Half year results 2014
1 August 2014

Agenda and presenters

Key messages	Paul Geddes - CEO
Financials	John Reizenstein - CFO
Strategic update	Paul Geddes - CEO
Summary and outlook	Paul Geddes - CEO
Questions and answers	

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Key highlights

1 **Good performance; on track to meet 2014 targets[1]**

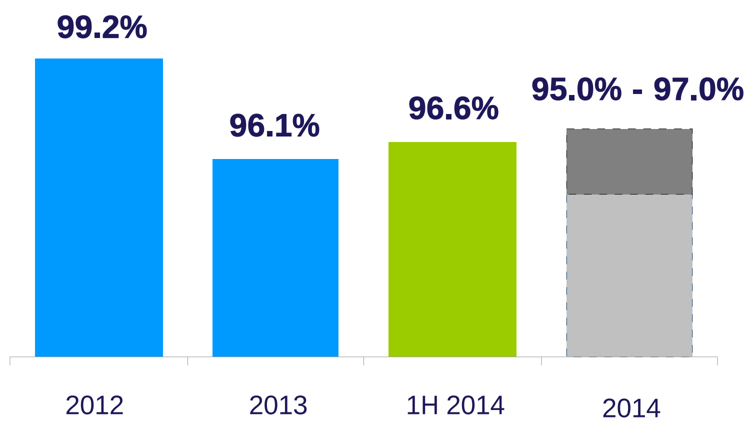
2 **Remaining disciplined, whilst improving capability; reduction in current year attritional loss ratio**

3 **Growth and higher profitability in Commercial and Rescue**

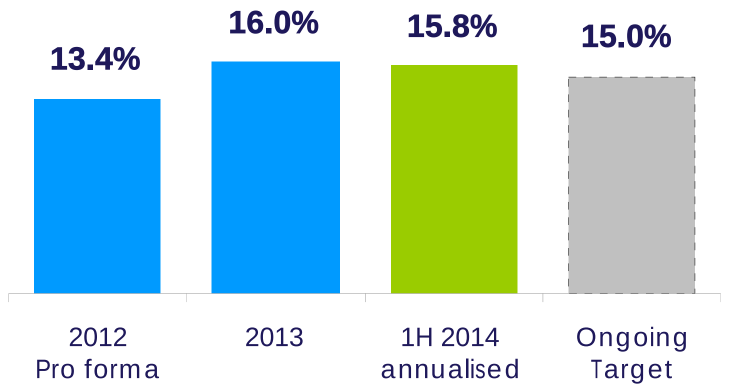
4 **Announcing an interim dividend of 4.4 pence and special dividend of 10.0 pence per share**

5 **Strategic review of International initiated**

COR[2,3]



ROTE[4]



1. Assuming normal weather
2. 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, commission and expenses compared to net earned premium generated
3. Combined operating ratio from Ongoing operations – Ongoing operations include Direct Line Group's (the 'Group') ongoing segments: Motor, Home, Rescue and other personal lines, Commercial and International. It excludes the Run-off segment and Restructuring and other one-off costs.
4. Return on tangible equity ("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 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

Agenda and presenters

Key messages	Paul Geddes - CEO
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Financial highlights

Observations

1. **GWP of £1,874.8m, 5.1% lower than 1H 2013**
   - **Reflects competitive market conditions and focus on margins**
2. **Underwriting profit of £56.4m, £39.5m lower than prior year**
   - **2ppt improvement in current year attritional loss ratio**
   - **Weather costs of £64m in Home and £16m in Commercial**
3. **19.5% increase in investment return**
4. **COR of 96.6% remains within the 2014 range of 95% to 97%[1]**
5. **Increase in operating profit in Motor, RoPL, and Commercial**

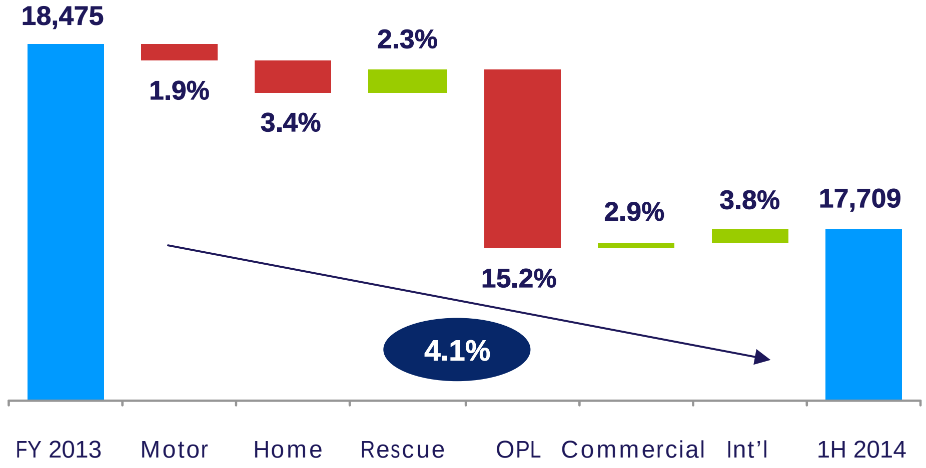
(£m unless stated)		1H 14	1H 13	FY 13
Ongoing operations				
Gross written premium	1	1,874.8	1,975.9	3,826.6
Underwriting profit/(loss)	2	56.4	95.9	138.2
Instalment and other income		76.2	93.2	180.2
Investment return	3	116.5	97.5	208.1
Operating profit – Ongoing operations		**249.1**	**286.6**	**526.5**
Profit before tax		225.1	208.8	423.9
Net income / profit after tax		175.6	151.8	312.8
Of which Ongoing operations[2]		*180.9*	*205.8*	*375.2*
Combined operating ratio	4	*96.6%*	*94.6%*	*96.1%*

Operating profit- ongoing operations (£m unless stated)	5	1H 14	1H 13	FY 13
Motor		164.3	157.0	347.7
Home		34.8	86.7	106.2
Rescue and other personal lines		25.8	21.9	46.5
Commercial		10.8	7.0	9.5
International		13.4	14.0	16.6

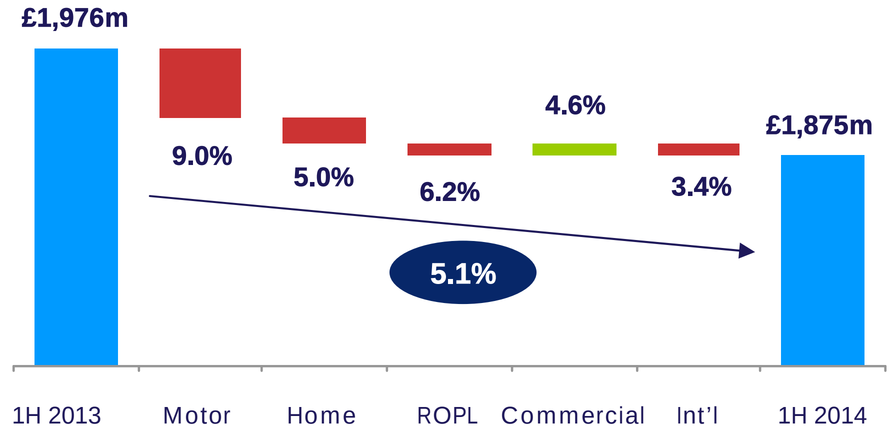
1. *Assumes normal level of claims from weather and large losses*
2. *Profit from Ongoing operation less finance costs and tax (UK standard tax rate of 21.5%; 2013 23.25%) Ongoing operations include Direct Line Group's (the 'Group') ongoing segments: Motor, Home, Rescue and other personal lines, Commercial and International. It excludes the Run-off segment and Restructuring and other one-off costs.*

Competitive market conditions reflected in IFPs and GWP

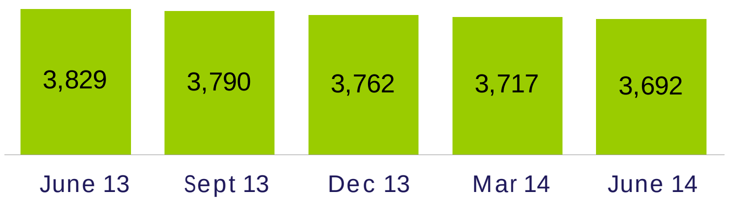
IFPs (000s)



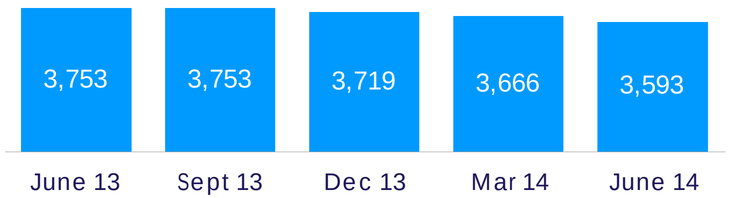
Ongoing GWP



Quarterly IFPs - Motor



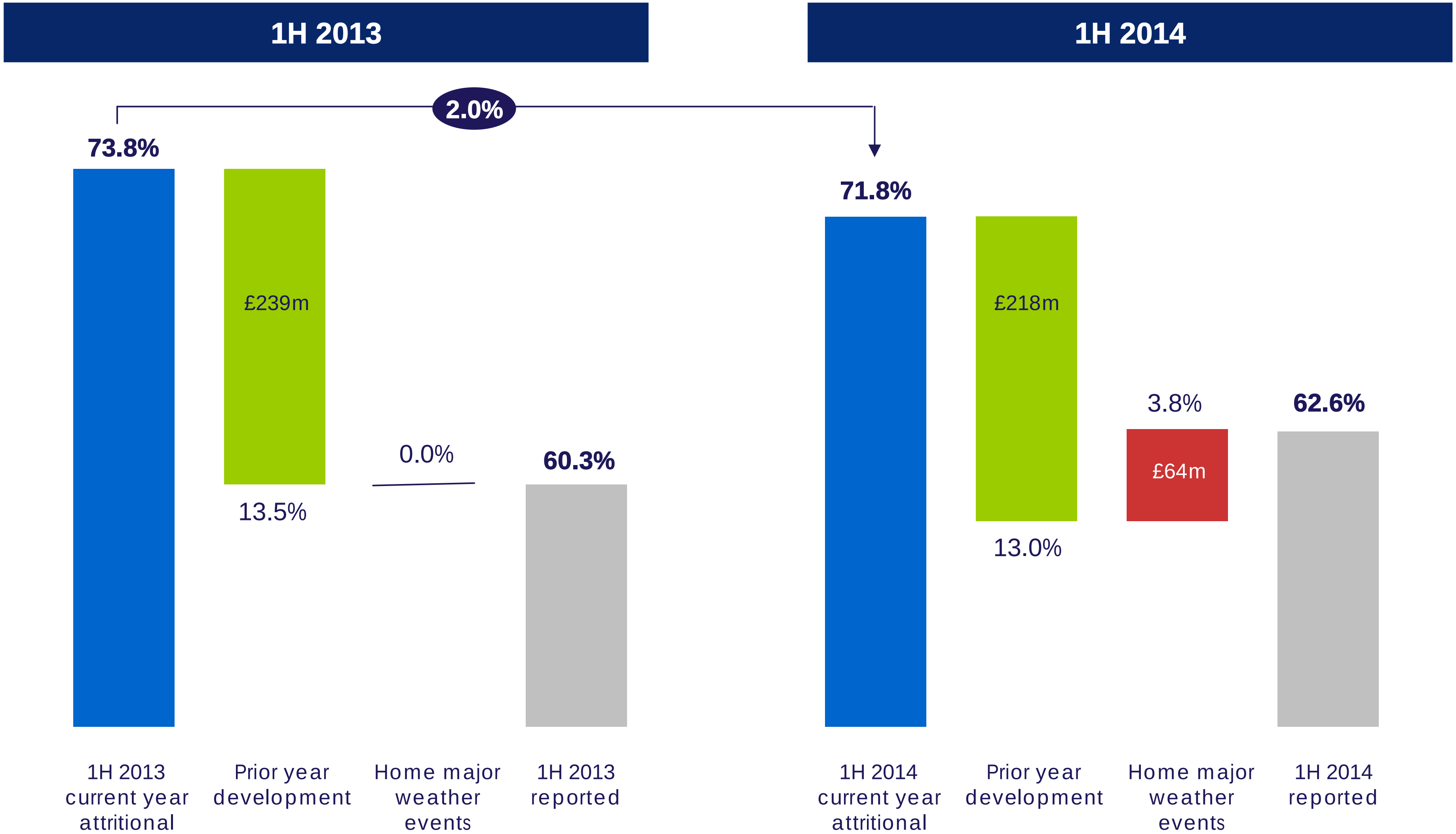
Quarterly IFPs - Home



	1Q vs. prior year	2Q vs. prior year	1H vs. prior year
Motor	(10.2%)	(7.8%)	(9.0%)
Home	(5.6%)	(4.5%)	(5.0%)
Rescue and other personal lines	(5.6%)	(6.8%)	(6.2%)
Adjusted for Life	*3.2%*	*0.9%*	*2.0%*
Commercial	3.9%	5.1%	4.6%
International	(2.6%)	(4.4%)	(3.4%)
Total	**(5.6%)**	**(4.6%)**	**(5.1%)**

Improvement in current year underwriting performance

Loss ratio analysis - ongoing operations

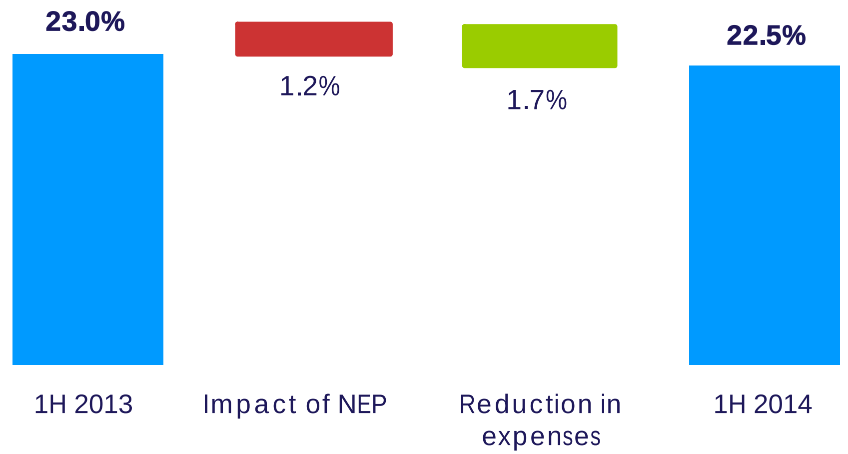


Improving the expense ratio in a competitive market

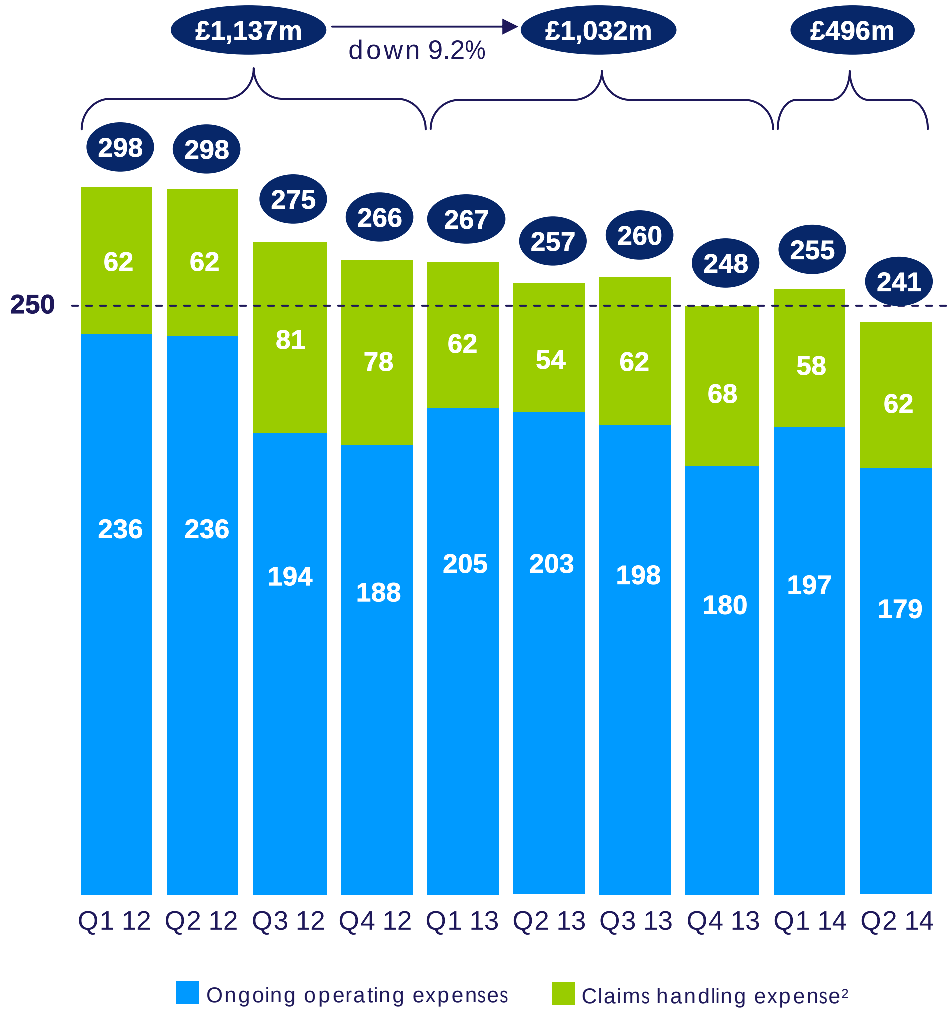
Observations

- **Total costs down 5.4% to £496m in the first half of 2014**
- **0.5ppt improvement in the expense ratio**
- **On track to deliver total cost base target of approximately £1,000m in 2014**

Expense ratio movement – ongoing operations



Cost base – ongoing operations[1] (£m)



1. *Ongoing operations include Direct Line Group's (the 'Group') ongoing segments: Motor, Home, Rescue and other personal lines, Commercial and International. It excludes the Run-off segment and Restructuring and other one-off costs.*
2. *Included in loss ratio*

Motor highlights

Results

(£m unless stated)		1H 14	1H 13	FY 2013
In-force policies (000s)[1]	1	**3,692**	**3,829**	**3,762**
Gross written premium[1]	2	665.4	731.4	1,421.1
Net earned premium		658.0	738.5	1,444.8
Loss ratio – current year	3	87.2%	87.1%	85.3%
Loss ratio – prior years		(22.6%)	(20.2%)	(20.2%)
Loss ratio		64.6%	66.9%	65.1%
Commission ratio		2.6%	2.6%	2.5%
Expense ratio		26.4%	26.3%	25.6%
Combined operating ratio	4	**93.6%**	**95.8%**	**93.2%**
Underwriting profit / (loss)	5	42.4	31.1	98.1
Of which prior year releases		*149.0*	*148.6*	*291.9*
Instalment and other income[2]	6	50.6	67.1	126.8
Investment return		71.3	58.8	122.8
Operating profit	7	**164.3**	**157.0**	**347.7**

Observations

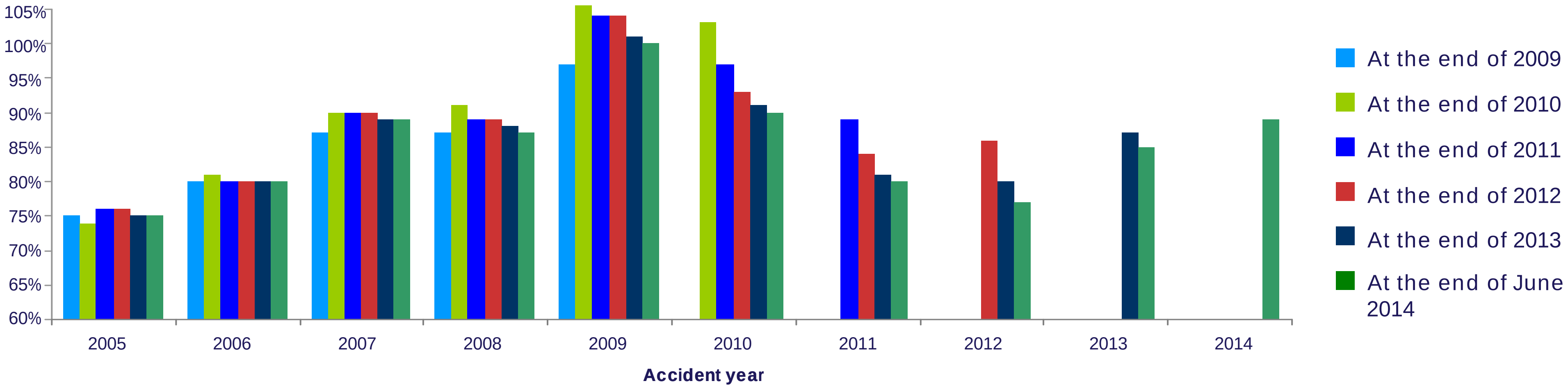
1. **IFPs down 1.9% since December 2013, with a 0.7% reduction in the second quarter**
2. **GWP 9.0% lower than 1H 2013**
3. **Current year loss ratio remains stable**
4. **2.2ppt improvement in combined operating ratio**
5. **£11.3m improvement in underwriting profit**
6. **Instalment and other income down £16.5m due to the sale of Tracker[2], lower volumes and the ending of solicitors' referral fees**
7. **Operating profit up 4.7% to £164m**

1. *Adjustment made to GWP and IFPs for DL4B Van historically reported in personal lines Motor (GWP: £19.8.m FY 2013, £29.8m FY 2012. IFPs: 61k Dec 2013, 74k Dec 2012). New business written in Commercial division since September 2010*
2. *Tracker disposed on 5 February 2014 – the period ended 30 June 2014 includes Tracker related operating income: £1.4m and operating loss: £0.4m*

Direct Line Group

Motor claims trends

Motor booked loss ratio development (gross[1])



BI capped severity inflation[2]

	2013 vs. 2012	2012 vs. 2011	2011 vs. 2010	2010 vs. 2009
Inflation at latest settlement rate point	(13.0%)	(0.9%)	(2.1%)	(4.3%)
Inflation in booked best estimate[3]	(0.2%)	(1.6%)	0.4%	(2.6%)
Indexed (2009 = 100)				
Inflation at settlement point	80.7	92.8	93.7	95.7
Inflation in booked best estimate[1]	96.0	96.1	97.7	97.4

Current motor frequency observations

- **Overall Motor claims frequency trends are stable**
- **BI capped frequency remains lower post LASPO reforms**
- **Higher accidental damage frequency due to weather related claims in the first quarter**

1. *Based on management best estimate, gross of reinsurance and excludes claims handling costs*
2. *Small bodily injury claims capped at £50k (in 1999)*
3. *Excludes margin*

Direct Line Group

Home highlights

Results

(£m unless stated)		1H 14	1H 13	FY 2013
In-force policies (000s)	1	**3,593**	**3,753**	**3,719**
Gross written premium	2	437.3	460.4	943.1
Net earned premium		440.0	452.6	908.9
Loss ratio – current year attritional	3	49.6%	51.7%	51.1%
Major weather		14.5%	-	7.6%
Loss ratio – current year incl. weather		64.1%	51.7%	58.7%
Loss ratio – prior years		(7.5%)	(8.2%)	(4.8%)
Loss ratio		56.6%	43.5%	53.9%
Commission ratio		20.9%	21.8%	19.6%
Expense ratio		20.3%	21.0%	20.3%
Combined operating ratio	4	**97.8%**	**86.3%**	**93.8%**
Underwriting profit / (loss)		9.9	61.8	56.2
Of which prior year releases		*33.1*	*37.0*	*43.3*
Instalment and other income		12.2	12.9	25.9
Investment return		12.7	12.0	24.1
Operating profit	5	**34.8**	**86.7**	**106.2**

Observations

1. **IFPs down 3.4% since December 2013, with a 2.0% reduction in the second quarter**

2. **GWP down 4.3% versus 1H 2013**

3. **Current year attritional loss ratio of 49.6% 2ppts better than prior year**

   - **1H 2014 weather-related claims of £64m compared to nil in 1H 2013**

4. **11.5ppt increase in combined operating ratio, driven by weather**

5. **£51.9m decrease in operating profit, again driven by weather**

Rescue and other personal lines[1] highlights

Results

(£m unless stated)		1H 14	1H 13	FY 2013
In-force policies (000s)	1	**8,153**	**9,014**	**8,801**
Gross written premium	2	181.2	193.2	383.4
Net earned premium		183.5	182.6	365.8
Combined operating ratio		**90.9%**	**92.2%**	**92.4%**
Underwriting profit		16.7	14.3	27.9
Of which prior year releases		*6.6*	*0.4*	*9.0*
Operating profit	3	**25.8**	**21.9**	**46.5**

Rescue only

(£m unless stated)		1H 14	1H 13	FY 2013
In-force policies (000s)		**4,035**	**3,998**	**3,944**
Gross written premium	1	76.7	73.7	147.0
Combined operating ratio	2	**78.2%**	**81.5%**	**82.2%**
Operating profit	3	**22.5**	**18.9**	**38.1**

Observations

1. **7.4% reduction in IFPs since December 2013 due to travel policies within packaged accounts**
2. **6.2% reduction in total GWP mainly due to the sale of the Life[2] business in 2013**
   - **Underlying increase 2.0% driven by growth in Rescue**
3. **Operating profit of £25.8m in 1H 2014, up 17.8% compared to 1H 2013**

1. **Rescue GWP up 4.0% versus prior year**
2. **3.3ppt improvement in COR due to benign claims experience**
3. **Operating profit of £22.5m, a 19.0% improvement compared with the prior year**

1. *ROPL is made up of a number of products, including Rescue, Pet, Travel , Creditor and Life*
2. *Life business which was disposed of on 28 November 2013 was recorded in two segments: Rescue and other personal lines (net earned premium: £6.6 million, net insurance claims: £1.2 million and operating profit: £3.4 million) and Run-off (net earned premium: £1.6 million, net insurance claims: £0.3 million and operating profit: £0.6 million).*

Commercial highlights

Results

(£m unless stated)		1H 14	1H 13	FY 2013
In-force policies (000s)	1	**600**	**561**	**583**
Gross written premium[1]	2	262.1	250.7	474.5
Net earned premium		222.8	216.0	434.6
Loss ratio – current year		73.3%	74.9%	74.1%
Loss ratio – prior years		(10.7%)	(14.8%)	(11.9%)
Loss ratio	3	62.6%	60.1%	62.3%
Commission ratio		18.5%	21.2%	21.2%
Expense ratio		23.5%	24.0%	23.3%
Combined operating ratio	4	**104.6%**	**105.3%**	**106.8%**
Underwriting loss		(10.3)	(11.4)	(29.6)
Of which prior year releases		*23.8*	*31.9*	*51.6*
Instalment and other income		4.1	4.7	9.5
Investment return		17.0	13.7	29.6
Operating profit / (loss)	5	**10.8**	**7.0**	**9.5**

Observations

1. **2.9% growth in IFPs since December 2013, mainly driven by Direct Line for Business**
2. **4.6% increase in GWP with growth across direct, broker and eTrade**
3. **1.6ppt improvement in current year loss ratio**
   - **Includes weather costs of £16m**
4. **Combined operating ratio improved to 104.6% with reduction in expense and commission ratio**
   - **COR normalised for weather claims circa. 101%**
5. **Operating profit of £10.8m, up £3.8m, compared with the 1H 2013 despite higher weather related claims**

International highlights

Results

(£m unless stated)		1H 14	1H 13	FY 2013
In-force policies (000s)	1	**1,671**	**1,586**	**1,610**
Gross written premium	2	328.8	340.2	604.5
Net earned premium		170.1	182.6	366.5
Loss ratio – current year		79.4%	86.6%	88.0%
Loss ratio – prior years		(3.2%)	(11.7%)	(10.7%)
Loss ratio		76.1%	74.9%	77.3%
Commission ratio		16.5%	13.8%	15.8%
Expense ratio		8.7%	11.2%	10.8%
Combined operating ratio	3	**101.3%**	**99.9%**	**103.9%**
Of which Italy		*102.0%*	*100.1%*	*101.6%*
Of which Germany		*98.9%*	*99.4%*	*109.8%*
Underwriting profit /loss		(2.3)	0.1	(14.4)
Of which prior year releases		*5.5*	*21.3*	*39.3*
Instalment and other income		3.3	3.8	7.6
Investment return		12.4	10.1	23.4
Operating profit	4	**13.4**	**14.0**	**16.6**
Of which Italy		*7.7*	*8.7*	*14.1*
Of which Germany		*5.7*	*5.3*	*2.5*

Observations

1 **IFPs up 3.8% since December 2013, driven by growth in German year end business**

2 **GWP down 3.4% versus 1H 2013**

- **Broadly flat in local currency**

3 **Combined operating ratio increased by 1.4ppts to 101.3%, due to lower prior year reserve releases**

4 **Operating profit of £13.4m, broadly flat compared with 1H 2013**

Direct Line Group

Growing investment returns from a conservative portfolio

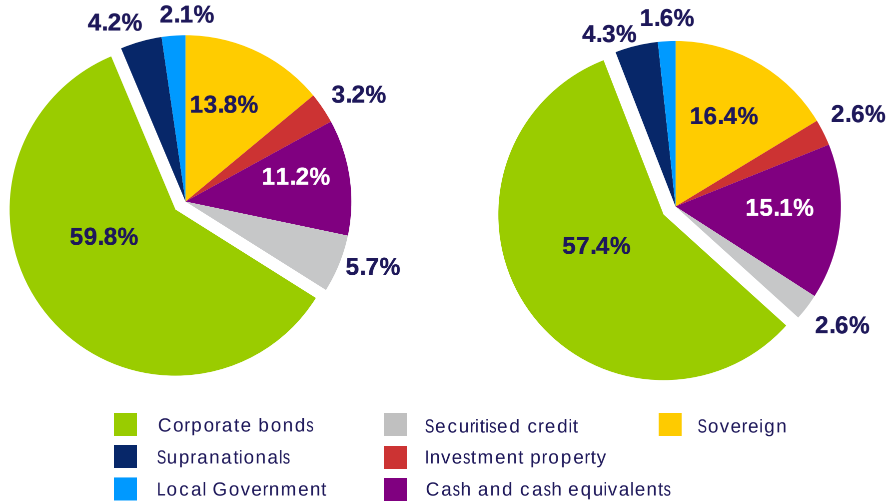
Observations

- **Investment return of 2.8%**
- **Investment income increased by 11.8% to £93.2m**
  - **Income yield of 2.3%, 0.2ppts higher than 2013**
- **£9.2m increase in gains, mainly due to investment property revaluations**
- **Further purchases of investment property and securitised credit in 1H 2014**

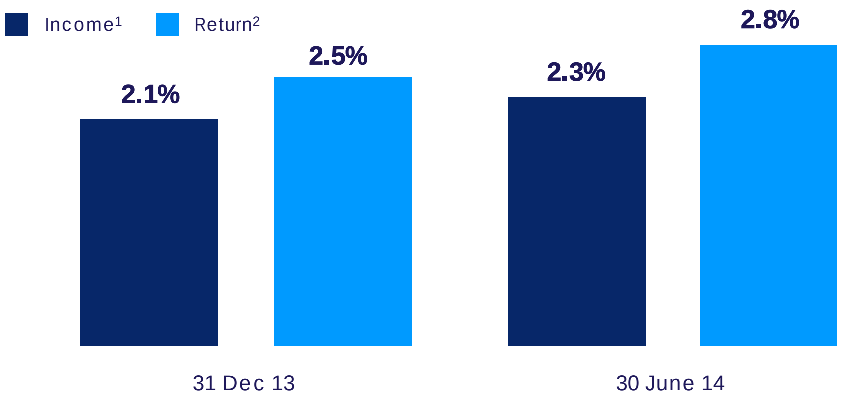
Investment assets by type

30 June 14: £8.2bn

31 Dec 13: £8.6bn



Group investment yields



Investment return - ongoing operations (£m)

	1H 14	1H 13	FY 13
Investment income	93.2	83.4	175.5
Net realised and unrealised gains[3]	23.3	14.1	32.6
Total	**116.5**	**97.5**	**208.1**

1. *Investment income yield excludes net gains and is shown on an annualised basis*
2. *Investment return includes net gains and is shown on an annualised basis*
3. *Unrealised gains relate to derivative hedges and property*

Direct Line Group

Investment yield outlook

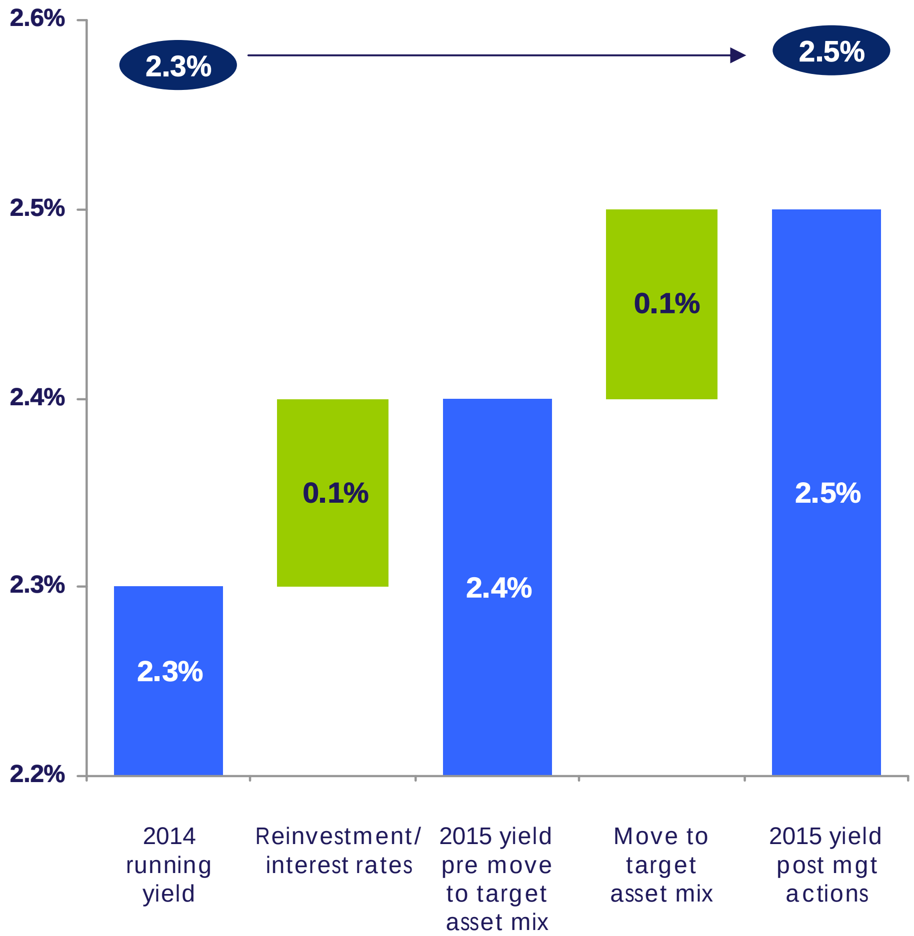
Income yield

30 June 14	Allocation	Income yield	Duration (years)
Credit	66.1%	2.6%	2.8
Securitised credit	5.7%	1.6%	0.2
Sovereign	13.8%	2.0%	1.5
Cash and cash equivalents	11.2%	0.5%	-
Investment property	3.2%	6.2%	-
Total	**100%**	**2.3%**	**2.0**

Observations

- **Move towards target asset mix continues to improve reinvestment rates**
- **Infrastructure debt and high yield debt due to be implemented in H2 2014**

Income yield outlook



Direct Line Group

Ongoing operating profit reconciliation

Observations

1. **Run-off segment profit of £20.4m, up 92.5% due to favourable prior year development**

2. **Lower Restructuring and other one-off costs in the first half of 2014**

   - **Expected to be £80m in 2014**

3. **On 5 February 2014, the Group sold Tracker[2] its stolen vehicle recovery business**

4. **Reported EPS growth of 15.8% due to lower restructuring costs and a higher contribution from Run-off**

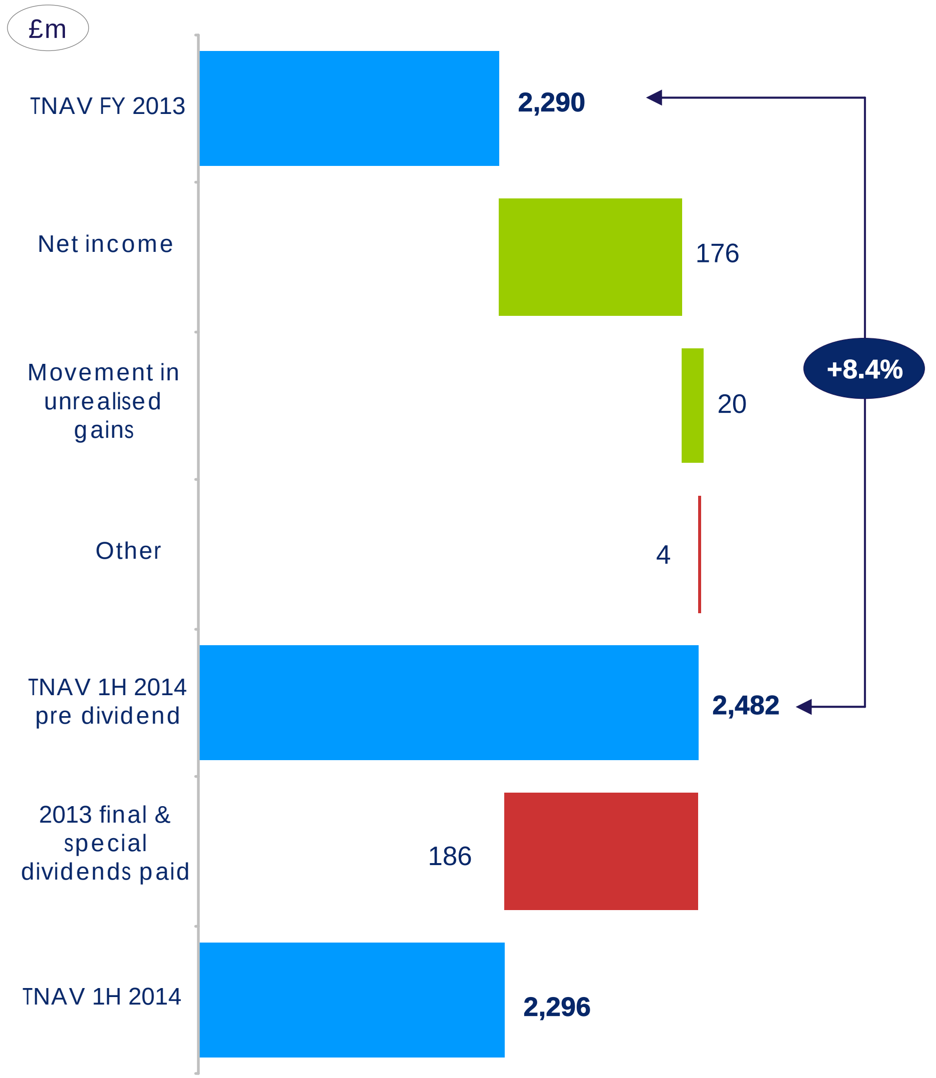
Operating profit

£m		1H 14	1H 13	FY 13
Operating profit - ongoing operations		**249.1**	**286.6**	**526.5**
Run-off	1	20.4	10.6	63.6
Restructuring and other one-off costs	2	(28.0)	(69.9)	(140.5)
Operating profit		**241.5**	**227.3**	**449.6**
Finance costs		(18.7)	(18.5)	(37.7)
Gain on disposal of subsidiary	3	2.3	-	12.0
Profit before tax		**225.1**	**208.8**	**423.9**
Tax		(49.5)	(57.0)	(111.1)
Profit after tax / net income		**175.6**	**151.8**	**312.8**
EPS – reported (pence)	4	**11.7**	**10.1**	**20.9**
EPS – adjusted[1] (pence)		**12.0**	**13.7**	**25.0**

1. *Adjusted EPS calculated using profit from Ongoing operations less finance costs (UK standard tax rate 21.5%; 2013 23.25%) (see appendix for calculation) - Ongoing operations include Direct Line Group's (the 'Group') ongoing segments: Motor, Home, Rescue and other personal lines, Commercial and International. It excludes the Run-off segment and Restructuring and other one-off costs.*
2. *Tracker disposed on 5 February 2014 – the period ended 30 June 2014 includes Tracker related operating income: £1.4m and operating loss: £0.4m*

Book value and TNAV

Movement in tangible net asset value



NAV and TNAV per share

Pence	1H 14	1H 13	2013
Net asset value per share	187.0	186.9	186.6
Tangible net asset value per share	153.5	156.6	153.2

Observations

- **TNAV and NAV per share are broadly flat versus full year 2013**
- **TNAV growth of 8.4% before dividends**
- **Net unrealised gains increased by £20m to £79m (net of tax)**

Direct Line Group

Capital update

Capital drivers in 2014 and beyond

	Observations	Potential impact
Capital tailwinds	• Ongoing operating profit • Progress on transformation plan	• Growth in book value • Reduction in operational risk
Capital headwinds	• Move to target asset mix • Continued investment in new systems • Restructuring costs • Pull to par effect on bond portfolio	• Increase in market risk • Increase in intangible assets • Lower growth in book value
Capital uncertainties	• New ICAS+ process to assess the Group's future individual capital guidance • Introduction of Solvency II from 2016 • Business flows, e.g. GWP, reserves	?

Current capital position seen as appropriate; position to be reviewed as clarity improves

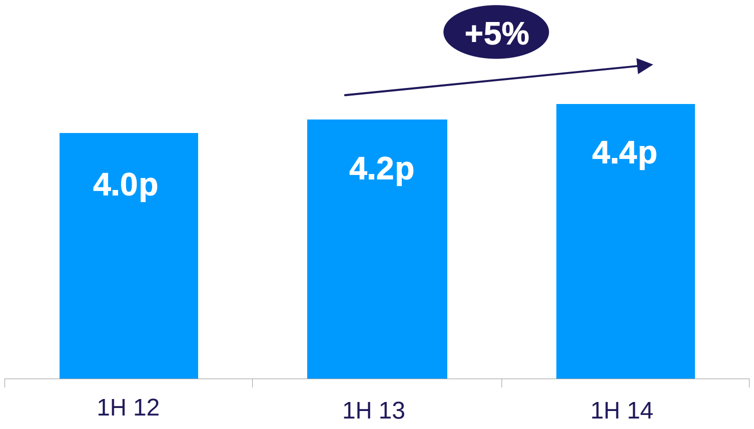
20

Update

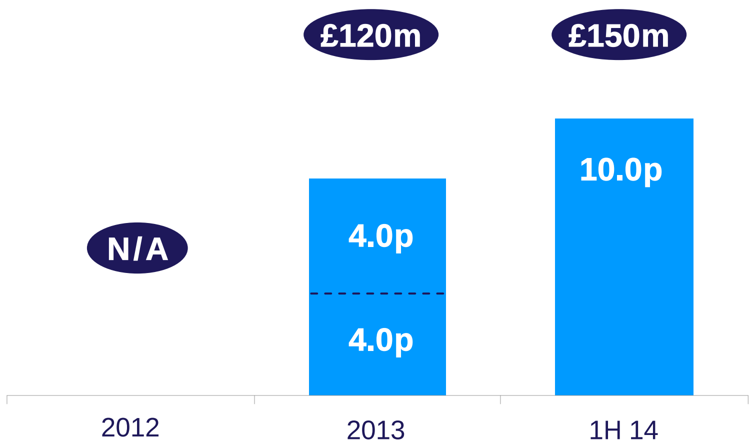
- ICAS+ process completed
- Other capital headwinds, tailwinds and uncertainties still appropriate
- Still appropriate to hold capital at the top end of the range

Capital coverage and dividends

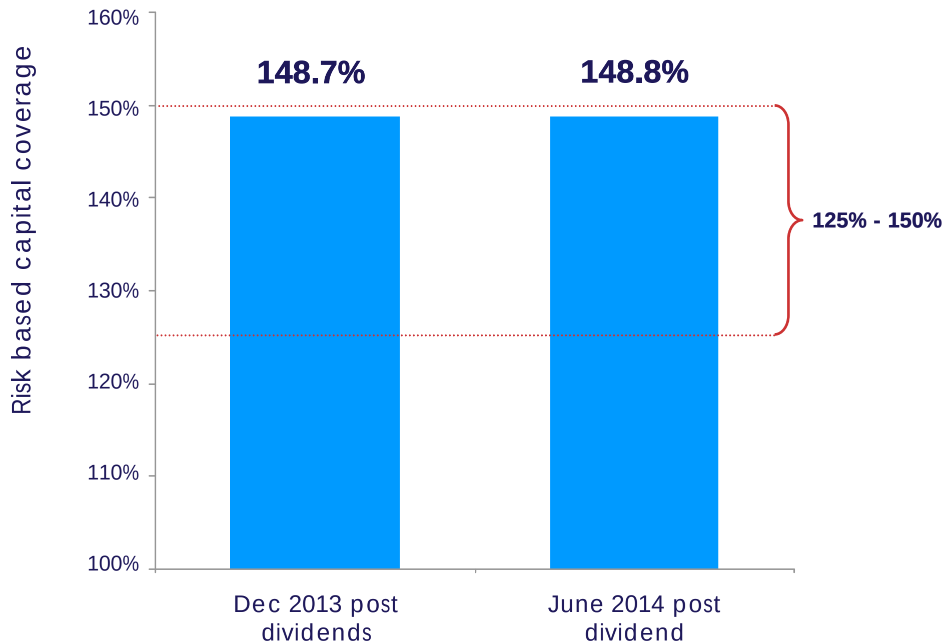
Regular dividend



Special dividends



Development of risk based capital coverage

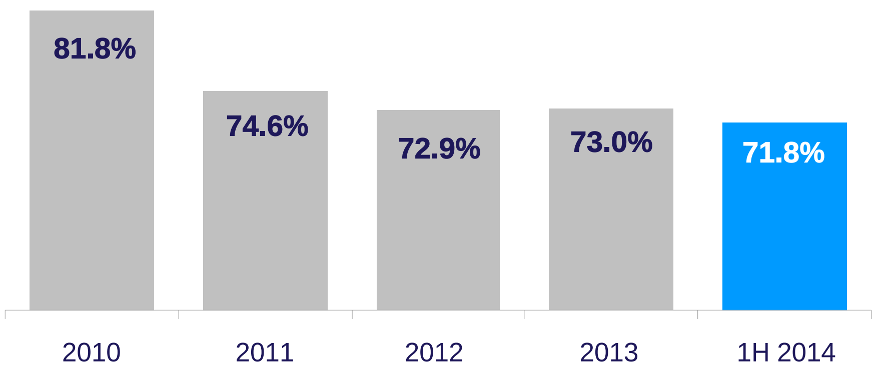


Observations

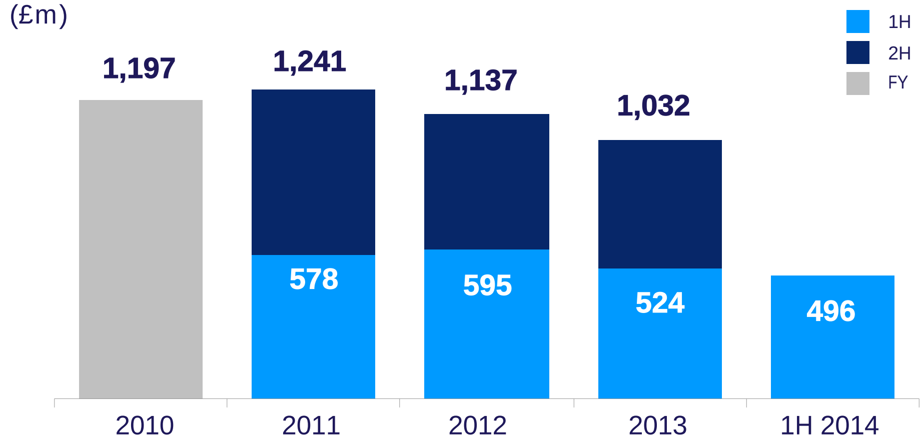
- RBC coverage at top end of range post dividends
- Leverage of 16.1% post dividends

Progress on key financials

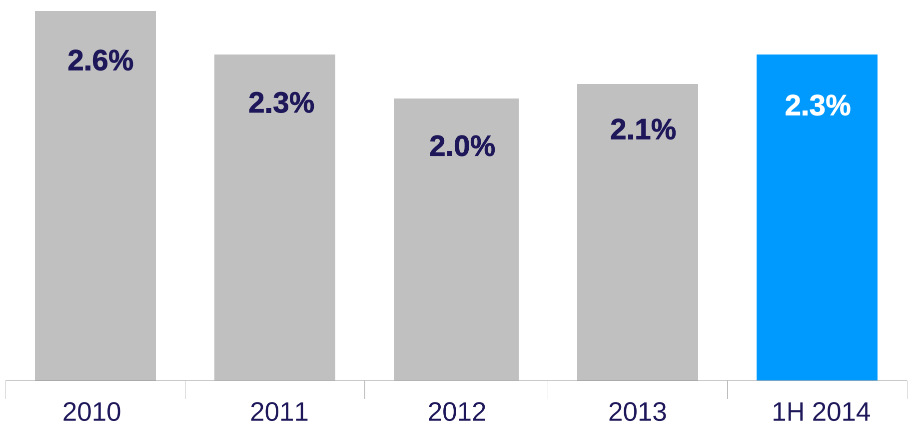
Current year attritional loss ratio[1]



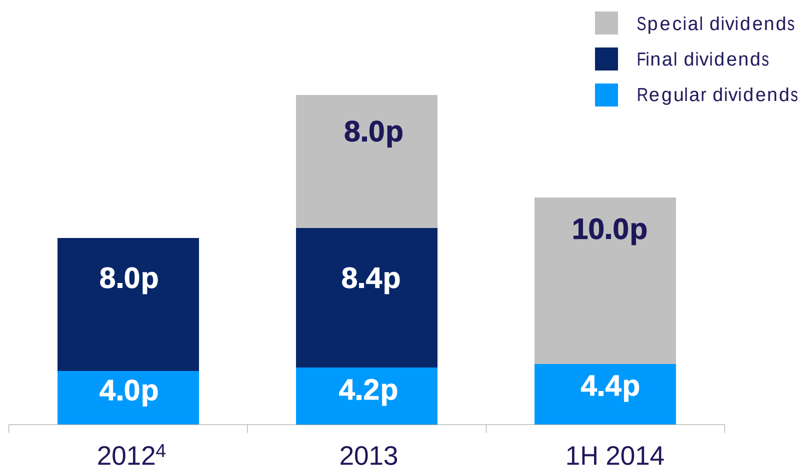
Total costs[2]



Investment income yield[3]



Dividends



1. Adjusted for major home weather events
2. Ongoing operating expenses including claims handling costs
3. Investment income yield excludes net gains and is shown on an annualised basis
4. 2012 pro-forma dividend

Agenda and presenters

Key messages	Paul Geddes - CEO
Financials	John Reizenstein - CFO
Strategic update	**Paul Geddes - CEO**
Summary and outlook	Paul Geddes - CEO
Questions and answers	Paul Geddes - CEO

Transforming Direct Line Group through five strategic priorities

1	**Distribution**	Aim to improve our distribution efficiency and effectiveness through a focus on digital capability and customer value
2	**Pricing**	Aim to leverage our substantial data and the investments we have made to provide leading technical and market pricing
3	**Claims**	Aim to maintain top quartile performance by achieving efficient and effective claims management
4	**Costs**	Aim to improve efficiency throughout the business to reduce costs, enable faster decision making and improve customer propositions
5	**Commercial and International**	Leverage core skills to improve performance in adjacent business areas

Overarching Targets

- 15% return on tangible equity[1]
- Maintain capital resources consistent with credit rating in the ‘A’ range

2014

- Aim to achieve a COR between 95% and 97%[2]
- Approx. £1,000 million cost[3]
- Commercial COR below 100%[4]

Clear strategic plans in place to achieve our 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 of 23.25%; 2012 24.5%). Pro-forma RoTE assumes that the capital actions taken by the Group prior to IPO (£1bn dividend and £500m debt issue occurred on 1 January 2012*
2. COR between 95% and 97% for Ongoing operations (normalising for weather)
3. Total costs including claims handling expenses for Ongoing operations
4. Assumes normal level of weather claims and large losses

We have a full agenda for 2014

1 Distribution

- 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

- 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

- 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

- 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 and International

5a

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

5b

- Further drive efficiencies
- Implement a new rating engine in Italy
- Maintain progress in German year-on business

Clear strategic plans in place to achieve our targets

Direct Line Group

Telematics

2012

Black box pilot launched for Direct Line customers, gathering 11m miles of data

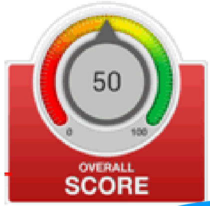
Direct Line Group began working with Peugeot-Citroen and supplier Trafficmaster for new Citroen C1 vehicles

DrivePlus mobile app launched for Direct Line customers

2013

Black box launched for Direct Line, Churchill & Privilege customers

DriveXpert
DriveSure
churchill



Self install pilot launched for Direct Line customers

Self install device launched for Direct Line customers

2014

Direct Line Group announces 15% equity investment in The Floow, a specialist UK based telematics service provider

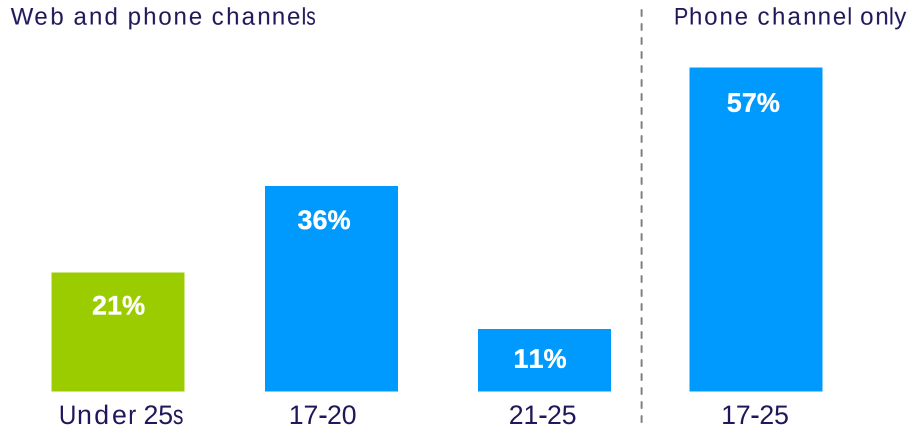
THE FLOOW

Initial black box policies renew

Building momentum

- **Increasing take up rates**
- **Telematics policies account for 5% of new Motor business GWP with over 20k IFPs**
- **Initial analysis shows driver behaviour is delivering better claims experience**
- **Continue to refine analytics and further develop customer propositions**

Telematics penetration in 1H (Direct Line)



Direct Line Group

1 Distribution

Digital

Progress to date

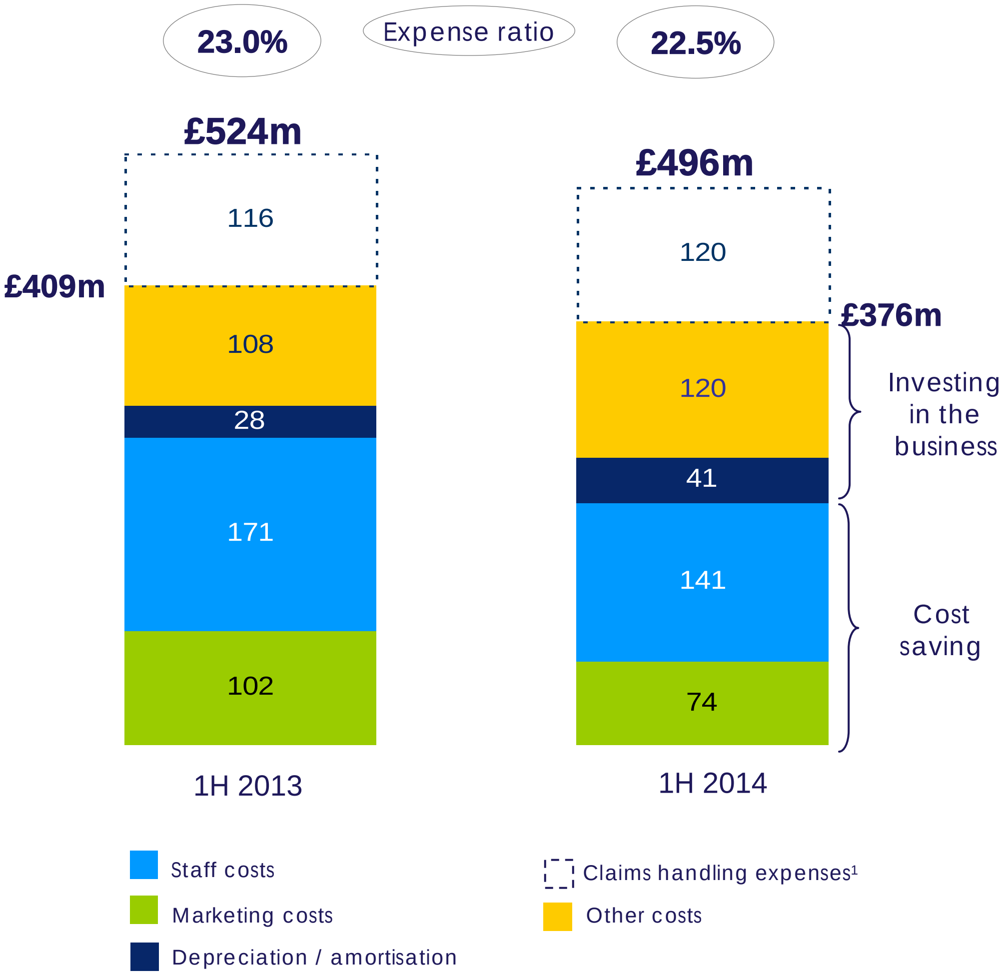
- Completed the roll out of our new Motor websites in the first quarter
- Websites delivering a better customer experience and improvements in sales performance
- Overall increase in digital experience across devices with an 18% uplift in start quote to sale
- New systems with enhanced analytics enable us to understand our customers better

Leveraging the new IT platform

Direct Line Group

Reducing our cost base

Expense analysis - ongoing operations



Observations

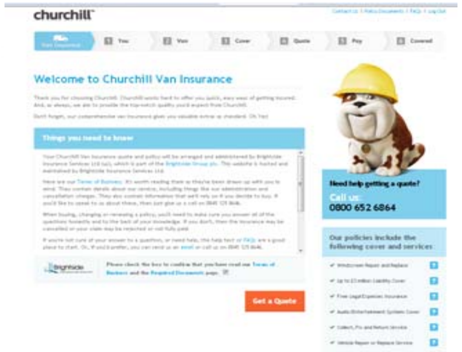
- On track to meet £1,000m target in 2014[1]
- 17.4% reduction in staff costs versus the prior year
- Making more efficient use of marketing
- Continue to optimise cost base within existing systems
- Longer term opportunity to create a digital business

Maintaining focus on costs

1. Operating expenses and claims handling expenses from ongoing operations, excluding the Run-off segment and Restructuring and other one-off costs.

Direct Line Group

Commercial



direct line for business

Progress to date

- Further improvements to customer propositions in 2014
    - Launched Churchill Van
    - Launched two telematics pilots
    - Launched DL4B landlord app
- Continue to invest in systems and improve our customers' experience
- Improvement in profitability and on track to deliver COR[1] below 100% in 2014

Excited about the long term plans for this business

1. *Assumes normal level of weather claims and large losses*

Direct Line Group

International

Strategic review

- Strategic review initiated to consider how best to maximise shareholder value
- Confirmed direct channel growth and International’s strong market positions
- Decision to explore potential disposal and discussions are taking place with a number of parties
- International continues to progress its strategic initiatives including efficiency plans

Agenda and presenters

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UK Motor and Home update

UK Motor

- Further market deflation observed in the first half of the year
    - Prices were broadly stable in Q2
- Prices lower 2% in Q2 vs. prior year supported by claims experience
- Continue to improve our pricing capabilities and customer propositions
- CMA published provisional remedies in June

UK Motor year on year

	Q1 2014	Q2 2014
Risk mix:	-2%	-2%
Price:	-4%	-2%
Change in IFPs in the quarter[1]	-1.2%	-0.7%

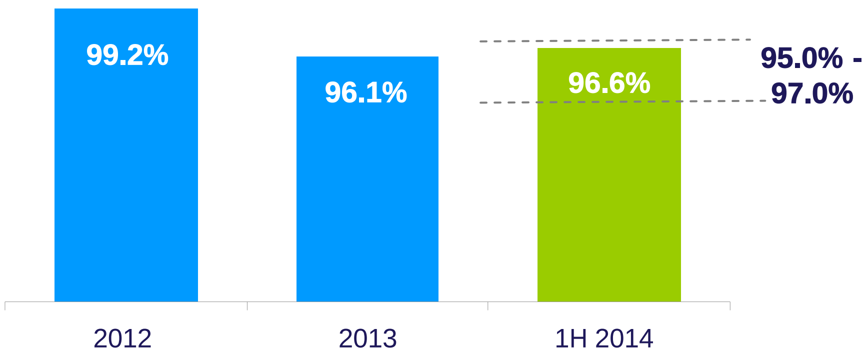
UK Home

- Further market deflation observed in the first half of the year
- Change in distribution landscape with growth in PCW sales and changes to customer journeys in the bank channel
- Reinvested pricing and claims benefits to maintain our position
- Improved marketing efficiency and increased retention
- Catastrophe reinsurance programme renewed with increased cover at a lower cost

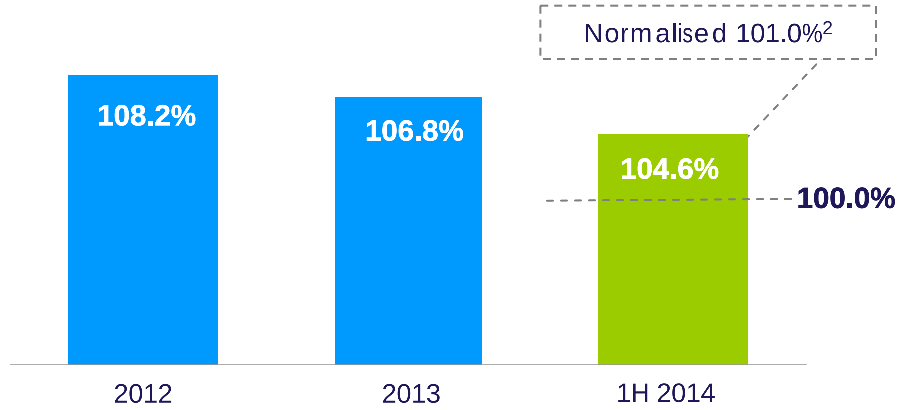
Maintaining underwriting discipline

2014 outlook

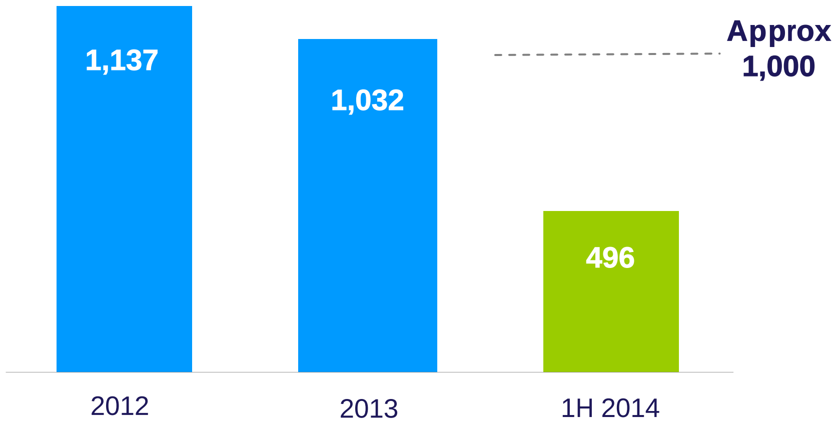
COR[1]



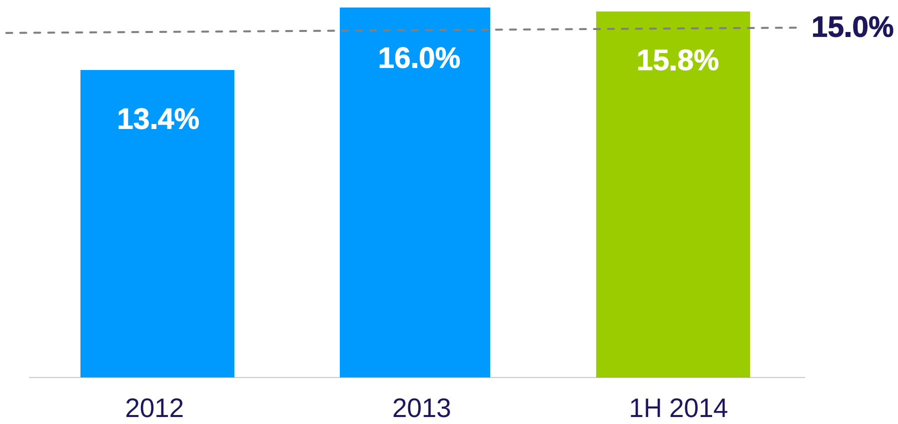
Commercial COR



Total cost base[3] £m



RoTE[4]



1. *Combined operating ratio from Ongoing operations*
2. *Assumes normal level of claims from weather and large losses*
3. *3 Ongoing operating expenses including claims handling costs*
4. *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 of 23.25%; 2012 24.5%). Pro-forma RoTE assumes that the capital actions taken by the Group prior to IPO (£1bn dividend and £500m debt issue occurred on 1 January 2012*

Key messages

1. Improved underlying financial performance and busy on next wave of strategic initiatives
2. Diverging signals in UK Motor and Home; maintaining focus on value
3. Growth in our Commercial and Rescue businesses
4. Special dividend reflects good performance and strong capital position
5. Remain on track to deliver our 2014 targets

Q&A

Appendix

Instalment and other operating income

Observations

- **Instalment and other operating income of £76.2m down £17m from 1H 2013**
- **Reduction mainly due to the ending of solicitors' referral fee income from 1 April 2013**
- **Instalment income reduction broadly reflects premium trends**

Instalment and other operating income

(£m)	1H 14	1H 13	FY 2013
Instalment income	52.6	60.0	117.8
Other operating income	23.6	33.2	62.4
Total – ongoing operations	**76.2**	**93.2**	**180.2**

Breakdown of other operating income

(£m)	1H 14	1H 13	FY 2013
Solicitors' referral fee income	0.6	6.1	6.9
Vehicle replacement referral fee income	7.6	8.1	15.7
Revenue from vehicle recovery and repair services	9.0	15.5	31.8
Fee income from insurance intermediary services	1.0	0.9	1.7
Other income	5.4	2.6	6.3
Other operating income	**23.6**	**33.2**	**62.4**

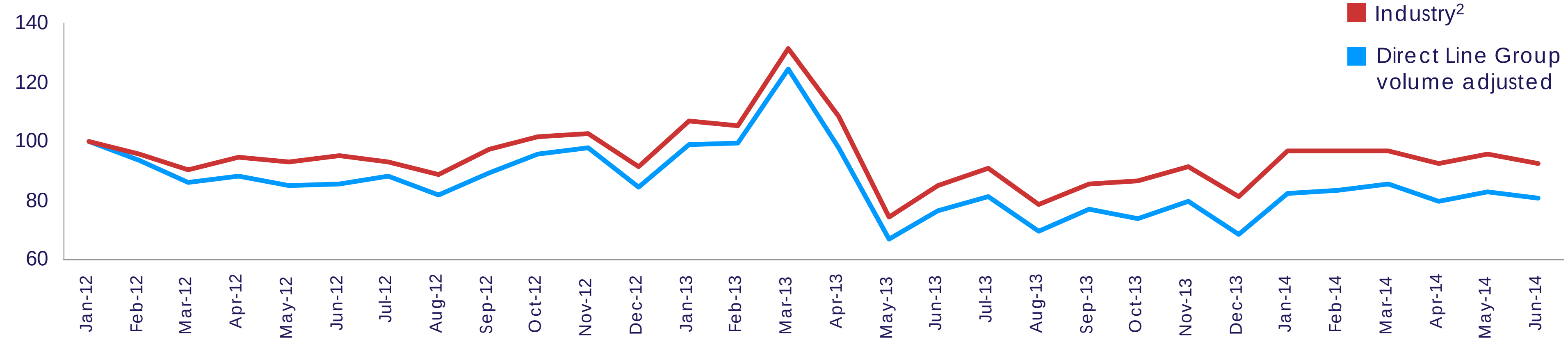
UK motor market remains competitive

Motor average premium movement

UK Motor year on year

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Risk mix:	-6%	-4%	-2%	-3%	-2%	-2%
Price:	+1%	-3%	-5%	-4%	-4%	-2%
Change in IFPs in the quarter[1]	-3%	-1%	-1%	-1%	-1%	-1%

RTA portal volumes (indexed)



Maintaining underwriting discipline

1. *Adjusted for Van transfer into Commercial*
2. *Portal Source http://claimsportal.org.uk/media/158934/rta-ad-hoc-moj-portal-mi-and-graphs-30_06_14-ver.1.0.xlsx*

Direct Line Group

Regulatory update – CMA provisional remedies

The CMA published its Provisional Decision on Remedies in June. The final report is expected to be published on or before the 27 September

Reform	Proposed remedy
Credit hire	• No ban on referral fees • Dual cap on daily hire rates for each category of replacement vehicle in a non-fault claim • Credit hire to end with repair completion or within seven days of Total Loss decision
Garage repair	• No intervention on repair
Disclosure at FNOL[1] and Protected NCD[2]	• Increased disclosure of claimant rights at FNOL • Protected NCD disclosure at point of sale covering: mandatory statements, price of PNCD, step back rules, NCD scales
Sale of add on products	• Recommending the FCA to consider provision of all add-on pricing from PMI providers to PCWs and clearer descriptions of add ons
PCW and MFN clauses	• Wide MFN clauses to be prohibited with the remedies order to follow within 6 months of the final report • Prohibition on MFN equivalent behaviours • CMA to monitor PCWs regularly

1. *First notification of loss*
2. *No claims discount*

Other UK regulatory themes

	What's happening?
MOJ Whiplash	• (UK) Minister of State for Justice outlined plans to address fraudulent whiplash claims: • Independent medical examination and reporting, improved communication between insurers and lawyers, and better data • Industry is awaiting formal response from the Government on various components of the reform • Transport Committee report published in July which outlines further recommendations including a ban on inducements to claims for whiplash and reducing the time period in which claims can be made • Changes still expected to come into force October 2014 and industry expects revised rules to be published shortly
FCA thematic review of PCWs	• FCA recently concluded that PCWs fail to meet consumers' expectations for the following reasons: • Failing to provide clear information such as policy coverage and terms • Not making their role as distributor clear to consumers • Not disclosing potential conflicts of interest • Failure to fully implement guidance published back in 2011 • FCA are now providing individual feedback and engaging with the wider industry on its findings to address the specific issues
FCA thematic review of add ons	• FCA published its final report on 24 July focusing on the feedback received on its provisional findings and proposed remedies which had been published in Q1/2014, rather than on the details of remedy design • Overall the FCA believes the feedback does not challenge its view that competition for add-ons is not effective • FCA recognises the value some add-ons can provide; and that there are differences between the five products in the study and between different general insurance products more widely • FCA now intend to take the proposed remedies forward via workshops and consultations starting this year

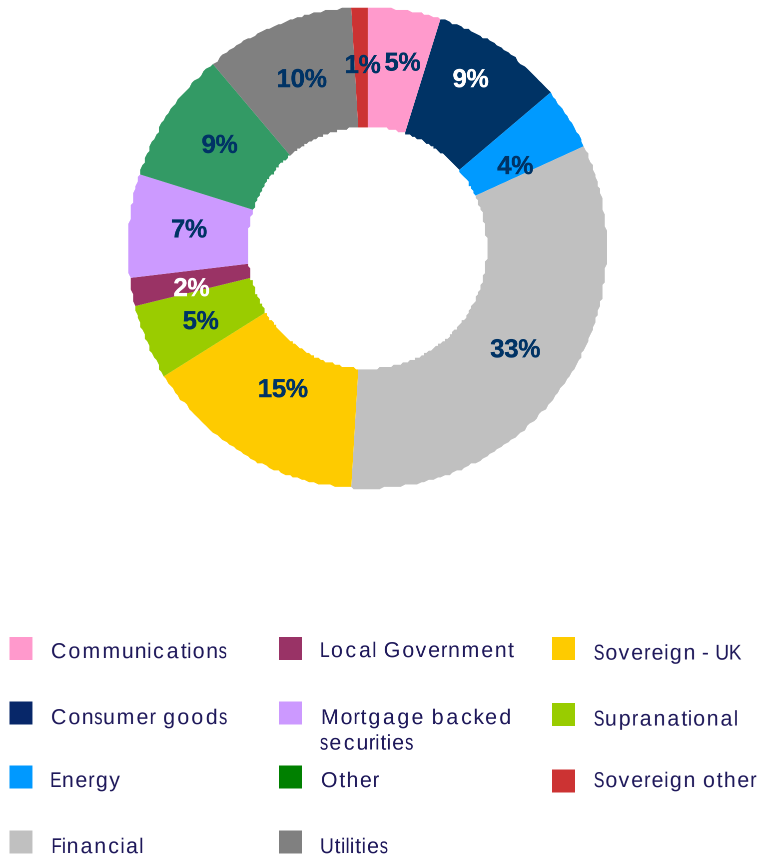
ABI renewal disclosures	• The ABI recently announced that it had written to the FCA proposing the following disclosures on customers renewal documentation:
	    • Details of the previous years premiums
	    • Details of when any introductory discounts expire
	    • Proposed implementation is December 2015

Supportive of a level playing field

Fixed income portfolio

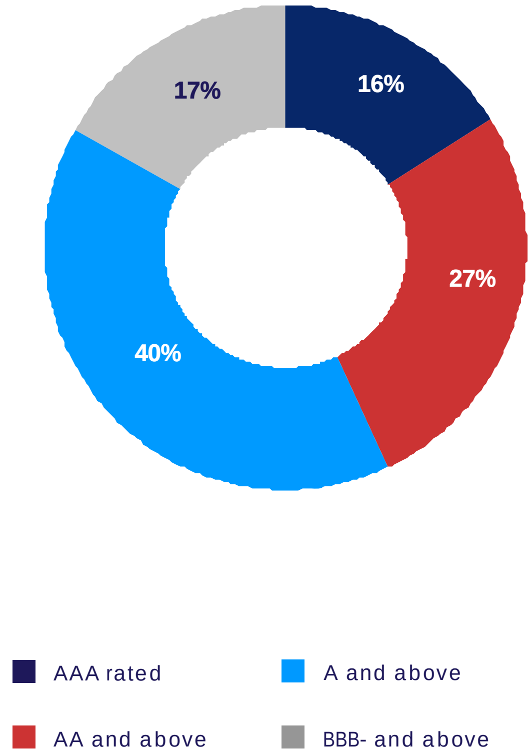
Fixed income by sector

Total debt securities £7.0bn



Fixed income by rating

Total debt securities £7.0bn



Fixed income portfolio

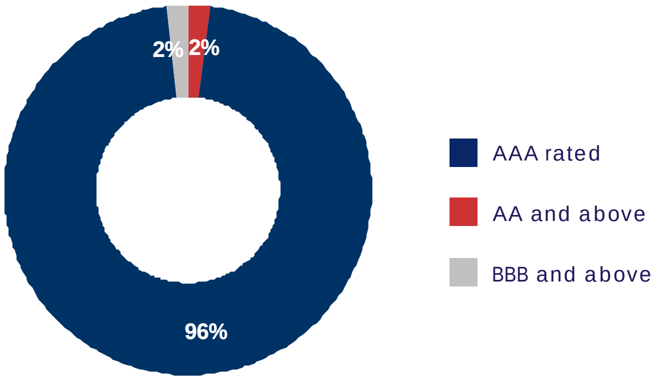
Sovereign exposure by country

Key Eurozone countries £m	30 June 14
Germany	21.3
France	1.7
Netherlands	0.0
Ireland	0.0
Spain	0.0
Italy	20.1
Belgium	0.0
Austria	0.0
TOTAL	**43.1**

Corporate exposure by country

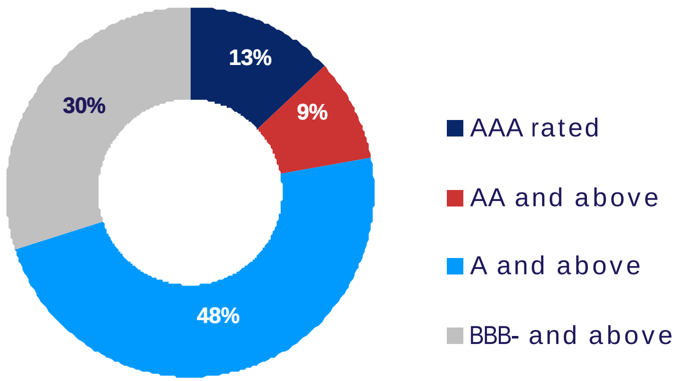
Key Eurozone countries £m	30 June 14
Germany	275.5
France	310.7
Netherlands	40.0
Ireland	0.3
Spain	36.6
Italy	42.9
Belgium	44.2
Finland	19.5
TOTAL	**769.7**

Sovereign exposure by rating



Total sovereign £1.1bn

Corporate exposure by rating



Total corporate £3.4bn

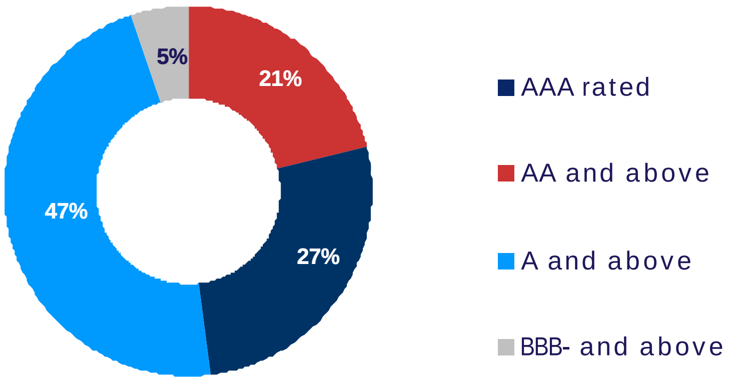
Fixed income portfolio

Bank and other financial institutions exposure

£m	30 June 14
Secured	140.4
Unsecured	1,332.2
Subordinated	208.6
Total banks	**1,681.2**
Investment hedge derivatives	29.3
Other financial institutions	757.9
Total	**2,468.4**

Key Eurozone countries £m	30 June 14
Germany	203.3
France	116.7
Netherlands	193.0
Ireland	3.9
Spain	8.0
Italy	14.7
Belgium	1.7
Finland	8.3
Portugal	0.0
Greece	0.0
Total	**549.6**

Bank and other financial institutions by rating



Total bank and FI £2.5bn

RoTE calculation

RoTE calculation

(£m)	1H 14	1H 13	FY 13
Operating profit	249.1	286.6	526.5
Less: Finance costs	(18.7)	(18.5)	(37.7)
Profit before tax (ongoing operations)	230.4	268.1	488.8
Less: tax[1]	(49.5)	(62.3)	(113.6)
Profit after tax	**180.9**	**205.8**	**375.2**
Invested tangible equity b/f	2,289.9	2,410.1	2,410.1
Invested tangible equity c/f	2,295.7	2,341.0	2,289.9
Average invested tangible equity	**2,293**	**2,376**	**2,350**
Return on tangible equity	**15.8%**	**17.3%**	**16.0%**

Adjusted EPS calculation

(£m)	1H 14	1H 13	FY 13
Ongoing operating profit	249.1	286.6	526.5
Less: Finance costs	(18.7)	(18.5)	(37.7)
Profit before tax (ongoing operations)	230.4	268.1	488.8
Less: tax[1]	(49.5)	(62.3)	(113.6)
Profit after tax	**180.9**	**205.8**	**375.2**
Weighted average number of shares	**1.500.0**	**1,500.0**	**1,500.0**
Adjusted EPS (pence)	12.0	13.7	25.1
Weighted average number of share (diluted)	**1,504.9**	**1,501.2**	**1,501.2**
Adjusted EPS (diluted) (pence)	**12.0**	**13.7**	**25.0**

1. *UK standard tax rate of 21.5%; 2013: 23.25%*

Segmental performance: 2013

£m	Motor	Home	Rescue and other personal lines	Commercial	International	Total Ongoing
GWP	1,421.1	943.1	383.4	474.5	604.5	**3,826.6**
Net earned premium	1,444.8	908.9	365.8	434.6	366.5	**3,520.6**
Net claims – current year	(1,232.1)	(533.7)	(228.8)	(322.2)	(322.7)	**(2,639.5)**
Net claims – prior years	291.9	43.3	9.0	51.6	39.3	**435.1**
Commission expenses	(36.3)	(177.9)	(27.3)	(92.2)	(57.9)	**(391.6)**
Operating expenses	(370.2)	(184.4)	(90.8)	(101.4)	(39.6)	**(786.4)**
Underwriting result	**98.1**	**56.2**	**27.9**	**(29.6)**	**(14.4)**	**138.2**
Investment return	122.8	24.1	8.2	29.6	23.4	**208.1**
Instalment income and other operating income	126.8	25.9	10.4	9.5	7.6	**180.2**
Operating profit/(loss)	**347.7**	**106.2**	**46.5**	**9.5**	**16.6**	**526.5**
Loss ratio - CY	85.3%	58.7%	62.5%	74.1%	88.0%	**75.0%**
Loss ratio - PY	(20.2%)	(4.8%)	(2.4%)	(11.8%)	(10.7%)	**(12.4%)**
Commission ratio	2.5%	19.6%	7.5%	21.2%	15.8%	**11.2%**
Expense ratio	25.6%	20.3%	24.8%	23.2%	10.8%	**22.3%**
Combined operating ratio	**93.2%**	**93.8%**	**92.4%**	**106.8%**	**103.9%**	**96.1%**

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Investor relations app

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