



**2014 preliminary results
3 March 2015**



Today's agenda

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

Key highlights

- 1** Met or exceeded all published IPO and 2014 targets
- 2** Ongoing investment in capability supporting profitability across the Group, all divisions now making a material contribution to profit
- 3** Announced the sale of our International division for €550m (£430m)
- 4** Continued active capital management with 32% of IPO share price returned to shareholders post 2014 final and special dividends
- 5** Focus on UK reaffirmed with clear strategic aim to make insurance much easier and better value for customers

Financial results

John Reizenstein - CFO

Financial highlights

Observations

- 1 **GWP of £3,099.4m, 3.8% lower than prior year**
- 2 **Underwriting profit⁴ of £148.1m broadly in line with prior year**
- 3 **Instalment and other income reduced by £25.3m, mainly due to the sale of Tracker⁵**
- 4 **14.0% increase in investment return**
- 5 **Operating profit² broadly stable at £506m**
- 6 **COR³ of 95.0%, broadly flat versus prior year**
- 7 **RoTE⁶ of 16.8%, ahead of the 15% target**

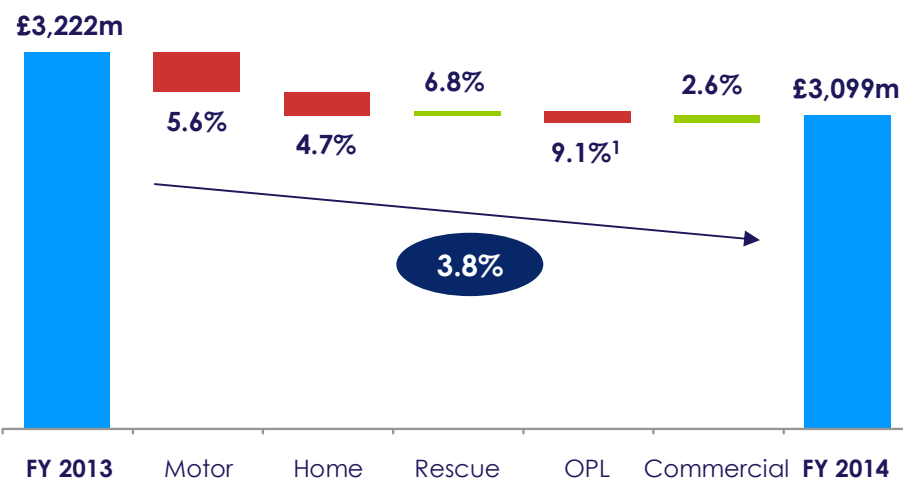
| (£m unless stated) | | FY 14 | FY 13 |
|--|----------|--------------|--------------|
| Ongoing operations¹ | | | |
| Gross written premium | 1 | 3,099.4 | 3,222.1 |
| Underwriting profit | 2 | 148.1 | 152.6 |
| Instalment and other income | 3 | 147.3 | 172.6 |
| Investment return | 4 | 210.6 | 184.7 |
| Operating profit² – Ongoing operations | 5 | 506.0 | 509.9 |
| Profit before tax | | 456.8 | 407.3 |
| Profit after tax | | 372.6 | 312.8 |
| <i>Of which Ongoing operations¹</i> | | 368.0 | 362.4 |
| Combined operating ratio ³ | 6 | 95.0% | 95.2% |
| RoTE ⁶ | 7 | 16.8% | 16.0% |
| Operating profit- ongoing operations (£m) | | FY 14 | FY 13 |
| Motor | | 297.1 | 347.7 |
| Home | | 113.9 | 106.2 |
| Rescue and other personal lines | | 48.0 | 46.5 |
| Commercial | | 47.0 | 9.5 |

5

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

Encouraging quarterly trends in GWP and IFPs

Ongoing GWP



Motor and Home IFPs



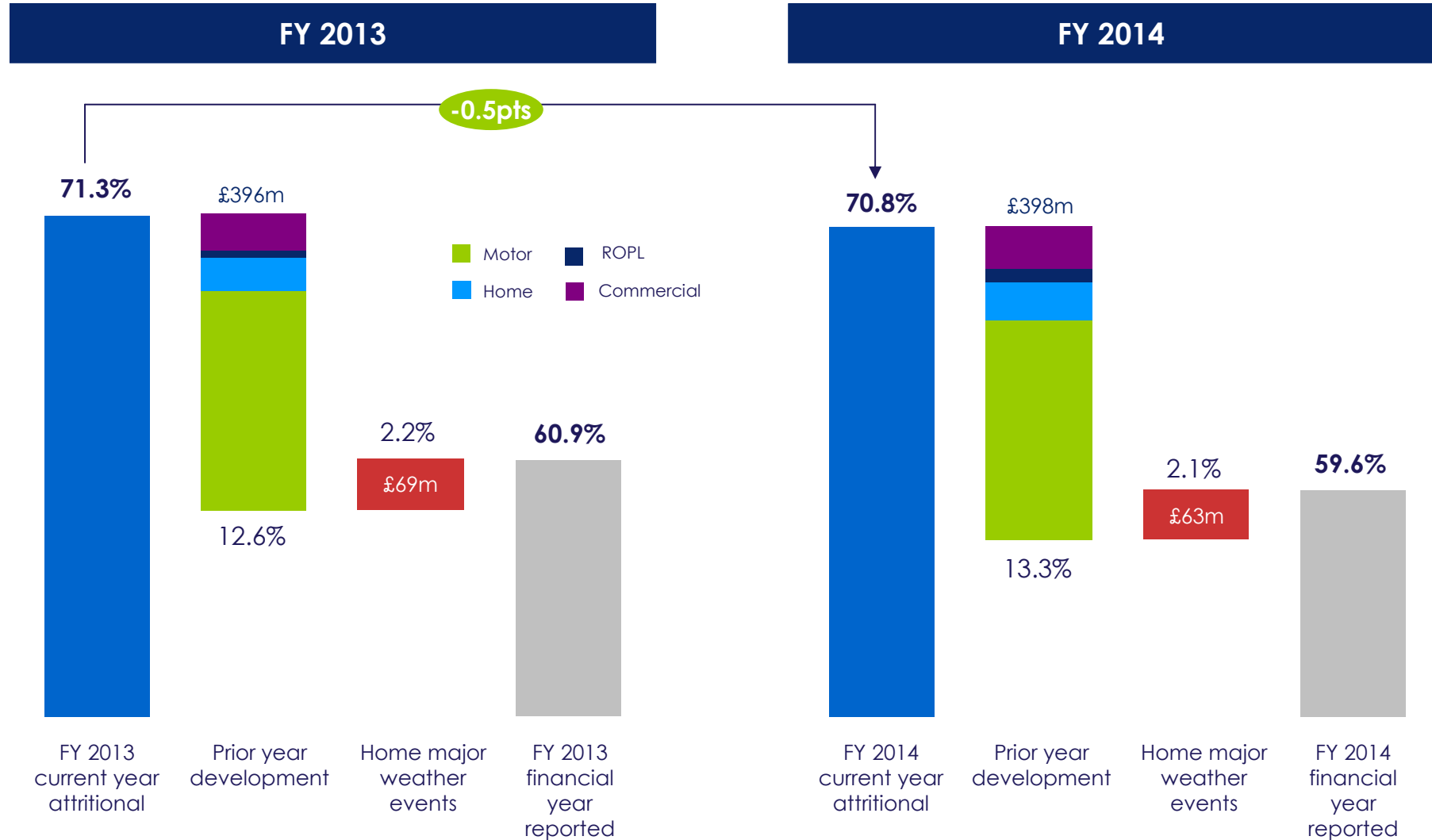
Quarterly GWP trend

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

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

Improvement in current year underwriting performance

Loss ratio analysis - ongoing operations¹



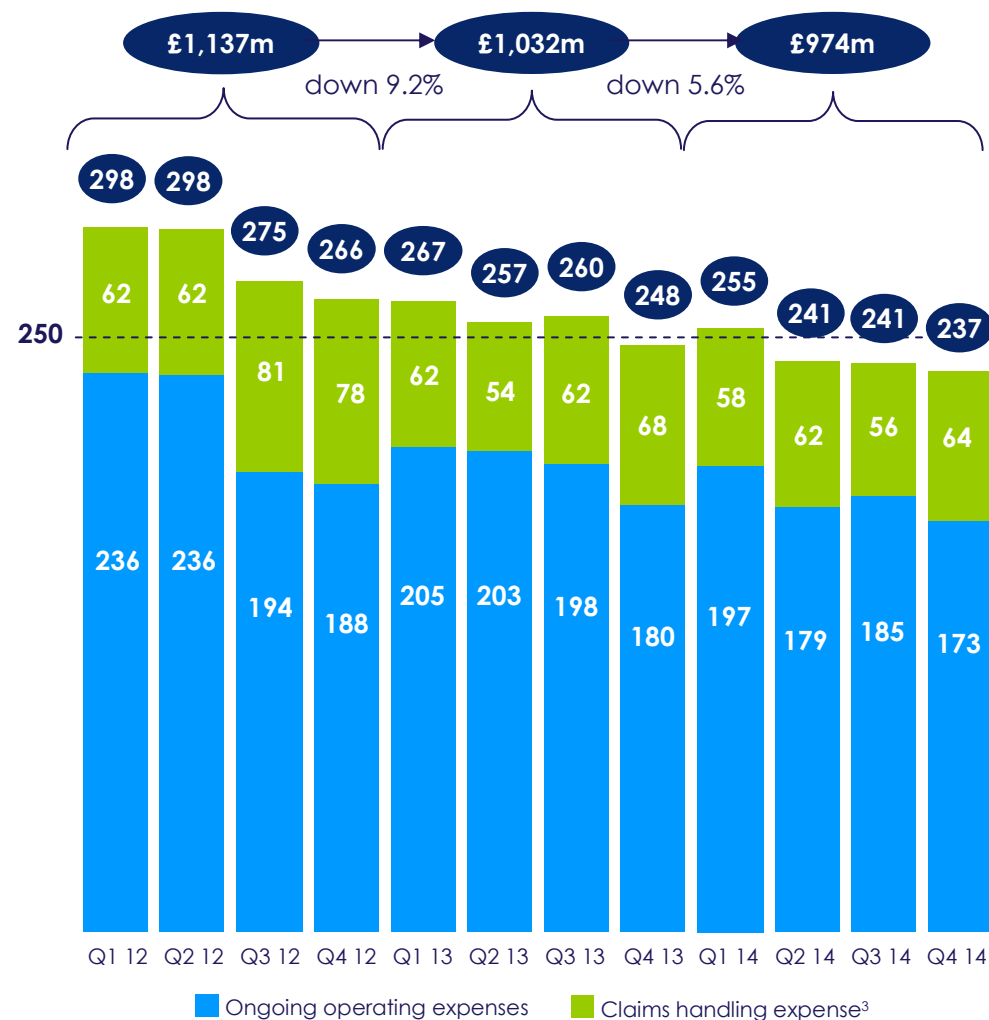
¹ Ongoing operations include the Group's ongoing segments: Motor, Home, Rescue and other personal lines and Commercial. It excludes the International division which is classified as discontinued operations, the Run-off segment and Restructuring and other one-off costs.

Further reduction in our cost base

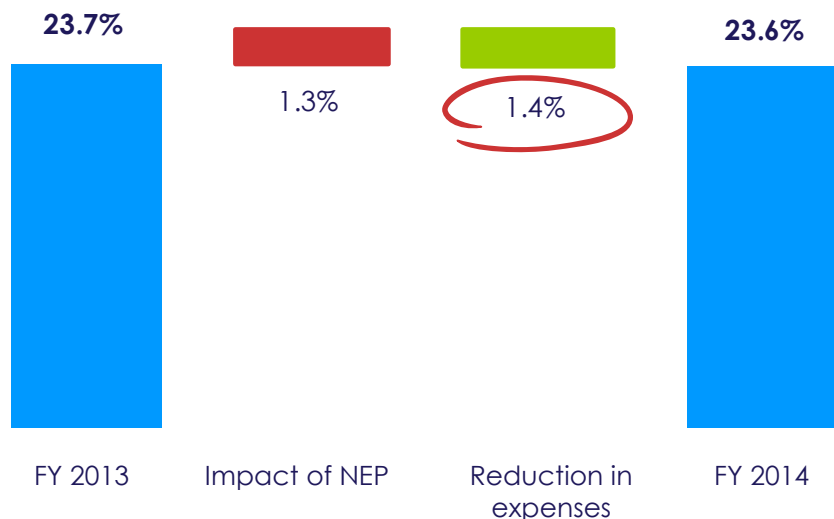
Observations

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

Cost base² (£m)



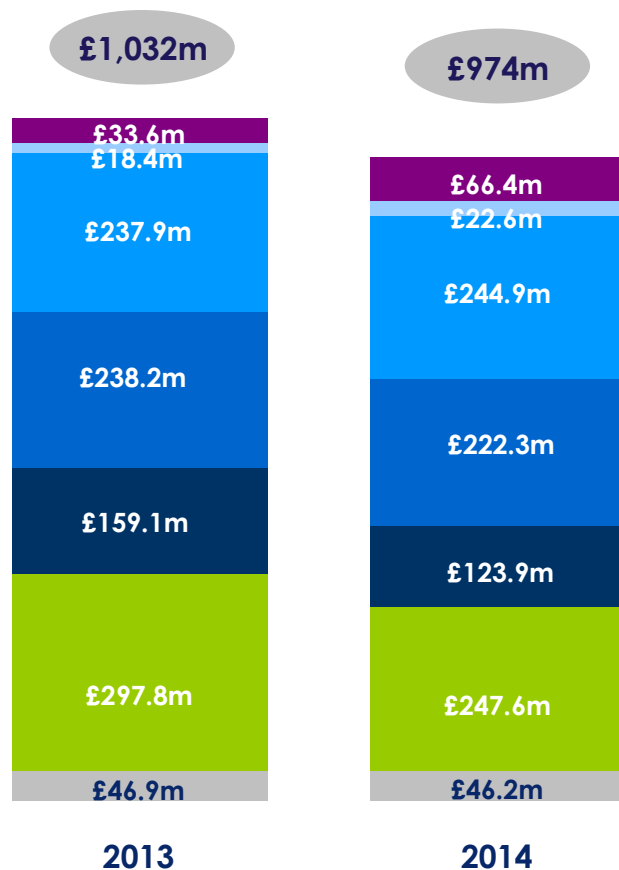
Expense ratio movement – ongoing operations¹



Cost savings achieved through greater efficiency

Analysis of cost base¹

Observations



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



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

Motor highlights

| Results | | Observations | |
|---|----------------|----------------|---|
| (£m unless stated) | FY 14 | FY 13 | |
| In-force policies (000s) | 3,672 | 3,762 | 1 IFPs down 2.4% since Dec 2013, with stability in the fourth quarter |
| Own brand in-force policies (000s) | 3,415 | 3,466 | |
| Partnerships in-force policies (000s) | 257 | 296 | |
| Gross written premium | 1,342.0 | 1,421.1 | 2 GWP 5.6% lower than prior year although up 2.5% in the fourth quarter |
| Net earned premium | 1,295.9 | 1,444.8 | |
| Loss ratio – current year | 88.5% | 85.3% | 3 Current year loss ratio increased by 3.2ppts reflecting adverse volatility in large bodily injury claims |
| Loss ratio – prior years | (21.5%) | (20.2%) | |
| Loss ratio | 67.0% | 65.1% | 4 Combined operating ratio 3.0ppts higher |
| Commission ratio | 3.2% | 2.5% | |
| Expense ratio | 26.0% | 25.6% | |
| Combined operating ratio¹ | 96.2% | 93.2% | 5 Instalment and other income down £24.3m mainly due to the sale of Tracker and lower instalment income |
| Underwriting profit / (loss)² | 49.8 | 98.1 | 6 Operating profit 14.6% lower at £297.1m |
| <i>Of which prior year releases</i> | 278.4 | 291.9 | |
| Instalment and other income³ | 102.5 | 126.8 | |
| Investment return | 144.8 | 122.8 | |
| Operating profit⁴ | 297.1 | 347.7 | |

1. Combined operating ratio ("COR") is the sum of the loss, commission and expense ratios. The ratio is a measure of the amount of claims costs, and expenses compared to net earned premium generated. A ratio of less than 100% indicates profitable business

2. Underwriting profit: The profit or loss from operational activities, excluding investment performance. It is calculated as new earned premium less net insurance claims and total expenses

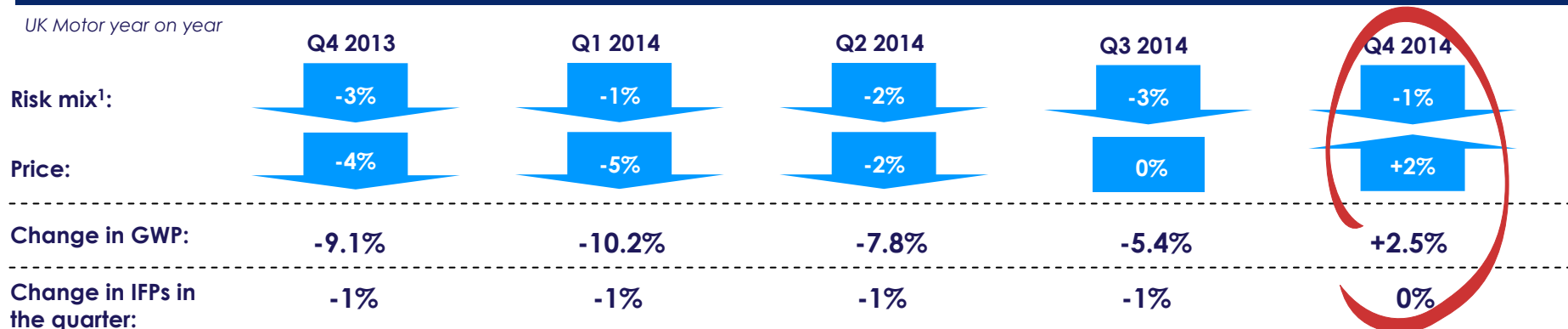
3. Tracker disposed on 5 February 2014 – the period ended 31 December 2014 includes Tracker related operating income: £1.4m (2013: £18.4m) and operating loss: £0.4m (2013: loss of £1.4m)

4. Operating profit: The pre-tax profit generated by the Group's activities, including insurance and investment activity, but excluding finance costs

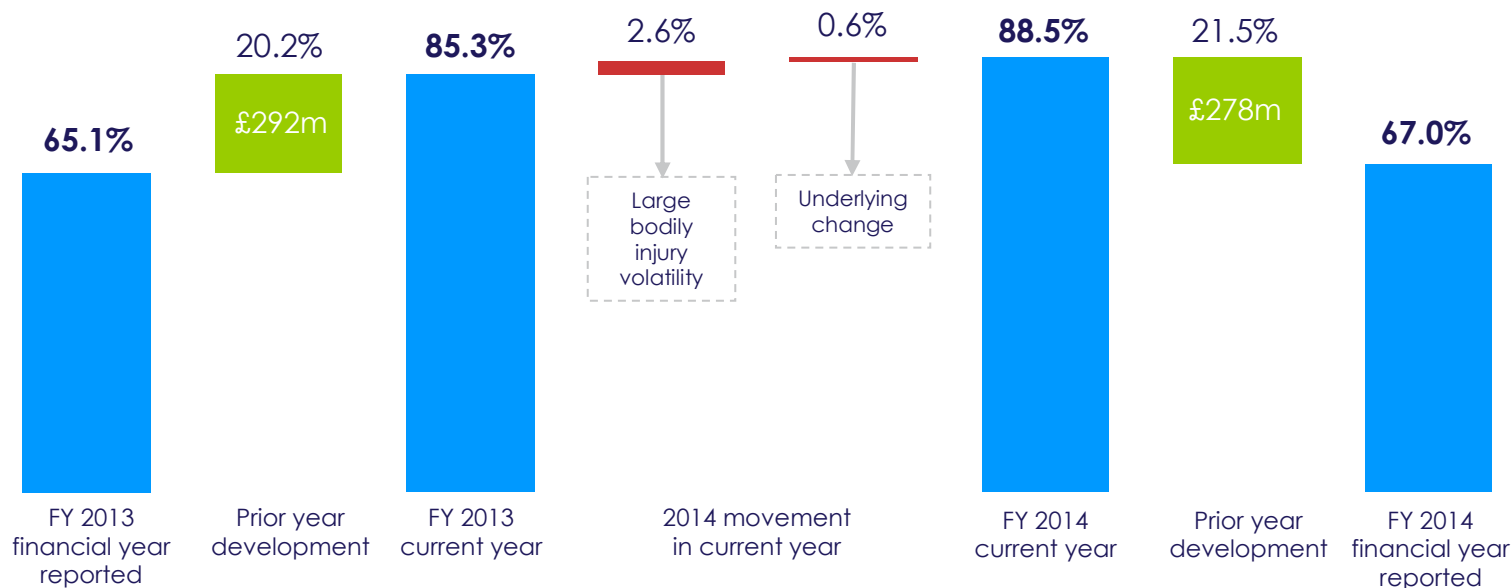
Motor average premiums and current year loss ratio

Average premium movement

UK Motor year on year



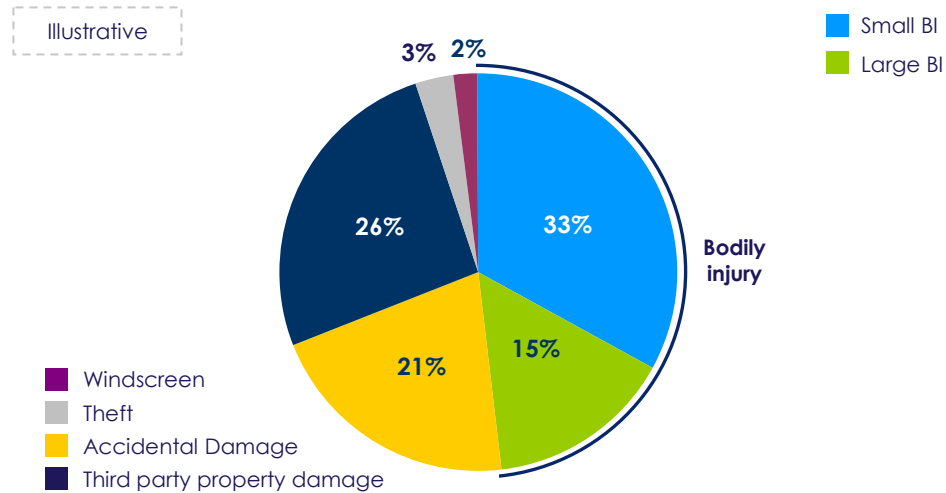
Current year loss ratio



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

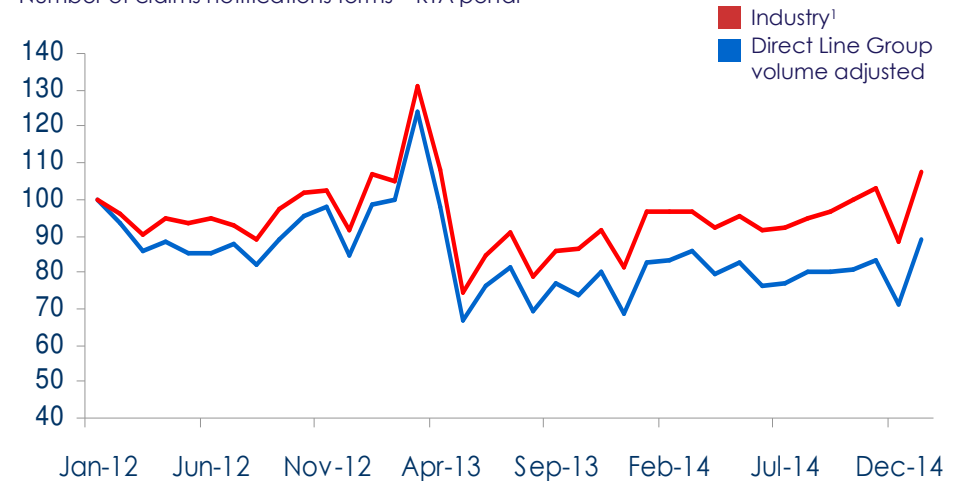
Motor claims picture has been mixed

Claims cost by peril



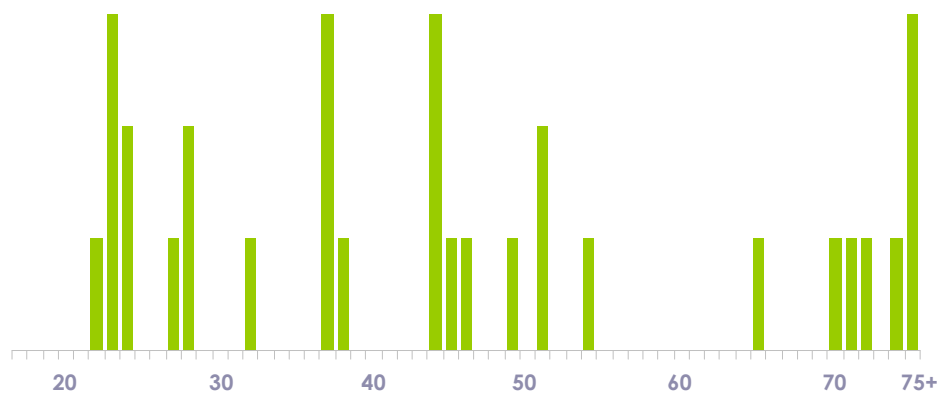
Small bodily injury

Number of claims notifications forms – RTA portal



Large bodily injury²

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



Observations

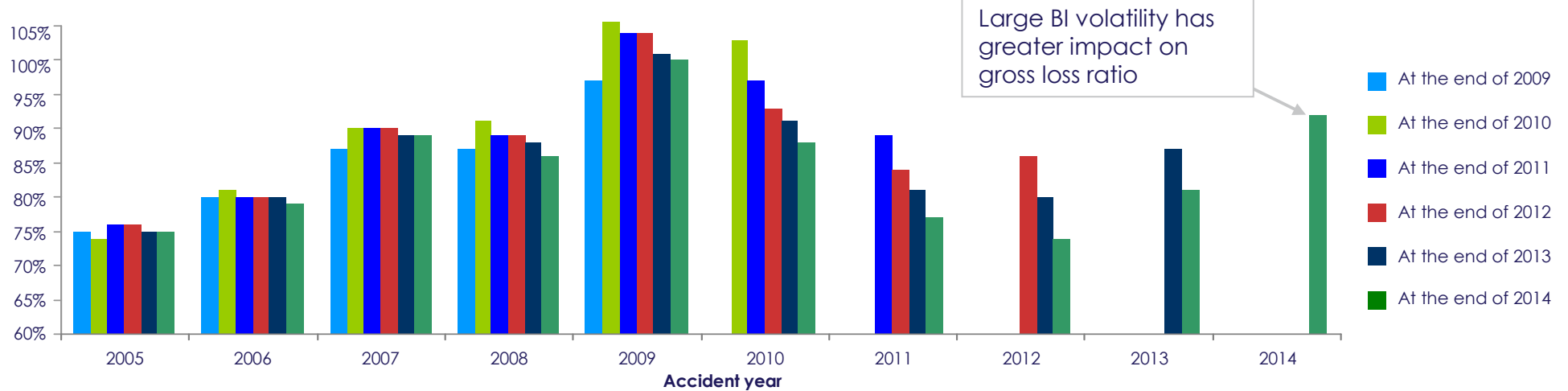
- Overall claims experience has been mixed
- Good experience on small BI claims
- Volatility in large BI claims experience
- Normal market claims inflation of around 3-5%

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

Motor reserving

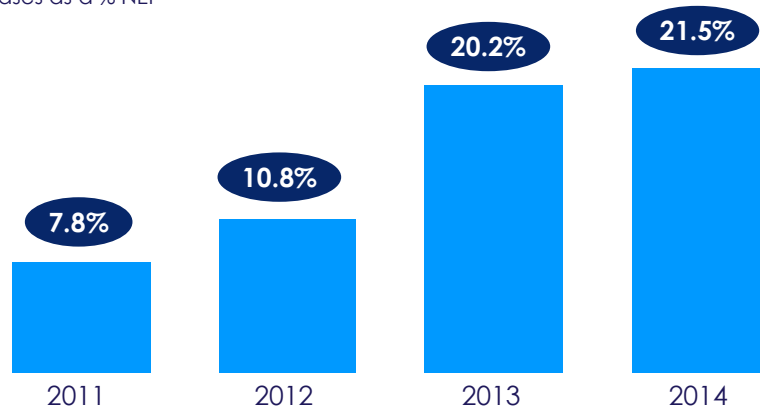
Conservatism reflected in high initial gross current year loss picks...

Motor booked loss ratio development (gross¹)

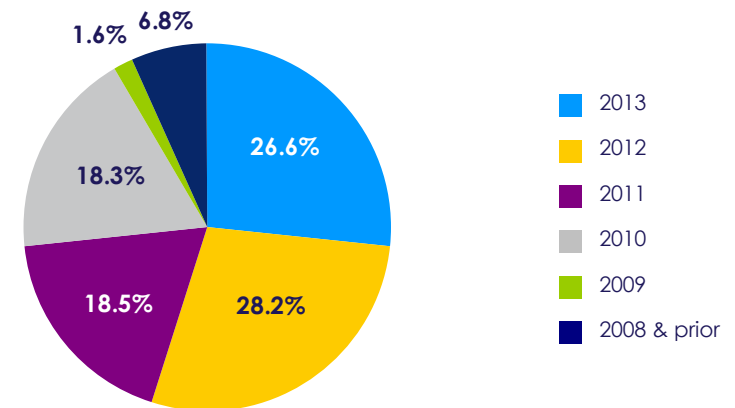


... leading to significant prior year reserve releases ...

Releases as a % NEP



...mainly from more recent accident years²



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

Home highlights

Results

| (£m unless stated) | | FY 2014 | FY 2013 |
|---|----------|--------------|--------------|
| In-force policies (000s) | 1 | 3,526 | 3,719 |
| Own brand in-force policies (000s) | | 1,693 | 1,749 |
| Partnerships in-force policies (000s) | | 1,833 | 1,970 |
| Gross written premium | 2 | 898.6 | 943.1 |
| Net earned premium | | 875.3 | 908.9 |
| Loss ratio – current year attritional | 3 | 49.3% | 51.1% |
| Major weather | | 7.2% | 7.6% |
| Loss ratio – current year incl. weather | | 56.5% | 58.7% |
| Loss ratio – prior years | | (5.7%) | (4.8%) |
| Loss ratio | | 50.8% | 53.9% |
| Commission ratio | | 21.7% | 19.6% |
| Expense ratio | | 20.2% | 20.3% |
| Combined operating ratio¹ | 4 | 92.7% | 93.8% |
| Underwriting profit / (loss) ² | | 63.5 | 56.2 |
| <i>Of which prior year releases</i> | | 49.8 | 43.3 |
| Instalment and other income | | 24.7 | 25.9 |
| Investment return | | 25.7 | 24.1 |
| Operating profit³ | 5 | 113.8 | 106.2 |

Observations

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

1. Combined operating ratio ("COR") is the sum of the loss, commission and expense ratios. The ratio is a measure of the amount of claims costs, and expenses compared to net earned premium generated. A ratio of less than 100% indicates profitable business

2. Underwriting profit: The profit or loss from operational activities, excluding investment performance. It is calculated as new earned premium less net insurance claims and total expenses

3. Operating profit: The pre-tax profit generated by the Group's activities, including insurance and investment activity, but excluding finance costs

Rescue and other personal lines³ highlights

Results

(£m unless stated)

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

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

Observations

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

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

1. Combined operating ratio ("COR") is the sum of the loss, commission and expense ratios. The ratio is a measure of the amount of claims costs, and expenses compared to net earned premium generated. A ratio of less than 100% indicates profitable business

2. Operating profit: The pre-tax profit generated by the Group's activities, including insurance and investment activity, but excluding finance costs

3. ROPL is made up of a number of products, including Rescue, Pet, Travel, Creditor and Life

4. Life business which was disposed of on 28 November 2013 was recorded in two segments: Rescue and other personal lines (net earned premium: £11.8 million, net insurance claims: £1.8 million and operating profit: £6.4 million) and Run-off (net earned premium: £2.8 million, net insurance claims: £0.7 million and operating profit: £1.2 million)

5. Underwriting profit: The profit or loss from operational activities, excluding investment performance. It is calculated as new earned premium less net insurance claims and total expenses

Commercial highlights

Results

| (£m unless stated) | | FY 2014 | FY 2013 |
|---|----------|--------------|---------------|
| In-force policies (000s) | 1 | 611 | 583 |
| Gross written premium | 2 | 487.0 | 474.5 |
| Net earned premium | | 446.8 | 434.6 |
| Loss ratio – current year | | 69.2% | 74.1% |
| Loss ratio – prior years | | (12.1%) | (11.8%) |
| Loss ratio | 3 | 57.1% | 62.3% |
| Commission ratio | | 19.7% | 21.2% |
| Expense ratio | | 22.0% | 23.3% |
| Combined operating ratio¹ | 4 | 98.8% | 106.8% |
| Underwriting profit/loss ² | | 5.2 | (29.6) |
| <i>Of which prior year releases</i> | | 53.7 | 51.6 |
| Instalment and other income | | 7.8 | 9.5 |
| Investment return | | 34.0 | 29.6 |
| Operating profit³ | 5 | 47.0 | 9.5 |

Observations

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

1. Combined operating ratio ("COR") is the sum of the loss, commission and expense ratios. The ratio is a measure of the amount of claims costs, and expenses compared to net earned premium generated. A ratio of less than 100% indicates profitable business

2. Underwriting profit: The profit or loss from operational activities, excluding investment performance. It is calculated as new earned premium less net insurance claims and total expenses

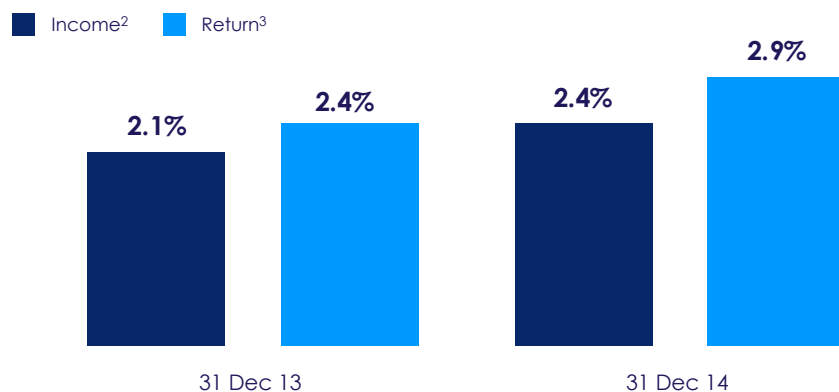
3. Operating profit: The pre-tax profit generated by the Group's activities, including insurance and investment activity, but excluding finance costs

Growing investment returns from a high quality portfolio

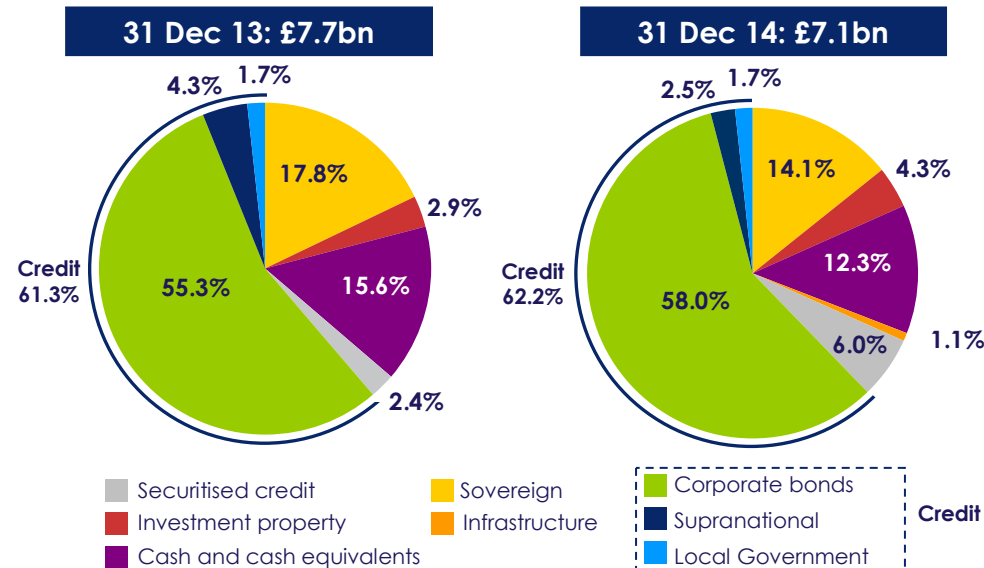
Observations

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

Group investment yields



UK investment assets by type¹



Investment return - ongoing operations (£m)

| | FY 2014 | FY 2013 |
|---|--------------|--------------|
| Investment income | 171.7 | 157.1 |
| Net realised gains and unrealised gains | 38.9 | 27.6 |
| <i>of which investment property</i> | 28.7 | 7.5 |
| Total | 210.6 | 184.7 |

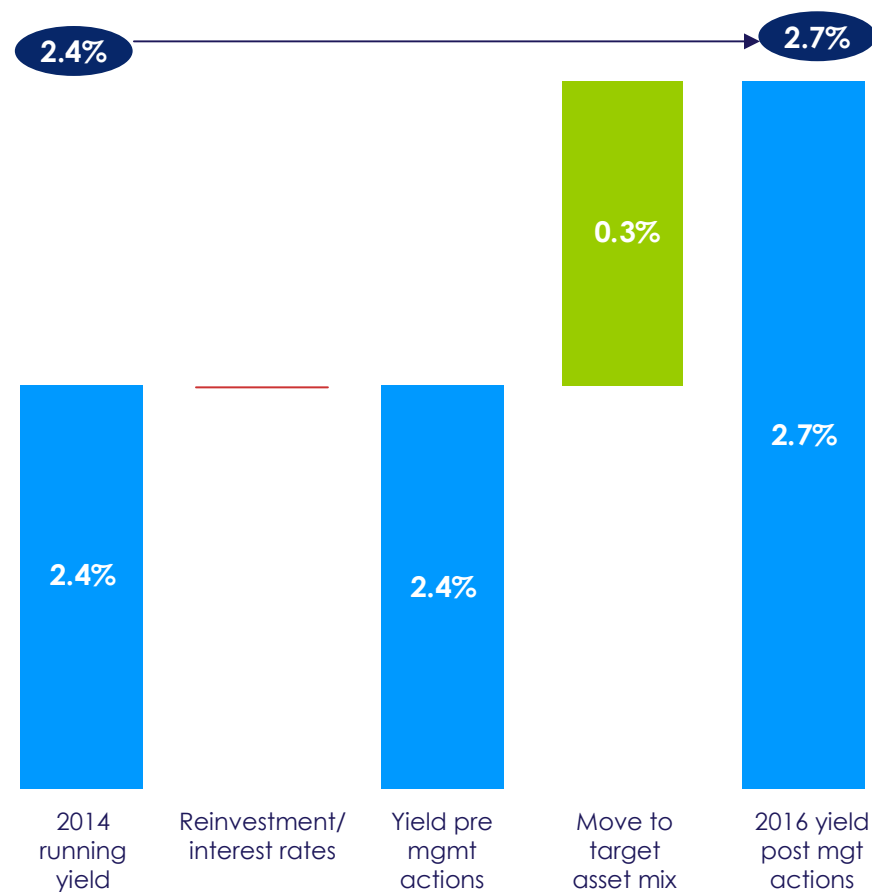
1. Asset allocation for Total Group, excluding International
 2. Investment income yield excludes net gains and is shown on an annualised basis
 3. Investment return includes net gains and is shown on an annualised basis

Investment yield outlook

Income yield²

| 31 December 14 | Target allocation ¹ | Actual allocation | Income yield ¹ | Duration (years) |
|---------------------------------|--------------------------------|-------------------|---------------------------|------------------------|
| Credit | 63.0% | 62.2% | 2.8% | 2.5 |
| Securitised credit ² | 6.0% | 6.0% | 2.0% | 0.2 |
| Sovereign | 13.0% | 14.1% | 1.9% | 1.2 |
| Total debt securities | 82.0% | 82.3% | 2.6% | 2.1 |
| Infrastructure | 6.0% | 1.1% | n.m. ³ | n.m. ³ |
| Investment property | 5.0% | 4.3% | 6.1% | - |
| Cash and cash equivalents | 7.0% | 12.3% | 0.5% | 0.0 |
| Total | 100.0% | 100.0% | 2.4% | 1.7⁴ |

Income yield outlook



Ongoing operating profit reconciliation

Observations

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

Outlook

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

Operating profit

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

1. 2014 relates to Tracker disposed on 5 February 2014 – the period ended 31 December 2014 includes Tracker related operating income: £1.4m and operating loss: £0.4m

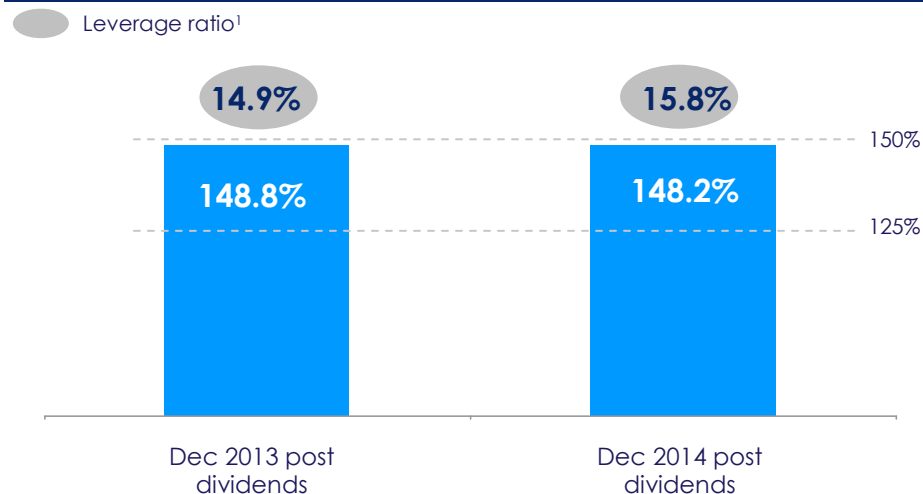
2. Relates to the International division which is now treated as a discontinued operation

3. Earnings per share is calculated by dividing earnings attributable to the owners of the Company by the weighted average number of Ordinary Shares during the period. Earnings per share is calculated by dividing earnings attributable to the owners of the Company by the weighted average number of Ordinary Shares during the period

4. Adjusted earnings per share – diluted includes ongoing operations and the International division and excludes the Run-off segment and restructuring and other one-off costs (using UK standard tax rate)

Strong capital position

Capital position and leverage



Observations

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

Solvency II

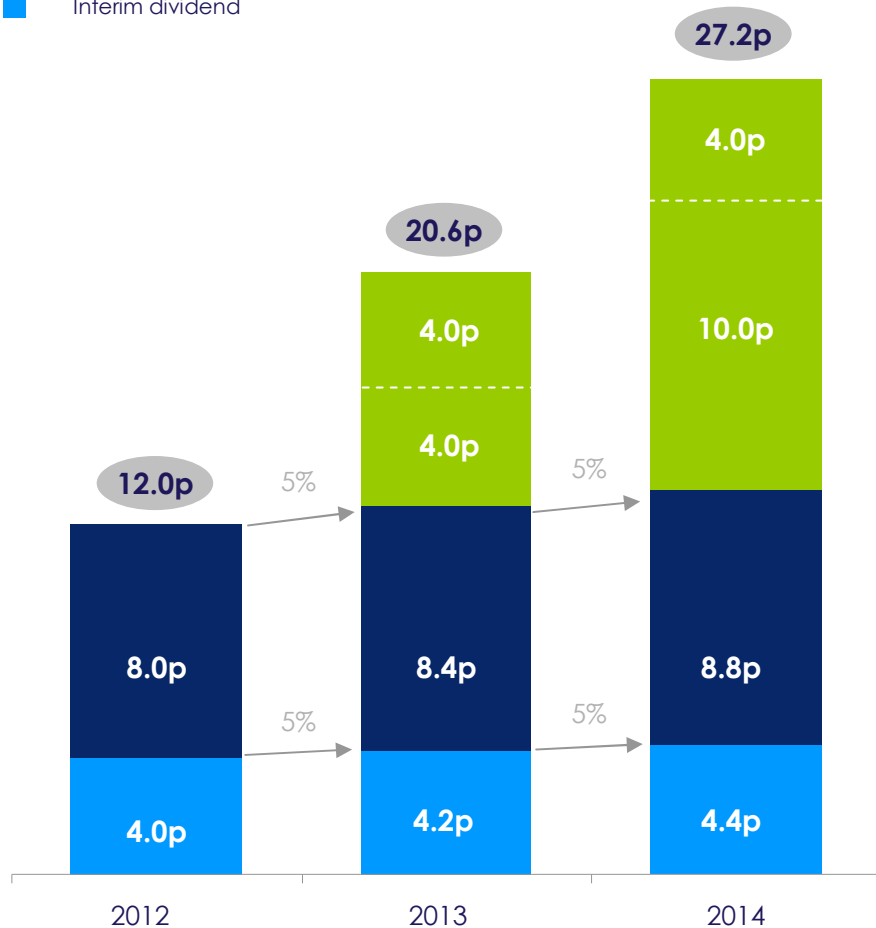
- Capital position remains conservative ahead of Solvency II
- Internal model approval submission during 2015
- The Group is expected to operate under standard formula for at least the first six months of 2016
- Review and recalibration of risk appetite during 2015
- Board next likely to consider any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

¹. Leverage ratio stated pre-dividends

Dividends

Dividends

- Special dividend
- Final dividend
- Interim dividend



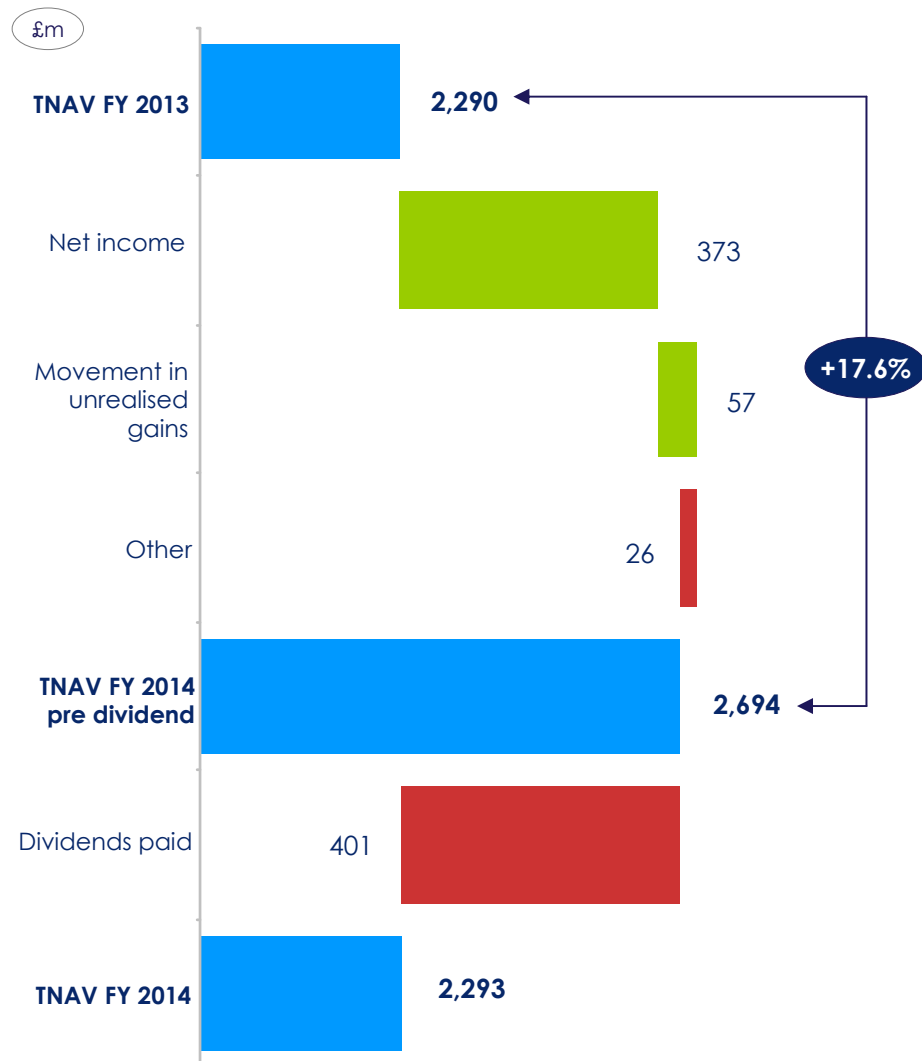
Commentary

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

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

Post dividends book value and TNAV

Movement in tangible net asset value



NAV and TNAV per share

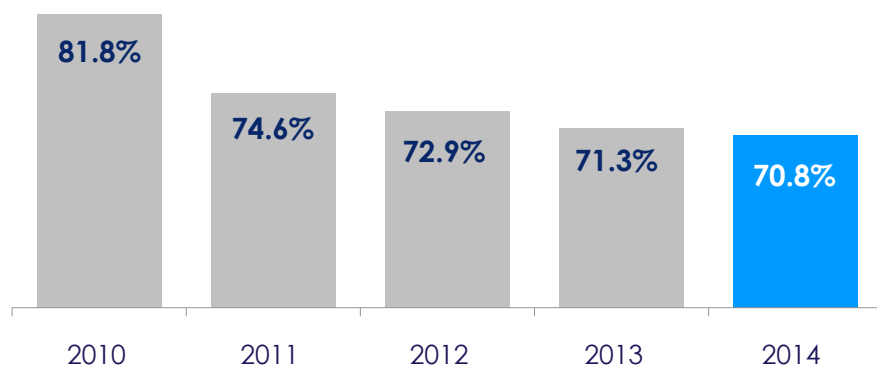
| Pence | 2014 | 2013 |
|------------------------------------|-------|-------|
| Net asset value per share | 188.2 | 186.6 |
| Tangible net asset value per share | 153.1 | 153.2 |

Observations

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

Progress on key financials

Current year attritional loss ratio¹

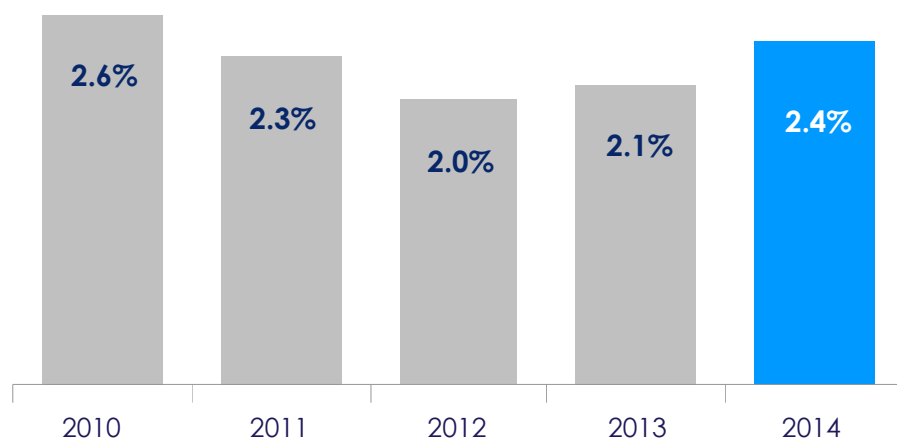


Total costs²

(£m)

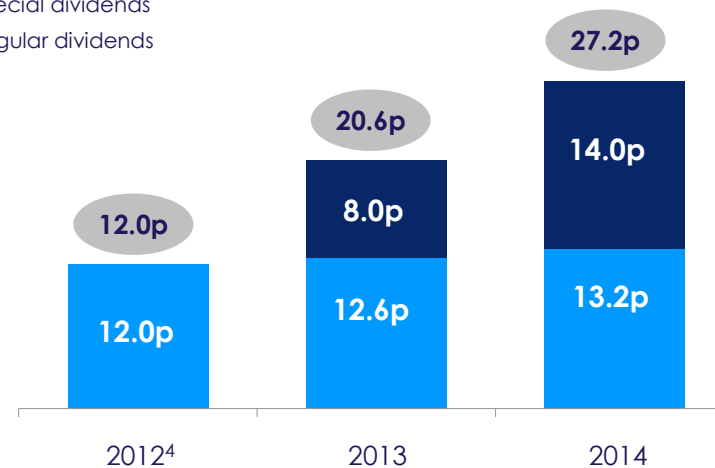


Investment income yield³



Dividends

■ Special dividends
■ Regular dividends



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

Strategy update

Paul Geddes - CEO

We delivered against our agenda in 2014

1

Distribution

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

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

2

Pricing

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

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

3

Claims

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

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

4

Costs

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

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

5

Commercial

Leverage core skills to improve performance in adjacent business areas

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

Increased capability in distribution and pricing

Distribution

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

94%

of customers rate our sales and service consultants as good or excellent¹

81%

increase in Motor insurance purchased on a smartphone

50%

telematics take-up by under 21's²

1,800

webchats per day

Pricing

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

30

Major pricing initiatives delivered in 2014

81%

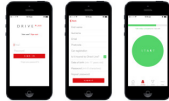

Home own brands retention rate

80%

Motor own brands retention rate

40%

Differential in pricing from telematics data³

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

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

Improving efficiency across the business

Claims

We have continued improving our claims service

Home customers choosing digital claims processes

81%

where offered to customers¹

158,000

Vehicles repaired by our accident repair centres and network garages

Fraud detection

2.6x

(fraud detection performance ahead of the market²)

Launched **7 day** car repair



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

Costs

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

Reduced our cost base by

5.6%

in 2014

£974m

total cost base³

£58m

Reduction in cost base following a focus on cost control and operating efficiency⁴

Staff costs down

17%

year on year

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

Actively managing our portfolio

Commercial

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

98.8%

Commercial COR

7.1%

GWP increase in eTrade products¹

Our Commercial projects

11.5%

GWP increase in Landlord product²

5,100

Landlord app smartphone downloads

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

International

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

Total cash proceeds of

€550m

for the sale of the Group's Italian and German operations

Pre-tax gain on disposal of

c.£160m

1.9x

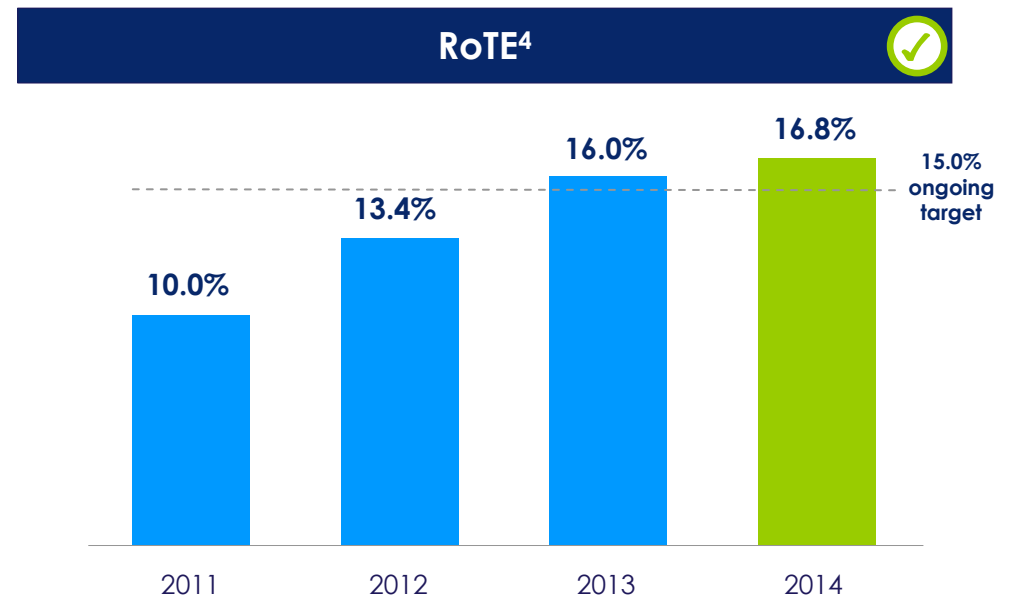
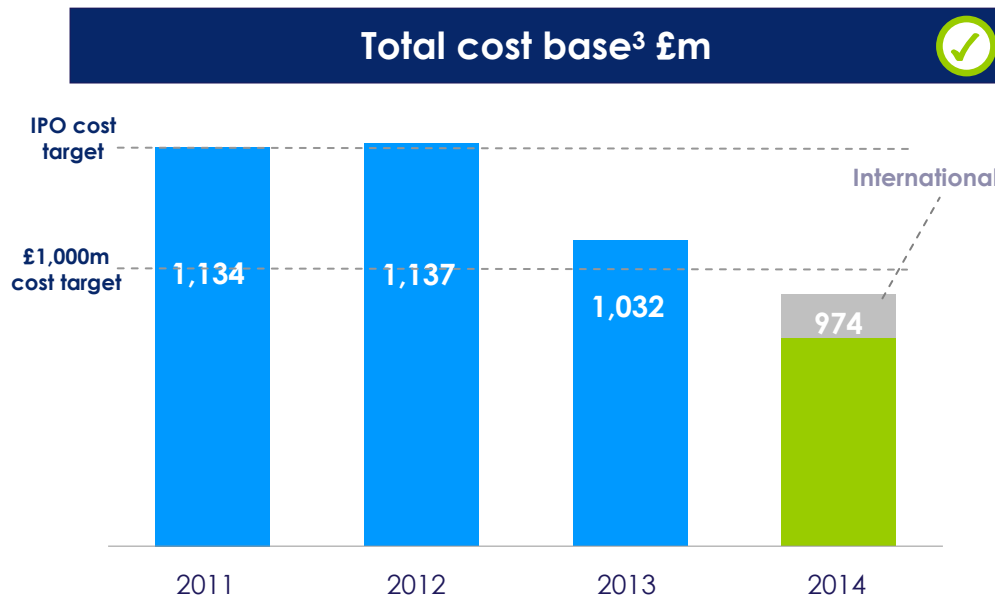
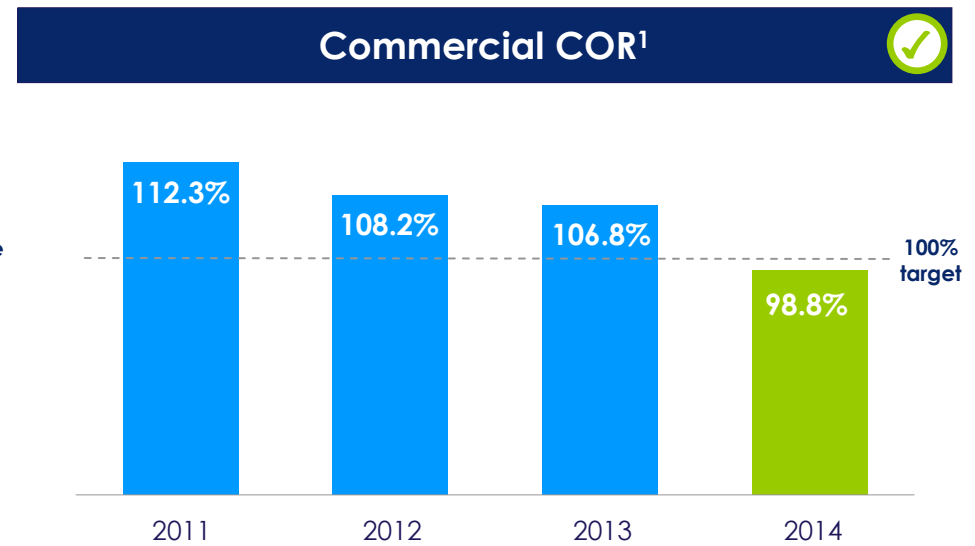
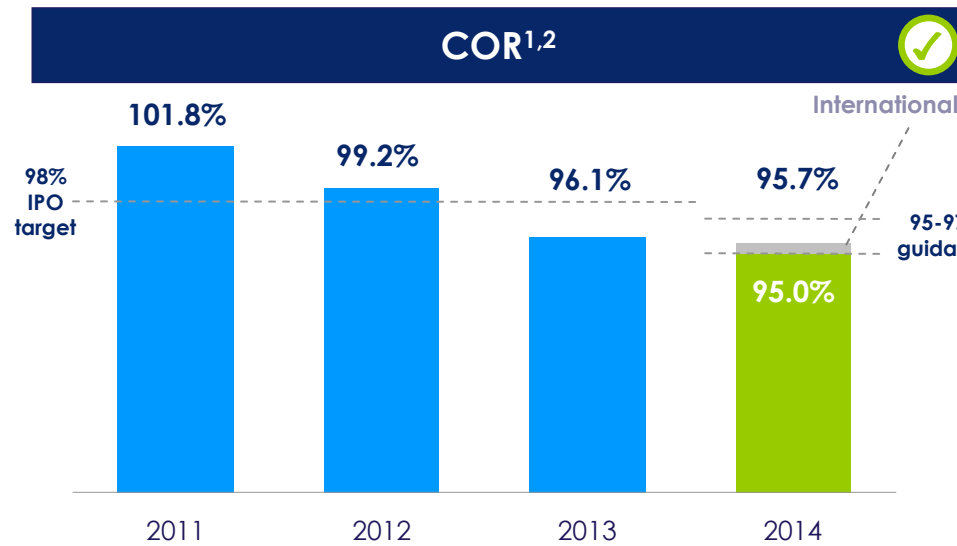
2013 net asset value

Substantially all net proceeds to be returned to shareholders

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








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

Track record of delivering against targets



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

We now have a profitable, well diversified UK portfolio

| | COR | Operating profit | Brands | Franchise |
|-------------------------------|-------|------------------|--|--|
| Motor | 96.2% | £297.1m |     | #1 ¹ Personal Lines insurer Stable own brand IFPs in H2 |
| Home | 92.7% | £113.9m | | |
| Rescue & other personal lines | 92.0% | £48.0m |  | #3 ² Rescue provider Growing IFPs and GWP |
| Commercial | 98.8% | £47.0m |   | #2 ³ Direct commercial insurer Growing IFPs and GWP |

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

Our mission...

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



We have re-articulated our ambitions

Mission

Make insurance much easier and better value for our customers

Strategic pillars

Great retailer

Smart & efficient manufacturer

Lead & disrupt the market

①

②

③

④

Data & technology

⑤

Culture & capability

⑥

Capital & risk management

Key enablers

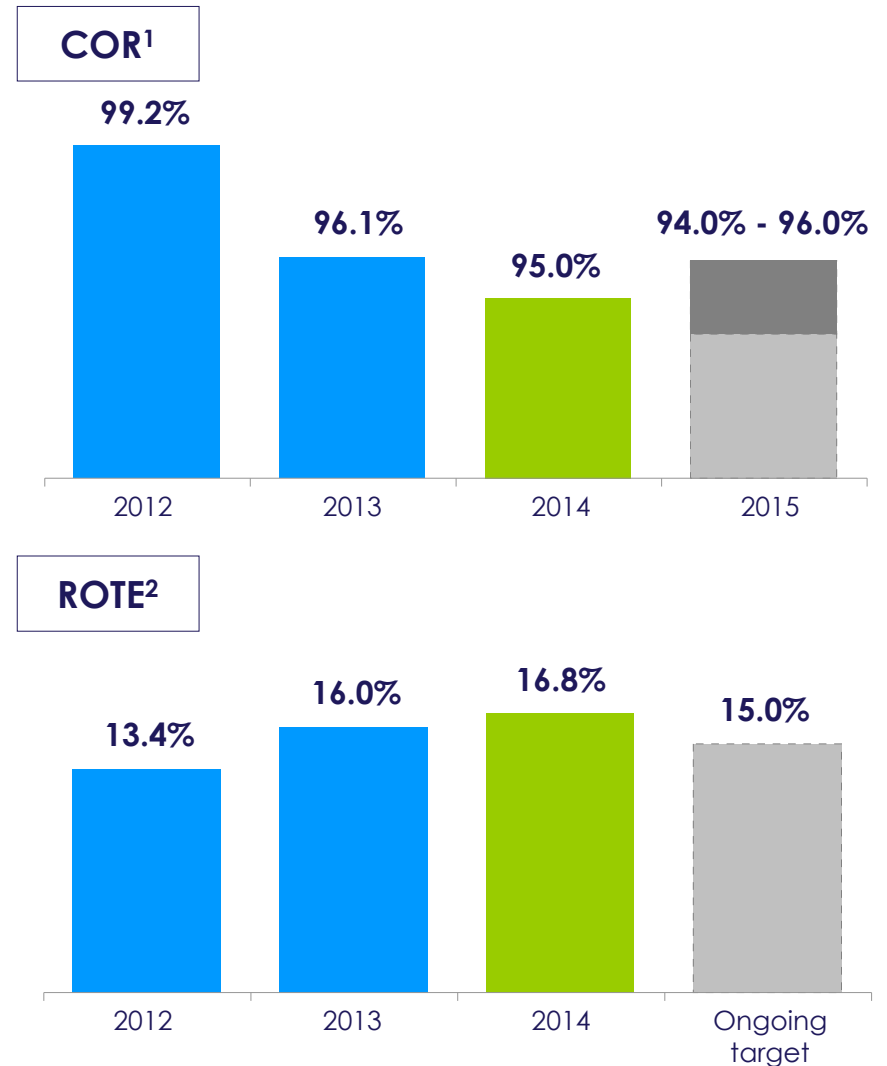
Long-term ambition:
Sustainable growth and a 15% RoTE

We have specific 2015 deliverables...

| ① Great retailer | ② Smart & efficient manufacturer | ③ Lead & disrupt the market | ④ Data & technology | ⑤ Culture & capability | ⑥ Capital & risk management |
|--|---|--|---|---|--|
| Compelling brands, propositions and customer experience to meet diverse, long term customer needs | Efficiency and flexibility to deliver better claims and customer service at lower cost | Maximise existing growth opportunities while creating and driving future areas of value | Harness the power of technology and scale of our data | Unlock and accelerate our people potential | Sound foundation of capital and risk management |
| <ul style="list-style-type: none"> • Further differentiate our brands including refresh of Churchill • Launch customer experience programmes to increase NPS, reduce frictional costs and reduce complaints • Improve trading capability to maximise sales, cross-sales and retention while optimising margin | <ul style="list-style-type: none"> • Continue to build technical pricing excellence • Beat market claims inflation via further claims programmes • Reduce level of overall costs by improving efficiency | <ul style="list-style-type: none"> • Continue to grow Green Flag • Capitalise on market trends towards direct and eTrade to grow Commercial • Double number of telematics policies in-force | <ul style="list-style-type: none"> • Complete migration of IT infrastructure • Continue to implement next generation of customer systems including policy system • Update Motor pricing engine | <ul style="list-style-type: none"> • Invest in developing our employees' skills to capitalise on new systems • Build superior people engagement via focus on leadership and people management | <ul style="list-style-type: none"> • Be ready for Solvency II implementation on 1 January 2016 and submit internal model for approval |

Outlook

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



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

1. Combined operating ratio ("COR") is the sum of the loss, commission and expense ratios. The ratio is a measure of the amount of claims costs, and expenses compared to net earned premium generated. A ratio of less than 100% indicates profitable Ongoing operations include Direct Line Group's (the "Group") ongoing segments: Motor, Home, Rescue and other personal lines and Commercial. It excludes the International division which is classified as discontinued operations, the Run-off segment and Restructuring and other one-off costs

2. Return on tangible equity ("ROTE") is adjusted profit after tax from ongoing operations and the International division divided by the Group's average tangible shareholders' equity. Profit after tax is adjusted to exclude the Run-off segment and Restructuring and other on-off costs and is stated after charging tax (using the UK standard tax rate of 21.5% (2013 23.25%).

Key highlights

- 1** Met or exceeded all published IPO and 2014 targets
- 2** Ongoing investment in capability supporting profitability across the Group, all divisions now making a material contribution to profit
- 3** Announced the sale of our International division for €550m (£430m)
- 4** Continued active capital management with 32% of IPO share price returned to shareholders post 2014 final and special dividends
- 5** Focus on UK reaffirmed with clear strategic aim to make insurance much easier and better value for customers

Q&A

Appendix

UK regulatory themes

What's happening?

MedCo

- MedCo launched in December 2014, due to go live 6 April 2015.
- MedCo will oversee an IT Portal system which will allocate independent accredited medical experts to soft tissue RTA claims valued up to £25,000.
- As well as overseeing the administration of the IT Portal system, MedCo will oversee the training and accreditation process for medical experts, as well as the ongoing audit and sanction regime.
- Whilst the process will go live from April 2015, the training/accreditation of experts will take place retrospectively after launch and be completed by 1 January 2016.
- Separately, a strike out option for fundamentally dishonest PI claims and the ban on solicitors offering inducements came into effect with the Criminal Justice and Courts Act on 12 February.

FCA thematic review of PCWs

- FCA concluded in 2014 that PCWs fail to meet consumers' expectations by: failing to provide clear information – i.e. making clear to consumers their role as distributor; not disclosing potential conflicts; and failure to fully implement FCA guidance published in 2011.
- FCA expecting insurers and PCWs to work together – six working groups being held across 2014-15.
- FCA is now providing individual feedback and engaging with the wider industry on its findings to address the specific issues.

FCA market study into the sale of add ons

- GAP consultation issued in December. Further consultation on other add-on remedies (claims ratios, opt outs and PCWs) expected early 2015.
- FCA has held working groups on claims ratios and PCWs but no update on next steps for opt-outs.
- Claims ratio remedy is no longer being targeted at add-ons only but now includes standalone products too. Some exceptions will apply to the products in scope, albeit these have not yet been confirmed.
- PCW remedy focusing on improved information provision.

ABI proposal on renewal disclosures

- In 2014 the ABI announced that it had written to the FCA proposing improved disclosure on customers' renewal documentation. This included details of the previous year's premium and information on introductory discounts applied.
- FCA has not publicly commented on the proposals.
- No formal communication has been issued by the ABI on next steps.
- Anticipating an update later in 2015.

Supportive of a level playing field

Instalment and other operating income

Observations

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

Instalment and other operating income

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

Breakdown of other operating income

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

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

Small BI inflation, reinsurance and risk based capital

BI capped severity inflation¹

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

Motor excess of loss reinsurance³

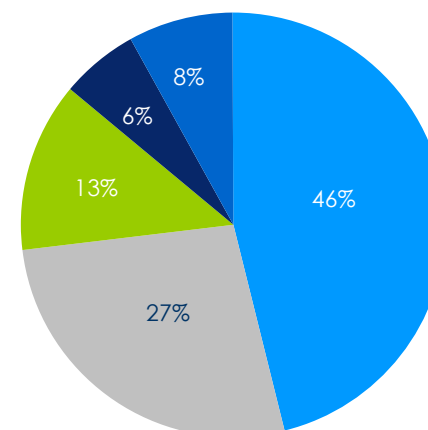
| £m | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------|----------------|------|----------------|----------------|------|
| Limit | Unlimited | | | | |
| Deductible | 3 ⁴ | 3 | 3 ⁴ | 1 ⁴ | 1 |

Property catastrophe reinsurance⁵

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

Risk based capital

- Reserve risk
- Underwriting risk
- Operational risk
- Market risk
- Counterparty risk



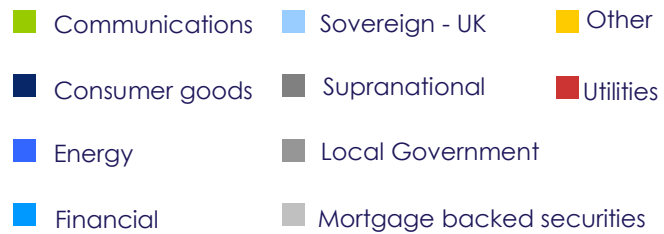
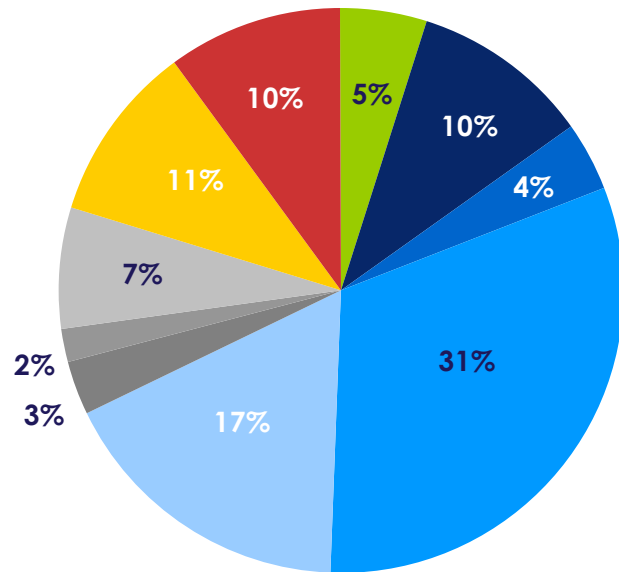
- A risk based capital model is used to determine capital requirements for the Group as part of its Internal Capital Assessment (ICA)
- The model is calibrated to a 99.5% confidence interval over a one year period and allows for uncertainty until ultimate settlement
- The risk based capital model has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

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

Investments - fixed income portfolio

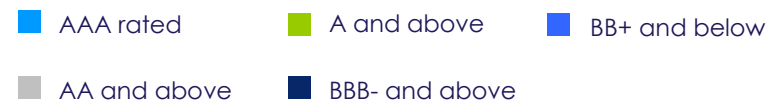
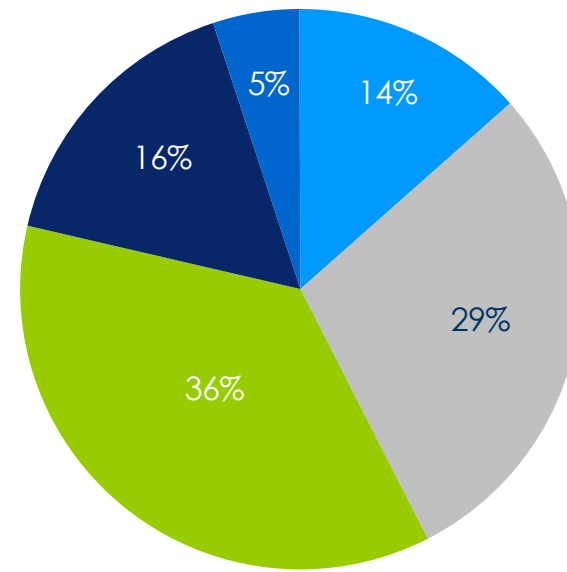
Fixed income by sector

Total debt securities £5.8bn



Fixed income by rating

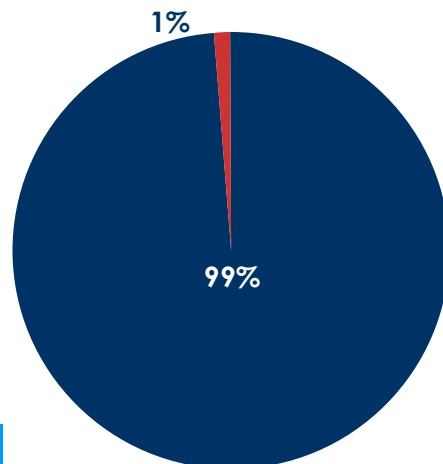
Total debt securities £5.8bn



Investments - fixed income portfolio

Sovereign exposure by rating

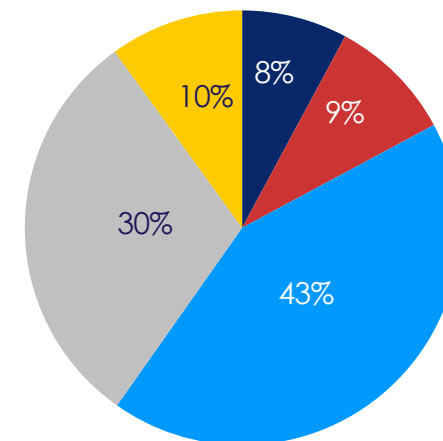
- AA and above
- BBB and above



Total sovereign £0.9bn

Corporate exposure by rating

- AAA rated
- AA and above
- A and above
- BBB- and above
- BB+ and below



Total corporate £2.8bn

Eurozone sovereign exposure by country

| £m | 31 Dec 14 |
|--------------|------------|
| Belgium | 3.6 |
| Total | 3.6 |

Eurozone corporate exposure by country

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

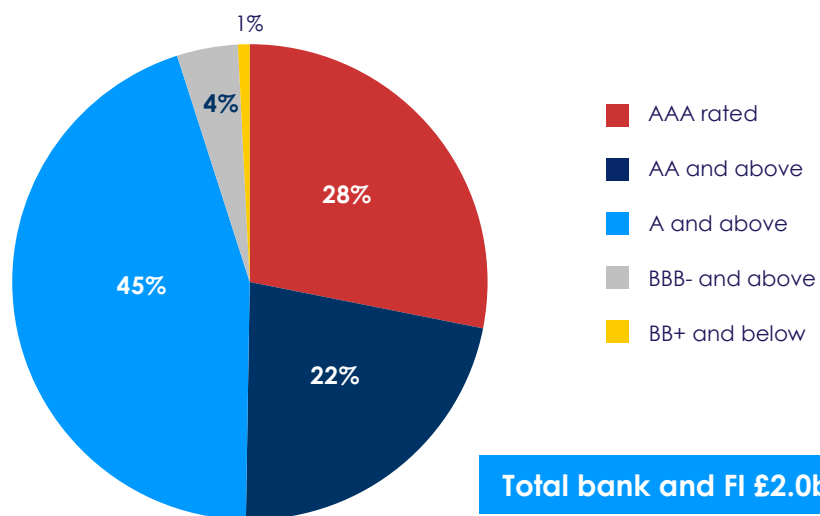
Investments - fixed income portfolio

Bank and other financial institutions exposure

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

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

Bank and other financial institutions by rating



RoTE calculation

RoTE calculation

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

Adjusted EPS calculation

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

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

Segmental performance: 2014

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

Segmental performance: 2013

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

Balance sheet overview

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

Investor relations contacts

Neil Manser

Director of Corporate Strategy and
Investor Relations

E: neil.manser@directlinegroup.co.uk

T: +44 (0)1651 832183

Louise Calver

Investor Relations Manager

E: louise.calver@directlinegroup.co.uk

T: +44 (0)1651 832877

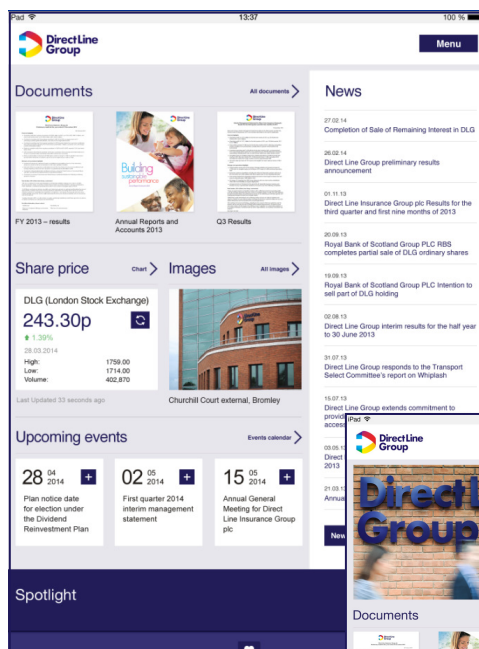
Claire Jarrett

Investor Relations and Corporate
Strategy Associate

E: claire.jarrett@directlinegroup.co.uk

T: +44 (0)1651 832411

Investor relations app



General disclaimer

Forward-looking statements

Certain information contained in this document, including any information as to the Group's strategy, plans or future financial or operating performance, constitutes "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "aims", "anticipates", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "outlook", "plans", "predicts", "projects", "seeks", "should", "targets" or "will" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations and certain assumptions of the Directors concerning, among other things: the Group's results of operations, financial condition, prospects, growth, strategies and the industry in which the Group operates. Examples of forward-looking statements include financial targets: return on tangible equity, the Group's combined operating ratio, the combined operating ratio for the Group's Commercial division, and cost savings. By their nature, all forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Group's control.

Forward-looking statements are not guarantees of future performance. The Group's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this document, for example directly or indirectly as a result of, but not limited to, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities (including changes related to capital and solvency requirements or the Ogden discount rate), the impact of competition, currency changes, inflation and deflation, the timing impact and other uncertainties of future acquisitions, disposals, joint ventures or combinations within relevant industries, as well as the impact of tax and other legislation and other regulation in the jurisdictions in which the Group and its affiliates operate. In addition, even if the Group's actual results of operations, financial condition and the development of the business sector in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

The forward-looking statements contained in this document speak only, and reflect knowledge and information available, as of the date of preparation of this document. The Group and the Directors expressly disclaim any obligations or undertaking to update or revise publicly any forward looking statements, whether as a result of new information, future events or circumstances or otherwise, unless required to do so by applicable law or regulation. Nothing in this document should be construed as a profit forecast.

Neither the content of Direct Line Group's website nor the content of any other website accessible from hyperlinks on the Group's website is corporate into, or forms part of, this document.