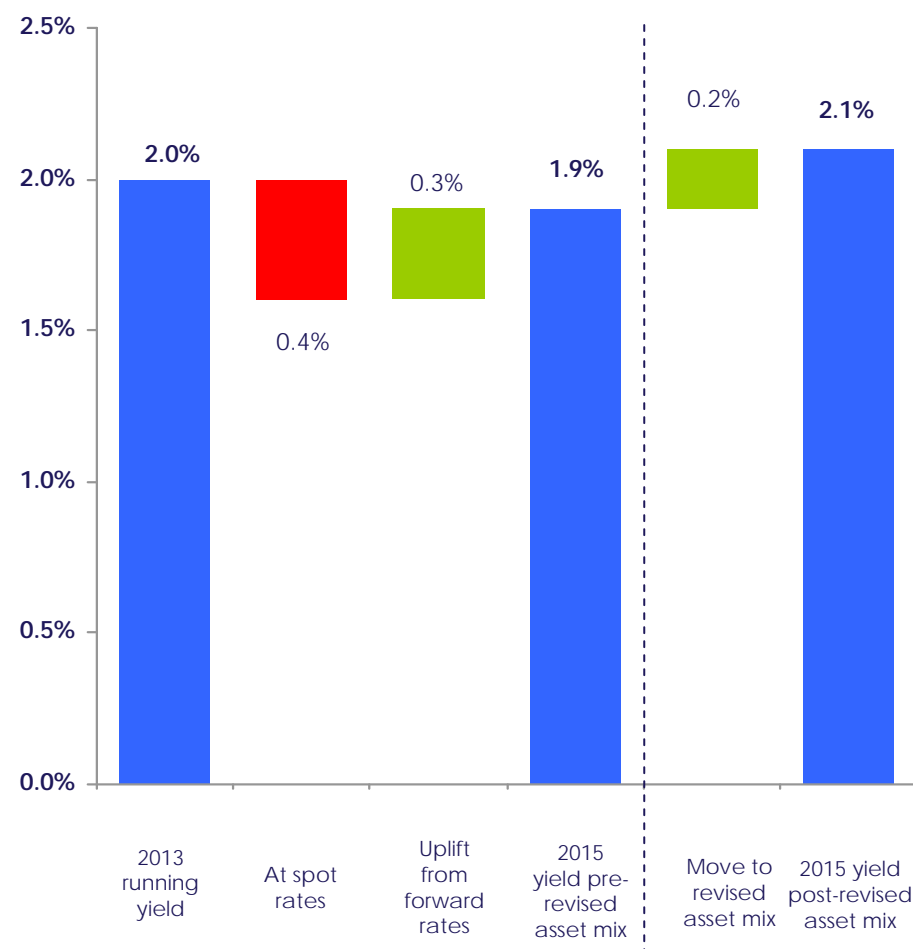
## Income yield

30 June 13	Allocation	Income yield	Reinvest rate	Duration
Credit	63%	2.5%	2.2%	2.5yrs
Sovereign <sup>1</sup>	19%	1.8%	1.2%	1.9yrs
Cash and cash equivalents	16%	0.5%	0.5%	-
Investment property	2%	5.6%	6.0% <sup>2</sup>	-
<b>Total</b>	<b>100%</b>	<b>2.0%</b>	<b>1.6%</b>	<b>2yrs</b>

## Observations

- Reinvestment rates have benefited from move to target asset mix and increase in rates
- Revised asset mix includes include structured credit and increased weighting to BBB corporates

## Income yield outlook



<sup>1</sup> Sovereign includes Supranationals and local Government bonds

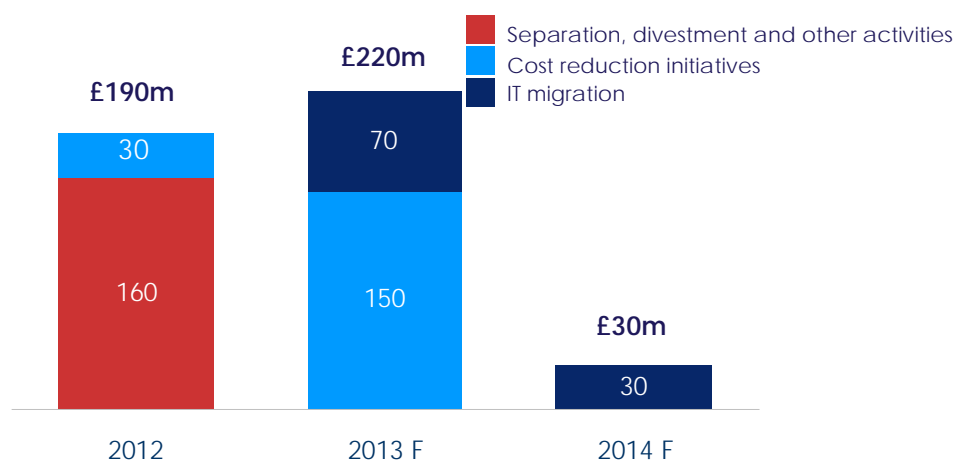
<sup>2</sup> Property reinvestment rate based on management forecast

# Operating profit reconciliation

## Observations

- Run-off profit of £10.6m due to reserve releases and investment income
- Restructuring and other one-off costs of £69.9m in 1H 2013 and expected to increase in the second half of 2013 following updated guidance on cost savings
- Tax rate of 27.0% due to higher earnings from International

## Restructuring and other one-off costs breakdown

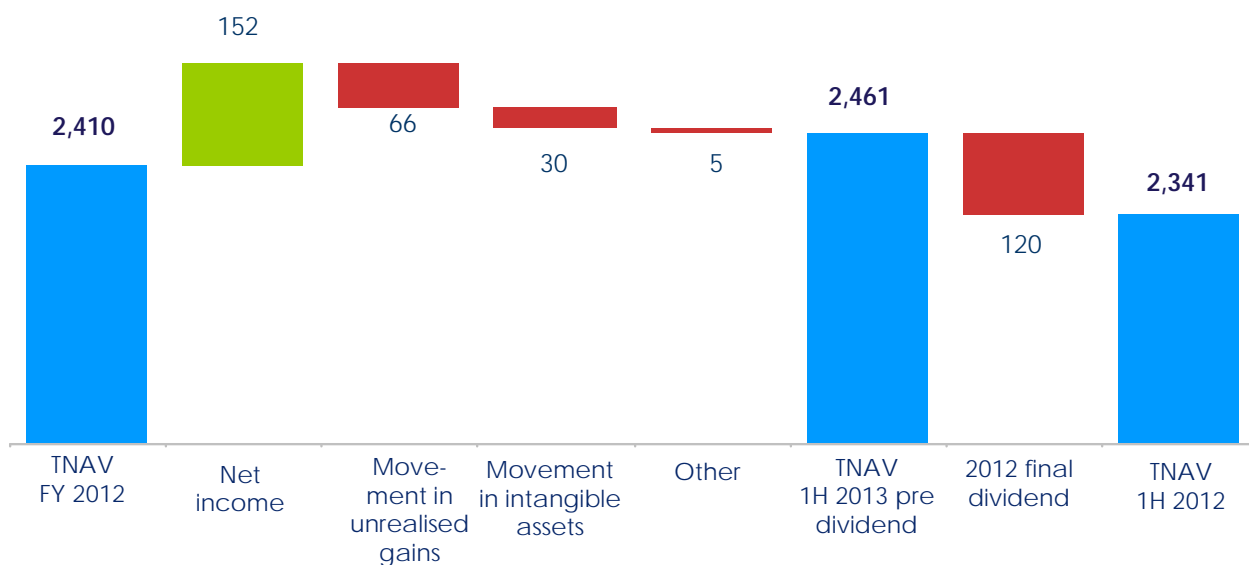


## Operating profit

£m	1H 2013	1H 2012
Operating profit - ongoing operations	286.6	224.2
Run-off	10.6	1.2
Restructuring and other one-off costs	(69.9)	(108.7)
<b>Operating profit</b>	<b>227.3</b>	<b>116.7</b>
Finance costs	(18.5)	(10.2)
Profit before tax	208.8	106.5
Tax	(57.0)	(23.7)
<b>Profit after tax / net income</b>	<b>151.8</b>	<b>82.8</b>

# Book value, capital and dividends

## Movement in tangible net asset value £m



Pence	30 June 2013	2012
Net asset value per share	186.9	189.1
Tangible net asset value per share	156.6	161.0

## Capital ratios

	30 Jun 2013	2012
RBC coverage <sup>1</sup>	151%	151%
RBC coverage post dividend	148%	145%
IGD coverage	272%	279%
Leverage ratio <sup>2</sup>	15%	22%

## Dividend and capital management

- 5% growth in interim dividend to 4.2p
- Progressive dividend policy, aiming to grow the dividend in real terms
- Consider return of capital if RBC surplus expected to remain above 150% for a prolonged period

<sup>1</sup> Figures and ratios for 1H 2013 include unverified profits. Verification of profits occurs on an annual basis.

<sup>2</sup> Total financial debt as a percentage of total capital employed

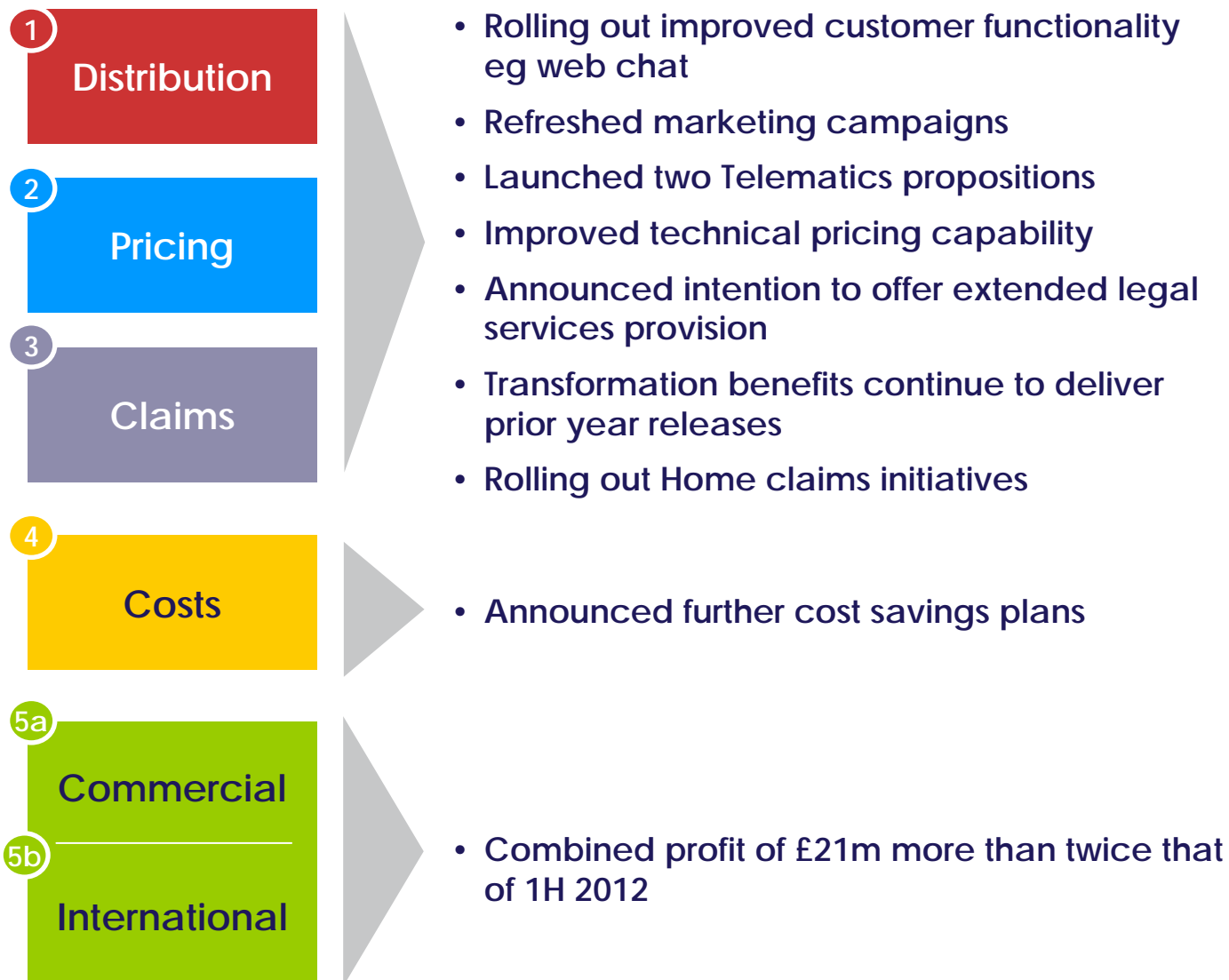
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# Business highlights



Targets
<ul style="list-style-type: none"> <li>• 15% return on tangible equity<sup>1</sup></li> <li>• 98% COR for ongoing operations in 2013</li> <li>• Below 100% COR for Commercial division in 2014</li> <li>• £1bn cost base in 2014<sup>2</sup></li> <li>• Maintain capital resources consistent with credit rating in the 'A' range</li> </ul>

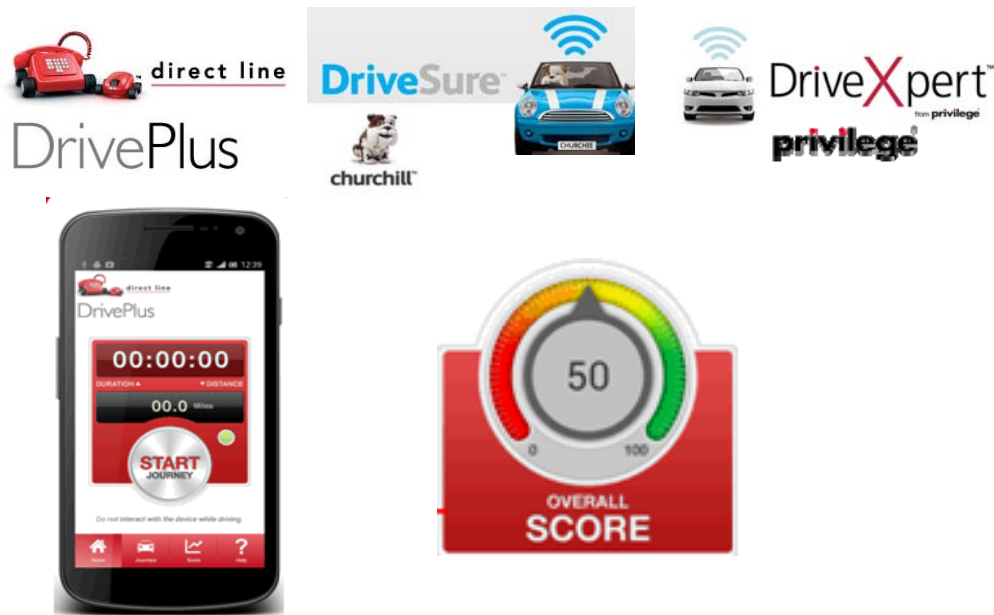
<sup>1</sup> RoTE is annualised adjusted profit after tax from ongoing operations divided by the Group's average tangible shareholders' equity. Profit after tax is adjusted to exclude Run-off operations and Restructuring and other one-off costs and is stated after charging tax (using UK standard tax rate of 23.25%, 2012 24.5%).

25 <sup>2</sup> Cost savings expected to be recognised in operating costs for Ongoing operations and claims handling expenses

# Motor initiatives

## Telematics

- Direct Line Group has been running pilots over the last 18 months, gaining a greater understanding of the value chain
- Launched three brands into the Telematics market in June
- Collected over 7 million miles of data



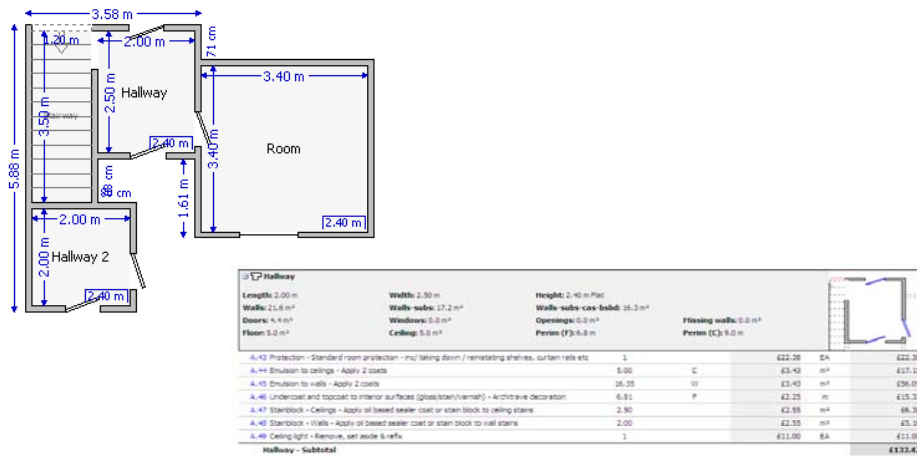
## DLG Legal Services

- Newly formed law firm 'DLG Legal Services' in partnership with Parabis Law LLP
- Extending legal services provision to customers
- Application submitted to the Solicitors Regulation Authority
- Provide customers with an affordable range of legal services
- Customers who purchase MLP or FLP and choose to be represented by DLG Legal Services will receive 100% of any damages awarded
- Customers who do not have MLP or FLP have access to this service with fees deducted from damages awarded

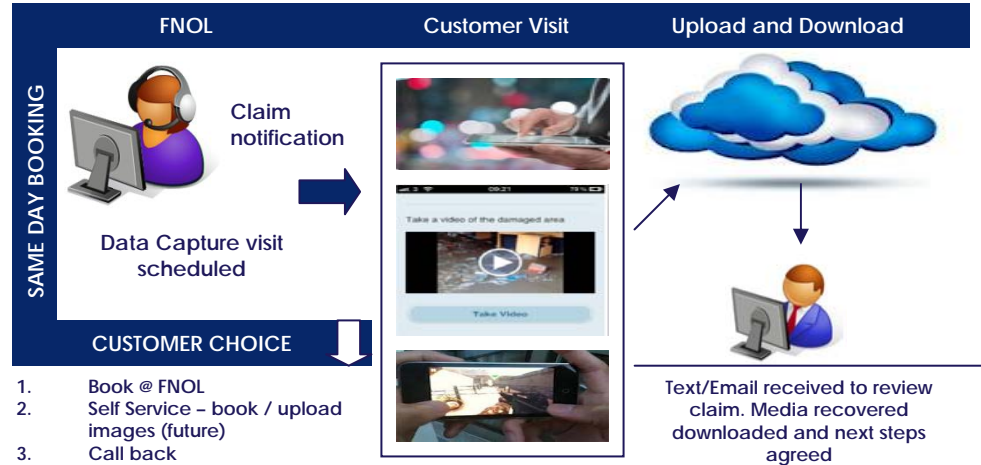


# Building on claims momentum

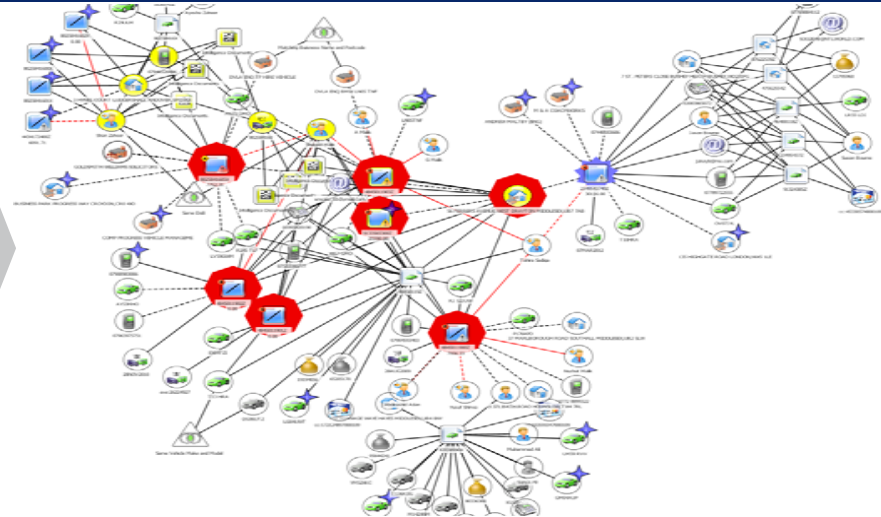
## Buildings estimating tool



## 'With you in 5' pilot initiative



## Fraud analytics



# Improving performance in Commercial and International

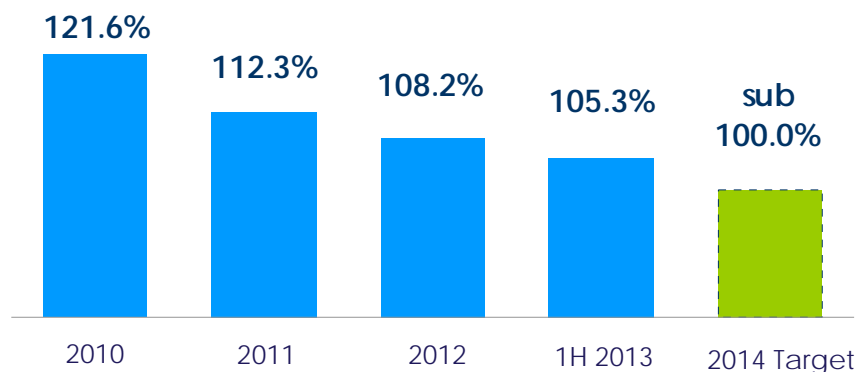
## Commercial



direct line  
for business



- Profit of £7m in 1H 2013, compared with a loss in 1H 2012
- Full cycle eTrading continues to be rolled out
- Good progress on cost savings initiatives
- Targeting COR below 100% in 2014



## International

- 16% growth in operating profit



- Market remains competitive with a shrinking car parc
- 100.1% COR, down 4.1ppts
- Recent growth has put business in a good position
- Direct market including PCWs



- 21% growth in IFPs since Dec 2012
- Capitalising on improving claims trends in the market
- Channel shift towards direct

# Agenda and presenters

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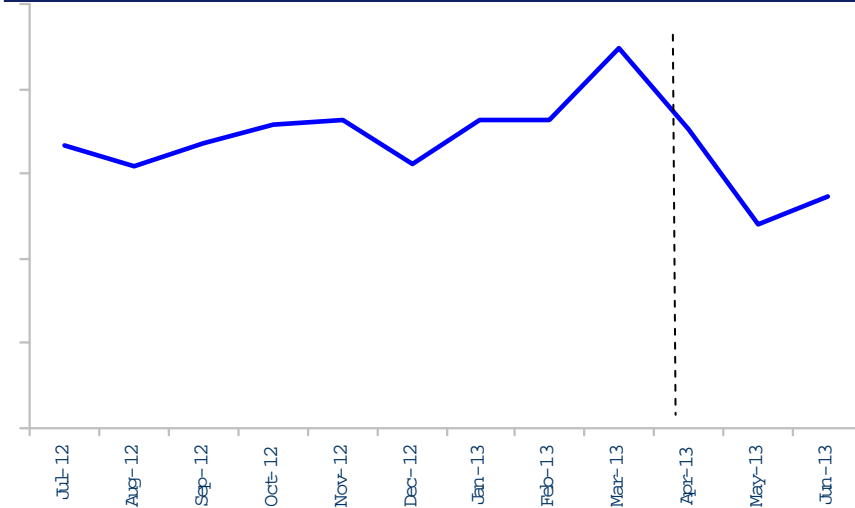
Key messages and financial highlights	Paul Geddes - CEO
Financials	John Reizenstein - CFO
Strategic update	Paul Geddes - CEO
<b>Summary and outlook</b>	<b>Paul Geddes - CEO</b>
Questions and answers	

# Impact of motor regulatory reforms

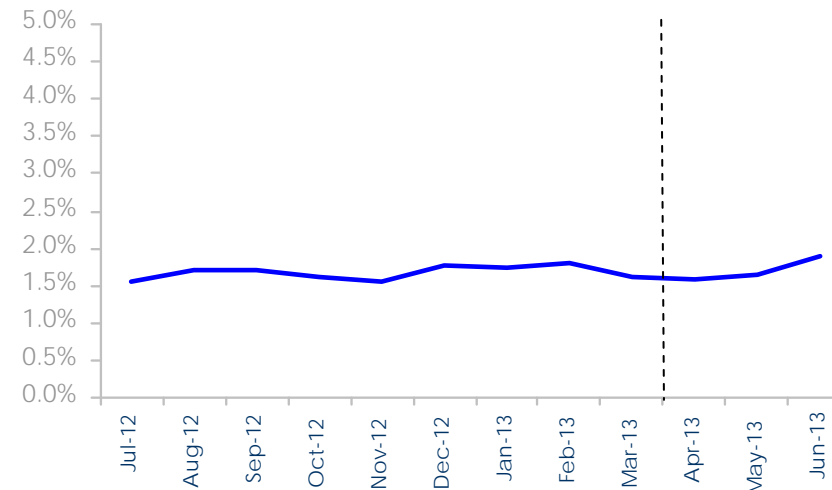
## Motor legal reforms now in place

Reform	Implementation method	Implementation date
Solicitors' referral fee ban	LASPO	1st April 2013
10% uplift in general damages	Simmons vs Castle	1st April 2013
Non-recovery of ATE/success fees	LASPO	1st April 2013
Reduction in fixed legal costs in RTA portal from £1,200 to £500	MOJ/CPR	30th April 2013
Extension of RTA portal limits from £10k to £25k	CPR	31st July 2013

## BI claims volumes<sup>1</sup>



## RTA portal stage 2 drop out rates<sup>2</sup>



<sup>1</sup> Total BI claimants (portal and non portal)

<sup>2</sup> Drop out defined as claims leaving the portal where we did not wish them to do so, i.e excludes fraud

# Regulatory update

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## Whiplash

Government consultation closed 8 March 2013 followed by launch of Transport Select Committee consultation. The TSC recently announced support for the following measures:

- reduction in the three year limitation period
- maximum 90 day whiplash reporting period to defendants
- accreditation scheme for medical practitioners who provide medical reports in relation to whiplash claims

Government consultation proposals due to be published in the Autumn

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## Competition Commission investigation

Determining whether any feature, or combination of features, of the private motor insurance markets prevents, restricts or distorts competition. Main focus areas:

- garage repair costs
  - credit hire
  - PCW most favoured nation clauses
- 

## Motor legal expenses insurance

Thematic review looking at the positioning and wording of motor legal cover. Review concluded:

- MLEI is a complex product, but can be useful for consumers
- firms need to review practices, particularly relating to sales processes and quality of explanation.

The FCA confirmed MLEI will be reviewed again in 2014

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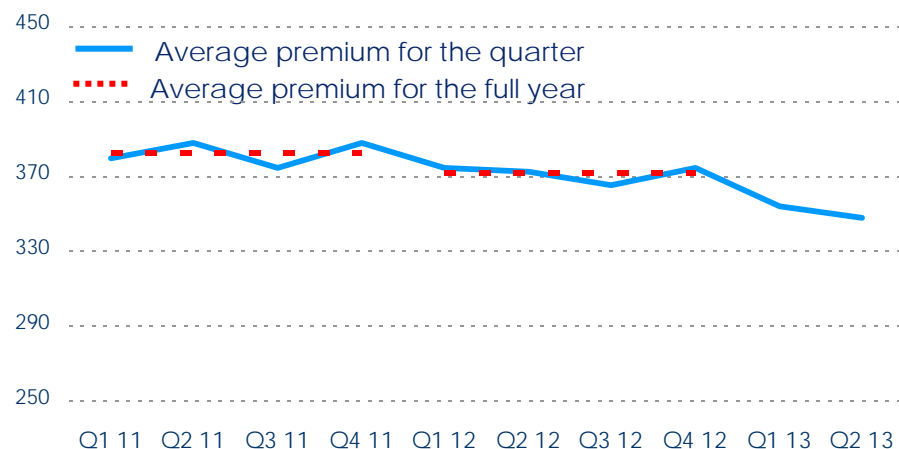
## Ogden

Two consultations:

- how the discount rate should be set within current legal framework
  - review of framework to assess whether index-linked gilts should be used in setting rates
  - consultations now closed and MoJ response overdue (was expected in July 2013)
-

# UK motor market

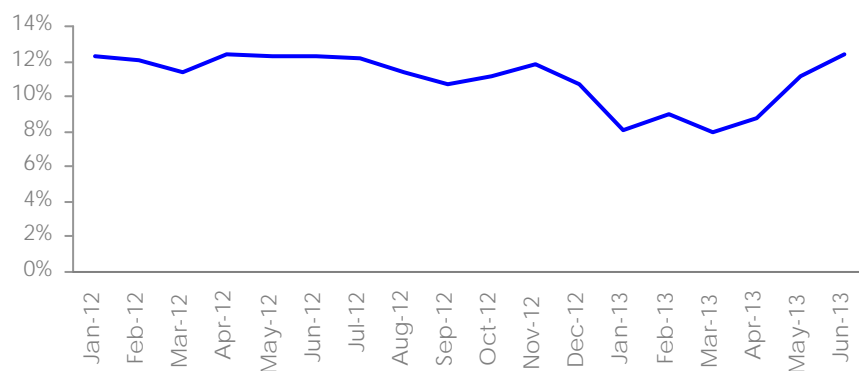
## Motor average premium (£)



## Motor average premium (% change)

% change	Q1 13 vs FY 12	Q1 13 vs Q1 12	Q2 13 vs FY 12	Q2 13 vs Q2 12
New business	-7.4%	-7.7%	-7.0%	-8.6%
Renewals	-2.6%	-2.6%	-5.8%	-5.7%
<b>Total</b>	<b>-4.7%</b>	<b>-5.4%</b>	<b>-6.4%</b>	<b>-6.7%</b>

## Young drivers new business accepts (own brands)



## Average premium movement

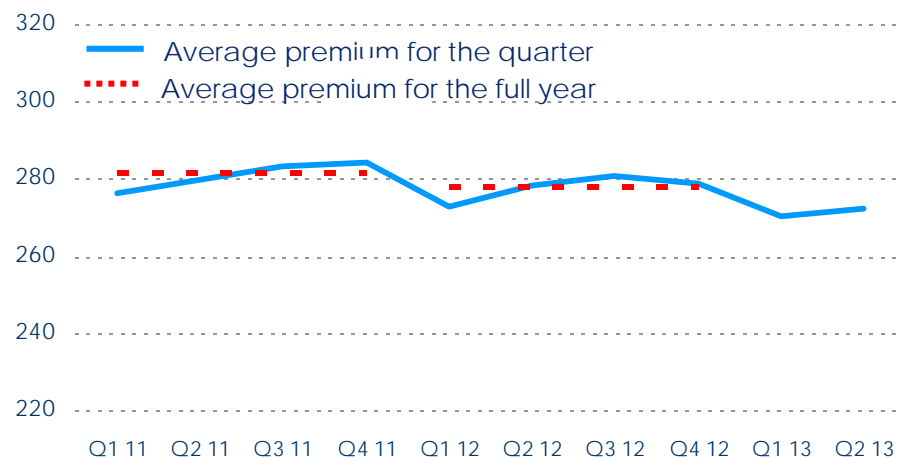


## Maintaining underwriting discipline



# UK home market

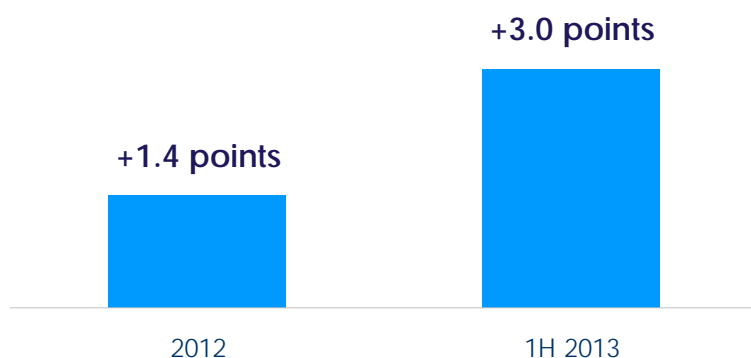
## Home average premium (£)



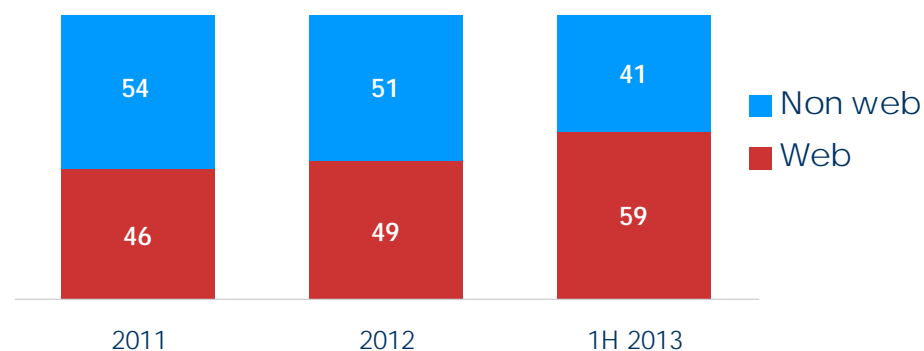
## Home average premium (% change)

% change	Q1 13 vs FY 12	Q1 13 vs Q1 12	Q2 13 vs FY 12	Q2 13 vs Q2 12
New business	-5.3%	-3.9%	-6.6%	-6.7%
Renewals	-2.7%	-0.9%	-1.8%	-1.9%
<b>Total</b>	<b>-2.6%</b>	<b>-0.8%</b>	<b>-1.9%</b>	<b>-2.2%</b>

## Movement in retention rate<sup>1</sup> own brands



## New business sales by channel (%)



## Maintaining a strong market position

<sup>1</sup> Movement in percentage points versus 2011 actual

# Key messages

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- 1 Operating profit of £286.6m, up 27.8%
- 2 Ongoing COR 94.6% with further improvement in attritional loss ratio
- 3 Doubled contribution from Commercial and International
- 4 Further cost savings announced, targeting costs of £1,000m in 2014
- 5 Proposed interim dividend of 4.2 pence per share, represents 5% growth

Good progress towards delivering our strategic targets

# Agenda and presenters

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Key messages and financial highlights	Paul Geddes - CEO
Financials	John Reizenstein - CFO
Strategic update	Paul Geddes - CEO
Summary and outlook	Paul Geddes - CEO
<b>Questions and answers</b>	

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# Appendices

# Balance sheet and RoTE

## RoTE calculation

(£m)	1H 2013
Operating profit (total Group)	227.3
Add back: Run-off	(10.6)
Add back: Restructuring and other one off costs	69.9
Less: Finance costs	(18.5)
Profit before tax (ongoing operations)	268.1
Less: tax <sup>1</sup>	62.3
<b>Profit after tax</b>	<b>205.8</b>
Invested tangible equity b/f	2,410
Invested tangible equity c/f	2,341
<b>Average invested tangible equity</b>	<b>2,376</b>
<b>Return on tangible equity annualised</b>	<b>17.3%</b>

## Balance sheet overview

(£m)	30 Jun 2013	31 Dec 2012
<b>Assets</b>		
Goodwill	211.0	211.0
Other intangible assets	240.8	210.5
Investment assets <sup>2</sup>	8,910.7	9,438.8
Other assets	2,805.7	2,837.6
<b>Total assets</b>	<b>12,168.2</b>	<b>12,697.9</b>
<b>Liabilities</b>		
Insurance liabilities and unearned premium reserve	8,002.5	8,271.4
Borrowings	63.4	90.9
Other liabilities	1,309.5	1,504.0
<b>Total liabilities</b>	<b>9,375.4</b>	<b>9,866.3</b>
<b>Equity</b>		
Total invested equity	2,792.8	2,831.6
Net asset value per share (pence)	186.9	189.1
Net tangible asset value per share (p)	156.6	161.0

<sup>1</sup> Standard tax rate: 1H 2013 - 23.25%, 2012 - 24.50%

<sup>2</sup> Includes financial investments, investment property, cash and cash equivalents.

# Flood Re

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## Background

- In June 2013, the Government and the insurance industry agreed a Memorandum of Understanding confirming Flood Re as the preferred solution to the affordability and availability of flood insurance in the UK
- Flood Re will be a not-for-profit reinsurance scheme that offers cover for flood losses on risks ceded to it by home insurers. The premium charged for this cover will be fixed by Council Tax band
- In addition to the premium ceded, Flood Re will be funded by a levy on all home insurers, equating to approximately £10.50 on an annual household premium
- There are certain proposed exceptions to the scheme – properties built from January 2009, properties in the highest Council Tax band and commercial property

## Timing

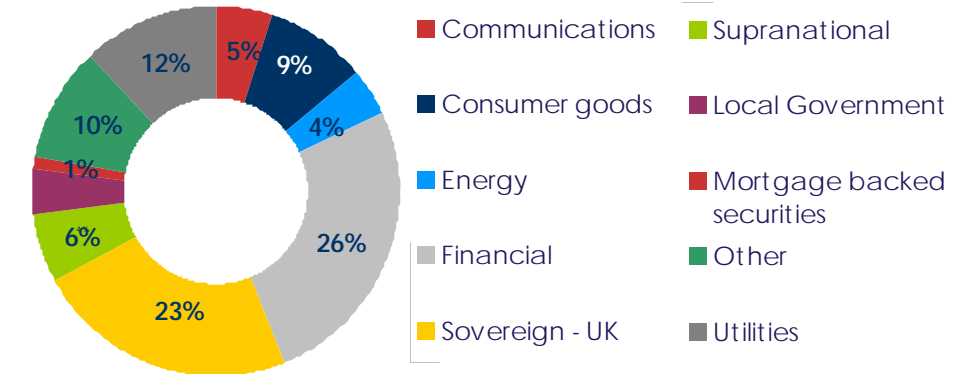
- The industry and the Government aim to establish Flood Re by summer 2015. Until then, insurers have agreed to voluntarily meet the commitments set out in the ABI Statement of Principles on the Provision of Flood Insurance
- Direct Line Group is working to understand the implications of Flood Re, but the expectation is that any impact on insurers will be neutral

# Fixed income portfolio

## Observations

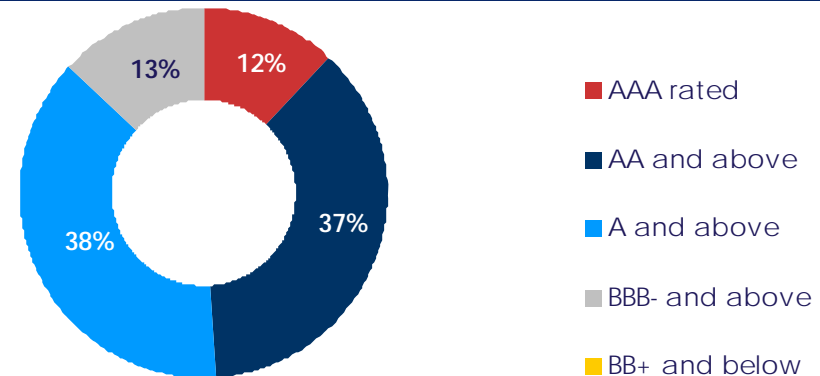
- Progress made in portfolio restructuring
  - Investing in US corporate credit and additional sterling corporate credit
  - Reducing cash and short term investment balances

## Fixed income by sector



Total debt securities £7.2bn

## Fixed income by rating



Total debt securities £7.2bn

# Fixed income portfolio

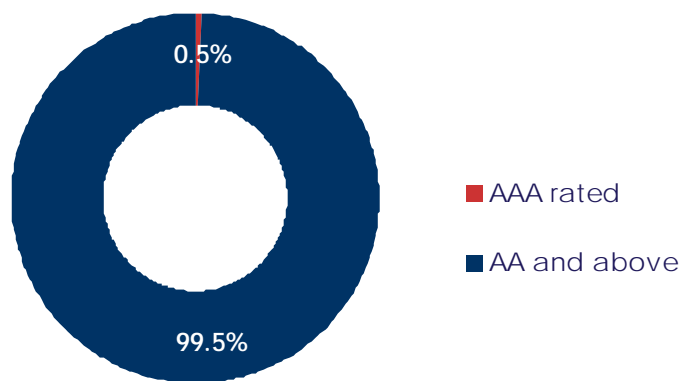
## Sovereign exposure by country

Key Eurozone countries £m	30 June 13
Germany	-
France	4.6
Netherlands	4.4
Ireland	-
Spain	-
Italy	-
Belgium	7.3
Austria	3.0
<b>TOTAL</b>	<b>19.4</b>

## Corporate exposure by country

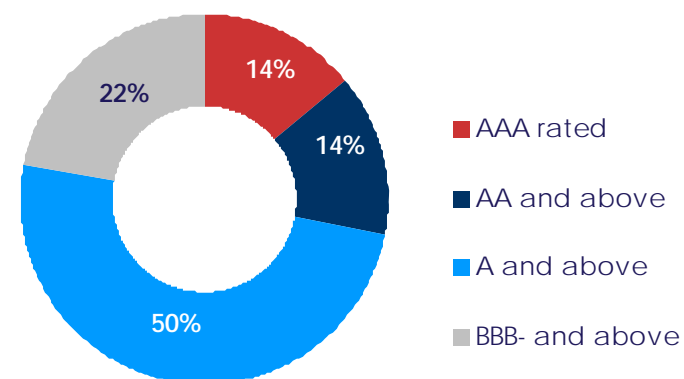
Key Eurozone countries £m	30 June 13
Germany	293.9
France	254.7
Netherlands	59.7
Ireland	5.5
Spain	4.5
Italy	35.0
Belgium	43.1
Austria	-
<b>TOTAL</b>	<b>696.4</b>

## Sovereign exposure by rating



Total sovereign £1.7bn

## Corporate exposure by rating



Total corporate £3.9bn



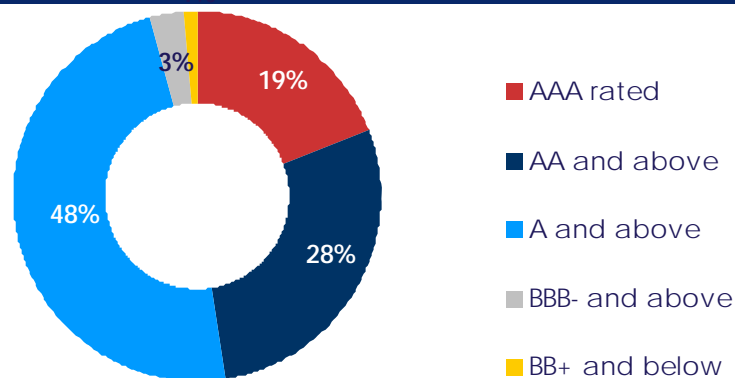
# Fixed income portfolio

## Bank and other financial institutions exposure

£m	30 June 13
Secured	182
Unsecured	1,268
Subordinated	111
Certificates of deposit	-
<b>Total banks</b>	<b>1,561</b>
Other financial institutions	113
<b>Total</b>	<b>1,674</b>

Key Eurozone countries £m	30 June 13
Germany	183
France	66
Netherlands	107
Ireland	4
Spain	8
Italy	9
Belgium	2
Austria	-
Portugal	-
Greece	-
<b>TOTAL</b>	<b>378</b>

## Bank and other financial institutions by rating



Total bank and FI £1.6bn

RBS Group Exposure £m	30 June 13
Cash	71
Short term deposits	26
Overdrafts	(79)
Term deposits	50
Interest rate swaps	(2)
FX derivatives	(1)
<b>Total</b>	<b>66</b>
RBS Group debt held	67
<b>Total cash and investment transaction</b>	<b>133</b>

# General disclaimer

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## Forward-looking statements

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