Half Year Interim Report for Direct Line Insurance Group plc
Results for the first half 2013

2 August 2013

Direct Line Group's Half Year Interim Report relates to the first half ended 30 June 2013 and contains information to the date of publication.

Financial highlights

- Operating profit from ongoing operations[1] of £286.6 million for the first half of 2013, up 27.8% (first half 2012: £224.2 million) driven principally by lower claims from major weather events and improved cost control, partially offset by lower investment returns
- Gross written premium for ongoing operations 4.0% lower for the first half of 2013, reflecting competitive market conditions in UK personal lines, partially offset by growth in International
- Combined operating ratio[2] for ongoing operations of 94.6% for the first half of 2013, an improvement of 6.5 percentage points against the first half of 2012 (101.1%) arising from lower claims from major weather events, continued prior year reserve releases and lower expenses
- Annualised return on tangible equity[3] from ongoing operations of 17.3% for the first half of 2013 (first half 2012: 10.2%; pro forma[4] full year 2012: 13.4%)
- Interim dividend per share of 4.2 pence representing growth of 5.0% over pro forma 2012 interim dividend[5]
- Net asset value per share of 186.9 pence and tangible net asset value per share of 156.6 pence (31 December 2012: 189.1 pence and 161.0 pence, respectively) principally reflecting payment of the 8.0 pence final dividend

Strategic and operational highlights

- Good progress across each of the Group's strategic priorities
- Improved customer propositions, including launch of a telematics product in June
- Continued development of claims capability, including roll-out of initiatives to Home and establishment of DLG Legal Services
- Additional cost savings announced in June, targeting a reduced cost base[6] of £1,000 million in 2014
- Total operating profit from Commercial and International up by more than 100%

Paul Geddes, CEO of Direct Line Group, commented

"These are a good set of results, even allowing for the benign weather in the period. Our transformation plan continues to deliver strong benefits to our Home and Motor businesses, and the total operating profit from our Commercial and International businesses doubled compared with the first half of 2012.

"The UK motor market remained competitive and dynamic, with significant premium reductions and the introduction of legal reforms. We believe the full effect of the reforms will take time to materialise and their ultimate impact is difficult to predict as it will depend on a change in the behaviour of claimants and lawyers. We continued to price based upon our observed claims experience, which was favourable. In the second quarter, this has helped us to reduce premium rates overall about 3% year on year, contributing to a stabilisation of our policy count.

"Alongside our ongoing focus on costs, we continue to invest in our future. In the second quarter, Direct Line launched a telematics black box and smartphone app, DrivePlus, while the Group announced plans to establish a law firm to enhance the affordable legal services accessible to our customers."

See page 2 for notes

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Notes

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. 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. 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 one-off costs and is stated after charging tax (using the UK standard tax rate of 23.25%; 2012: 24.5%).

4. 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 ("**IPO**") (£1 billion dividend payment and £500 million long-term subordinated debt issue) occurred on 1 January 2012.

5. Pro forma 2012 interim dividend of 4.0 pence per share is based on one third of the pro forma full year dividend of 12.0 pence per share.

6. Operating expenses from ongoing operations and claims handling expenses

Forward-looking statements

This document has been prepared for, and only for, the members of Direct Line Insurance Group plc (the "**Company**") as a body, and no other persons. The Company, its Directors, employees, agents or advisers do not accept responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

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", "estimates", "expects", "intends", "may", "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 of the Directors concerning, amongst 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 which are contained in this document specifically with respect to RoTE, the Group's COR, the COR for the Group's Commercial business, 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 including, 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, deflation, the timing impact and other uncertainties of future acquisitions 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 reflect knowledge and information available as of the date of preparation of this document. The Company 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 otherwise, unless required to do so by applicable law or regulation. Nothing in this document should be construed as a profit forecast.

Financial summary

	Q2 2013 £m	Q2 2012 £m	H1 2013 £m	H1 2012 £m
Ongoing operations[1]:				
Gross written premium	**970.3**	1,005.9	**1,975.9**	2,058.4
Net earned premium	**887.0**	927.2	**1,772.3**	1,860.8
Underwriting profit / (loss)	**78.3**	22.4	**95.9**	(20.0)
Instalment and other operating income	**43.7**	47.9	**93.2**	98.8
Investment return	**57.1**	73.0	**97.5**	145.4
Operating profit	**179.1**	143.3	**286.6**	224.2
Run-off segment	**4.1**	(5.4)	**10.6**	1.2
Restructuring and other one-off costs	**(59.5)**	(86.8)	**(69.9)**	(108.7)
Operating profit	**123.7**	51.1	**227.3**	116.7
Finance costs	**(9.2)**	(8.7)	**(18.5)**	(10.2)
Profit before tax	**114.5**	42.4	**208.8**	106.5
Tax	**(34.3)**	(16.3)	**(57.0)**	(23.7)
Profit after tax	**80.2**	26.1	**151.8**	82.8
Of which ongoing operations[1]	**130.4**	101.7	**205.8**	161.6
Key metrics – ongoing operations				
Loss ratio	**56.6%**	64.3%	**60.3%**	67.3%
Commission ratio	**11.7%**	7.9%	**11.3%**	8.4%
Expense ratio	**22.9%**	25.4%	**23.0%**	25.4%
Combined operating ratio	**91.2%**	97.6%	**94.6%**	101.1%
Earnings per share:				
Adjusted[2] – basic and diluted (pence)			**13.7**	10.8
Return on tangible equity[3] (annualised)			**17.3%**	10.2%
Pro forma return on tangible equity[4]			**-**	12.1%
Key metrics – total Group				
Investment income yield	**2.0%**	2.0%	**2.0%**	2.1%
Investment return	**2.7%**	3.3%	**2.3%**	3.4%
Earnings per share:				
Basic and diluted (pence)			**10.1**	5.5
Return on equity (annualised)			**10.8%**	5.0%

		As at	
	30 Jun 2013	31 Mar 2013	31 Dec 2012
Net asset value per share (pence)	**186.9**	195.3	189.1
Tangible net asset per share (pence)	**156.6**	166.0	161.0

1. See note 1 on page 2
2. Adjusted earnings per share (basic and diluted) excludes the Run-off segment and Restructuring and other one-off costs (using UK standard tax rate)
3. See note 3 on page 2
4. See note 4 on page 2

Overview

Direct Line Group (the "**Group**") continues to make good progress towards its target of 15% return on tangible equity and its full year 2013 target of a 98% combined operating ratio ("**COR**").

Operating profit from ongoing operations of £286.6 million for the first half increased by 27.8% (first half 2012: £224.2 million) driven by a significantly improved underwriting result, partially offset by lower investment return. The COR improved to 94.6% (first half 2012: 101.1%) primarily as a result of an improvement in the underlying loss ratio as well as continued reserve releases and benign weather experience. Annualised return on tangible equity for the first half 2013 was 17.3% (first half 2012: 10.2%; pro forma full year 2012: 13.4%). Normalising for expected claims from major weather events, the return on tangible equity in the first half of 2013 would have been approximately 15%.

Operating profit from each of the Group's divisions improved against the same period last year, except for Rescue and other personal lines which had benefited from positive one-offs in the first half of 2012. In particular, the Home division's operating profit improved to £86.7 million (first half 2012: £18.4 million) principally as a result of the absence of claims from major weather events.

Business update

During the first half of 2013 the Group has made good progress across each of its strategic priorities and has delivered an improvement in operating performance despite competitive market conditions. The Group has continued to prioritise underwriting margin over volume growth, whilst reflecting positive claims trends within pricing where appropriate. Gross written premium in the first half of 2013 fell by 4% when compared with the prior year with reductions in Motor and Home partially offset by growth in International.

Across the five strategic priorities the key trends within the first half of 2013 were as follows:

Distribution – the Group has focused on customer propositions, refreshing marketing campaigns, increasing customer retention and improving its digital capability. Direct Line's 'Together' proposition, which rewards customer loyalty with cross-product discounts, and Green Flag's one hour response proposition are aimed at differentiating the Group's offerings. Enhanced functionality for the customer is being rolled-out, for example 'web chat', and the Group is aiming to launch new websites later in the year which is targeting a significant improvement in the customer experience. During June the Group launched two telematics propositions – an installed box and a smartphone app - which built on previous pilots. Volumes are still at an early stage; however the Group believes these propositions complement its position in the motor market, particularly in the younger driver segment.

Pricing – further improvements to, and the roll-out of, enhanced motor pricing models during the period have improved the Group's risk-based pricing capability and allowed it, as planned, to increase selectively its quote footprint into higher premium business. This is the result of investment over the last two years which amongst other things has brought the Group's data together in one rating model. In Home, the Group continued to improve our technical pricing models for new business and to enhance renewal pricing techniques. This has contributed to improved retention in 2013.

Claims – initiatives in Motor continue to deliver benefits as demonstrated by strong prior-year reserve development. Additional initiatives are being rolled out across the Home division, such as the home estimation tool, with promising initial results. On 15 July 2013, the Group announced its intention to enter the legal services market through the establishment of DLG Legal Services Limited, which will operate in partnership with solicitors Parabis Law LLP. DLG Legal Services intends to offer a competitive legal services proposition for customers and where a customer has already purchased Motor or Family Legal Protection will ensure they receive 100% of any damages awarded.

Costs – on 26 June 2013, the Group announced further initiatives in relation to business transformation and cost savings. The Group's initial cost savings plan, announced in August 2012, targeted £100 million of gross annual cost savings in 2014. This plan was intended to enable the Group to maintain its overall cost base at approximately the 2011 level of £1,134 million. The Group is now targeting an overall cost base[1] of £1,000 million in 2014, a net reduction of approximately £130 million from 2011. This cost savings plan is designed to improve efficiency and reduce complexity.

Commercial and International – these divisions together delivered an operating profit of £21.0 million in the first half of 2013, more than twice that of the first half of 2012. The Commercial division continues to roll-out its full cycle eTrading platform to new products. Where products have been migrated to the new platform, trading has been encouraging. Furthermore the Commercial division continues to improve efficiency and streamline its operating model.

The International division continued its development with strong growth in Germany and improved profitability in Italy. Germany benefited from positive market conditions allowing its efficient platform to enable it to grow its share of year end business without significant additional cost. Market conditions in Italy are challenging given an uncertain economic backdrop, a highly competitive market and fewer insured vehicles; however the division is benefiting from the strong position it has established over the last few years. Italy, Germany and the UK continue to share best practice on appropriate projects, for example, claims processes and telematics.

Regulatory update

Over the last two years, a number of regulatory reviews and initiatives have been announced by the UK Government, the Ministry of Justice (“**MoJ**”) and the Competition Commission in relation to the motor insurance industry. The Group is engaged with regulatory bodies and other major stakeholders and continues to support the introduction of a coherent set of reforms.

During April 2013, the first part of these reforms became live. From 1 April, solicitors’ referral fees for personal injury claims were banned and a 10% uplift in general damages was introduced, as claimants can no longer recover after the event insurance premium or success fees from the defendant. Furthermore, from 30 April, the fixed legal costs for stage two claims within the RTA[2] portal have reduced from £1,200 to £500. Recent trends continue to support the Group’s view on the outcome that, taken together, these reforms are expected to be broadly neutral to operating profit in 2013 for the Group.

In addition, the extension of the RTA[2] portal limits from £10,000 to £25,000 per claim introduced at the end of July and a number of potential reforms relating to the diagnosis of whiplash injuries are to be introduced from 2014, although details of the latter are still to be finalised. Overall the Group currently expects these reforms to be net positive for the Group in the medium term.

Together with other industry participants, the Group has submitted its responses to the Competition Commission’s review of practices within the private motor insurance industry and continues to support the direction of the investigation. On 5 July 2013, the Competition Commission issued its Annotated Issues Statement in relation to the review. Responses to this statement are due on 16 August 2013. Provisional findings from the investigation are currently due to be published in October or November 2013.

RBS Group update

In March 2013, RBS Group placed a second tranche of 251.4 million Ordinary Shares in the Company with institutional investors. This represented 16.8% of the total share capital and generated gross proceeds of £505.4 million for RBS Group. Following the placing, RBS Group’s shareholding in the Company fell to 48.5%.

1. See note 6 on page 2
2. Road traffic accident personal injury scheme

In line with the terms of the Relationship Agreement between RBS Group and the Company, following the reduction of RBS Group's shareholding in the Company to less than a 50% shareholding, Mark Catton stepped down from the Board on 26 April 2013. Bruce Van Saun is now the sole RBS Group nominated Non-Executive Director. Dividends of £78.3 million were paid to The Royal Bank of Scotland Group plc in the first half of 2013 reflecting its share of the 8.0 pence per share final dividend approved at the Annual General Meeting on 6 June 2013.

Outlook

The UK motor and home markets remain highly competitive. For 2013, the Group is on track to meet its combined operating ratio target of 98% after normalising for claims from major weather events. The Group continues to progress initiatives supporting its strategic priorities in order to improve its competitive position and performance in the longer term.

Finance review

Operating profit – ongoing operations

	Q2 2013 £m	Q2 2012 £m	H1 2013 £m	H1 2012 £m
Underwriting profit / (loss)	**78.3**	22.4	**95.9**	(20.0)
Instalment and other operating income	**43.7**	47.9	**93.2**	98.8
Investment return	**57.1**	73.0	**97.5**	145.4
Operating profit	**179.1**	143.3	**286.6**	224.2

First half operating profit for ongoing operations of £286.6 million increased by 27.8% (first half 2012: £224.2 million) driven by a significantly improved underwriting result, partially offset by a lower investment return. This reflects management actions taken since 2009 to improve the Group's pricing and claims capabilities, and tight cost control.

In the second quarter of 2013, operating profit from ongoing operations increased by 25.0% to £179.1 million (second quarter 2012: £143.3 million) driven by an improvement in the underwriting result, partially offset by lower investment returns.

In-force policies – ongoing operations (thousands)

As at	30 Jun 2013	31 Mar 2013	31 Dec 2012	30 Jun 2012
Motor	**3,829**	3,865	4,050	4,135
Home	**3,753**	4,199	4,239	4,304
Rescue and other personal lines	**9,014**	9,197	9,431	9,693
Commercial	**561**	550	466	460
International	**1,586**	1,572	1,462	1,441
Total	**18,743**	19,383	19,648	20,033

In-force policies for ongoing operations decreased 4.6% from the beginning of the year to 18.7 million.

Motor in-force policies were broadly stable across the second quarter reducing 0.9%, although 5.5% lower than at 31 December 2012. The fall reflected the Group's focus on maintaining underwriting discipline in a competitive marketplace, particularly for new business. In addition, there has been a reclassification of van business to Commercial (c. 70,000 in-force policies) from 1 January 2013. Home in-force policies fell by 10.6% in the quarter mainly as a result of the removal of Home Response[1] policies (c. 420,000) from certain packaged bank accounts. Excluding this effect, Home in-force policies since the year-end have decreased by 1.7%. This change had limited impact on gross written premium.

Commercial continued to grow in-force policies, particularly in Direct Line for Business, albeit at a slower rate than in 2012. International growth arose from Germany where the Group expanded its share of business renewing on 1 January 2013.

Gross written premium – ongoing operations

	Q2 2013 £m	Q2 2012 £m	H1 2013 £m	H1 2012 £m
Motor	**367.3**	409.3	**731.4**	842.1
Home	**226.9**	238.5	**460.4**	484.4
Rescue and other personal lines	**100.1**	103.9	**193.2**	199.3
Commercial	**137.1**	122.7	**250.7**	229.8
International	**138.9**	131.5	**340.2**	302.8
Total	**970.3**	1,005.9	**1,975.9**	2,058.4

Gross written premium of £1,975.9 million fell by 4.0% compared to the first half 2012 (£2,058.4 million) with a reduction in Motor and Home partially offset by growth in International and Commercial.

1. Insurance policy giving customers access to vetted tradesmen for home emergencies and repairs.

Premium rates for Motor were broadly stable across the first and second quarters, as the Group continued to maintain pricing discipline. In addition, the Group began to move from its more conservative approach to pricing following the implementation of gender neutral reforms, the effect of which had temporarily reduced the Group's mix of young drivers in the first quarter. Underlying Motor gross written premium (adjusting for the reclassification of van business to Commercial) fell 11.4% compared with the first half 2012, with a reduction in the second quarter of 8.4% compared with 14.3% in the first quarter. Commercial gross written premium increased by 9.1% in the first half 2013 mainly due to the transfer of van business. International continued to see strong growth and gross written premium increased by 12.4% for the first half of 2013 (9.2% in local currency terms) with the bulk of the growth arising from Germany.

In total, gross written premiums of £970.3 million in the second quarter fell by 3.5% compared to 2012 (second quarter 2012: £1,005.9 million).

Underwriting profit – ongoing operations

	Q2 2013 £m	Q2 2012 £m	**H1 2013 £m**	H1 2012 £m
Underwriting profit / (loss)	**78.3**	22.4	**95.9**	(20.0)
Loss ratio	**56.6%**	64.3%	**60.3%**	67.3%
Commission ratio	**11.7%**	7.9%	**11.3%**	8.4%
Expense ratio	**22.9%**	25.4%	**23.0%**	25.4%
Combined operating ratio	**91.2%**	97.6%	**94.6%**	101.1%

The combined operating ratio from ongoing operations of 94.6% improved by 6.5 percentage points compared to the first half 2012 (101.1%). This was attributable to an improvement in both the loss and expense ratios, partially offset by a higher commission ratio.

The loss ratio benefited from the absence of claims from major weather events in the Home division together with continued significant reserve releases. In comparison, the first half of 2012 saw major freeze and flood events leading to approximately £90 million of claims in the Home division. Claims from major weather events for the first half of the year are normally expected to be approximately £40 million.

The commission ratio increased by 2.9 percentage points to 11.3% primarily due to profit share payments to partners reflecting the higher profitability in the Home division following benign weather.

The expense ratio improved 2.4 percentage points to 23.0% (first half 2012: 25.4%). This reflected lower absolute expenses, due to the non-repeat of parallel running costs in the first half of 2012 and the move to a fully stand-alone from RBS Group expense base, partially offset by the effect of lower net earned premium. Benefits from the Group's cost saving plan announced in 2012, which targeted £100 million gross annual cost savings in 2014, are starting to be recognised.

The COR in the second quarter of 2013 of 91.2% was 6.8 percentage points lower than the first quarter of 2013 and 6.4 percentage points lower than the second quarter of 2012.

Current year attritional loss ratio – ongoing operations

	H1 2013	H1 2012
Reported loss ratio	**60.3%**	67.3%
Prior year reserve releases	**13.5%**	12.3%
Major weather events – Home	**0.0%**	(4.8%)
Current year attritional loss ratio	**73.8%**	74.8%

The current year attritional loss ratio of 73.8% was 1.0 percentage point lower than the current year attritional loss ratio for the first half of 2012 of 74.8% and in line with the current year attritional loss ratio for the full year 2012 of 73.0%. The improvement in the first half of 2013 reflects progress in Commercial and International with stability in Motor and Home.

Current year attritional loss ratio by division – ongoing operations

	Current year attritional H1 2013	H1 2012
Motor	**87.1%**	85.7%
Home	**51.7%**	50.8%
Rescue and other personal lines	**60.6%**	54.0%
Commercial	**74.9%**	94.3%
International	**86.6%**	89.6%
Current year attritional loss ratio	**73.8%**	74.8%

Combined operating ratio – ongoing operations

	Reported basis		Current year basis	
	H1 2013	H1 2012	**H1 2013**	H1 2012
Motor	**95.8%**	102.4%	**115.9%**	115.7%
Home	**86.3%**	103.4%	**94.5%**	109.6%
Rescue and other personal lines	**92.2%**	75.7%	**92.4%**	82.3%
Commercial	**105.3%**	112.7%	**120.0%**	142.1%
International	**99.9%**	103.0%	**111.6%**	114.1%
Combined operating ratio	**94.6%**	101.1%	**108.1%**	113.3%

The COR improved in all divisions compared with the first half of 2012, with the exception of Rescue and other personal lines which benefited from positive one-offs during 2012.

In Motor, the 6.6 percentage point improvement in COR to 95.8% reflects management actions to improve divisional profitability, which is seen in both a relatively stable initial estimate of the current year attritional loss ratio and continued significant reserve releases. These releases were mainly attributable to favourable bodily injury experience for recent accident years arising from improved pricing, better risk selection and benefits arising from the Group's claims transformation programme. Following these actions, inflation rates for small bodily injury claims continue to be favourable relative to actuarial expectations.

The Home COR improved to 86.3% in the first half of 2013 from 103.4% in the first half of 2012. The improvement was almost entirely driven by the absence of claims from major weather events compared with approximately £90 million of such claims in the first half of 2012. The current year attritional loss ratio was in line with the prior period reflecting continued good underwriting margins albeit in a more competitive operating environment.

The COR for Rescue and other personal lines at 92.2% was worse than the same period in 2012. The first half 2012 result benefited from positive one-offs relating to the run-off of legacy creditor business that were not expected to be repeated in 2013. During the first half of 2013, there was a small reserve increase relating to higher medical costs on the travel book and increased marketing costs at Green Flag.

The Commercial division improved its COR to 105.3% from 112.7% principally as a result of reduced fire losses and reduced weather-related claims. The division continues to experience significant reserve releases, albeit lower than in the previous year, and is maintaining conservatism in its current year reserving.

International reduced its COR in the first half of 2013 to 99.9% from 103.0% in the first half of 2012. The improvement was primarily due to a lower current year loss ratio reflecting lower claims frequency in Italy and improvements in the underlying portfolio. The expense ratio also improved reflecting higher reinsurance commissions received. This was offset by a higher commission ratio attributable to a change in mix towards price comparison websites and partnerships.

Prior year reserve releases – ongoing operations

	H1 2013 £m	H1 2012 £m
Motor	**148.6**	108.5
Home	**37.0**	29.2
Rescue and other personal lines	**0.4**	12.7
Commercial	**31.9**	58.5
International	**21.3**	19.5
Total	**239.2**	228.4

Reserve releases from prior years continued to be significant at £239.2 million. Reserve releases were experienced across all divisions. Motor reserve releases arose from continued positive trends in particular from small bodily injury claims. The Group expects to continue to experience reserve releases as it increases the weighting within its actuarial assumptions to recent positive trends. These trends are attributable in part to benefits arising from management initiatives around pricing, claims and risk mix.

Operating expenses and cost base – ongoing operations

	Q2 2013 £m	Q2 2012 £m	H1 2013 £m	H1 2012 £m
Staff costs	**89.6**	78.6	**170.9**	156.0
Marketing	**48.4**	52.8	**102.1**	120.7
Management fees	**-**	66.2	**-**	129.2
Depreciation	**6.5**	2.4	**10.9**	4.9
Amortisation and impairment of other intangible assets	**10.2**	6.2	**17.1**	14.3
Other operating expenses	**48.6**	29.4	**107.5**	46.7
Total operating expenses	**203.3**	235.6	**408.5**	471.8
Claims handling expenses			**115.6**	123.1
Total cost base			**524.1**	594.9
Expense ratio	**22.9%**	25.4%	**23.0%**	25.4%
Claims handling ratio			**6.5%**	6.6%

The expense ratio improved by 2.4 percentage points to 23.0% due to a reduction in operating expenses compared to the first half of 2012 partially offset by the impact of lower net earned premium.

Ongoing operating expenses of £408.5 million were reduced by 13.4% from the prior year (2012: £471.8 million), with the reduction principally due to the non-repeat of certain expenses under the historic RBS Group recharge, tight cost control and the benefits from the Group's cost savings plan announced in 2012.

Operating expenses including claims handling expenses reduced by 11.9% to £524.1 million. The Group is targeting a cost base[1] of £1,000 million in 2014, which reflects a net reduction of approximately £130 million from the level in 2011. The targeted cost base also reflects the impact of the gross annual cost savings target of £100 million established in 2012, the benefits of which are beginning to be recognised. The Group estimates that as at the end of July, annualised run-rate benefits related to the £100 million cost savings announced in 2012 were approximately £40.0 million.

1. See note 6 on page 2

Instalment and other operating income – ongoing operations

	Q2 2013 £m	Q2 2012 £m	H1 2013 £m	H1 2012 £m
Instalment income	**29.1**	30.7	**60.0**	62.1
Other operating income	**14.6**	17.2	**33.2**	36.7
Total	**43.7**	47.9	**93.2**	98.8

Breakdown of other operating income – ongoing operations

	H1 2013 £m	H1 2012 £m
Solicitors' referral fee income	**6.1**	10.9
Vehicle replacement referral income	**8.1**	8.3
Revenue from vehicle recovery and repair services[1]	**15.5**	14.9
Fee income from insurance intermediary services	**0.9**	0.7
Other income	**2.6**	1.9
Total	**33.2**	36.7

1. Vehicle recovery includes post-accident and pay on use recovery and vehicle tracking. Repair services constitute the provision of non-insurance related services.

Instalment and other operating income from ongoing operations of £93.2 million for the first half 2013 was £5.6 million lower than the same period last year (£98.8 million) and the second half of 2012 (£99.5 million). Solicitors' referral fee income ceased from 1 April 2013 and explains the majority of the reduction. Taken with the other reforms introduced in April 2013, the Group expects the impact to be broadly neutral to operating profit in 2013.

Investment return – ongoing operations

	Q2 2013 £m	Q2 2012 £m	H1 2013 £m	H1 2012 £m
Investment income	**43.3**	46.5	**83.4**	97.3
Net realised and unrealised gains	**13.8**	26.5	**14.1**	48.1
Total investment return	**57.1**	73.0	**97.5**	145.4

Investment return from ongoing operations of £97.5 million was 32.9% lower than the first half 2012 due to £34.0 million lower net realised gains, reduced reinvestment yields and a lower average investment asset base. Investment income from ongoing operations of £83.4 million was lower than the first half of 2012, but in line with the second half of 2012 (£82.6 million).

Total investment return in the second quarter of 2013 of £57.1 million was 21.8% lower than the same period in 2012. Investment income in the second quarter of 2013 was £43.3 million, 6.9% lower than 2012.

Investment income in the second quarter of 2013 was £3.2 million higher than the first quarter of 2013 (£40.1 million) mainly due to an updated allocation of investment income between ongoing operations and Run-off.

Investment yields – total Group

	Q2 2013	Q2 2012	H1 2013	H1 2012
Investment income yield[1]	**2.0%**	2.0%	**2.0%**	2.1%
Investment return[2]	**2.7%**	3.3%	**2.3%**	3.4%

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

The investment income yield on the total portfolio (including Run-off) was 2.0% for the first half 2013 (first half 2012: 2.1%) reflecting the continued low interest rate environment.

Investment holdings – total Group

As at	30 Jun 2013 £m	31 Mar 2013 £m	31 Dec 2012 £m
Corporate bonds	**4,833.9**	4,776.0	4,528.6
Supranational[1]	**463.8**	502.6	521.8
Local government[1]	**278.7**	268.2	271.1
Credit	**5,576.4**	5,546.8	5,321.5
Sovereign[1]	**1,654.0**	1,735.4	1,842.8
Cash and cash equivalents	**1,444.2**	1,698.9	2,062.5
Investment property	**186.9**	154.1	128.9
Total[2]	**8,861.5**	9,135.2	9,355.7

1. Previously reported under 'Government bonds'
2. Includes investment portfolio derivatives (30 June 2013: £14.2 million asset; 31 March 2013: £1.5 million liability; and 31 December 2012: £7.8 million asset)

Total investment assets fell 5.3% in the first half of 2013 due principally to the repayment of the £258.5 million Tesco Personal Finance ("**TPF**") loan note, payment of the final dividend of £120.0 million and the effect of rising yields towards the end of the quarter on the unrealised gains in the bond portfolio.

The Group's investment portfolios comprised primarily of investment grade bonds and cash. During the first half, the Group continued to execute its investment strategy with further net purchases of £314.0 million in corporate bonds and £58.0 million in investment property. Including supranational and local government bonds, the allocation to credit was 62.9% at 30 June 2013 in line with the Group's target. The Group has approved changes to the investment policy which will permit a new asset class of structured credit and an increase in the weighting to triple B corporate bonds in the portfolio, which the Group is targeting to implement in the second half of 2013.

At 30 June 2013, exposure to peripheral Eurozone bonds was £65.3 million, 0.9% of total debt securities (investment holdings less cash and cash equivalents and investment property), comprising non-sovereign debt issued in Ireland, Italy and Spain (31 December 2012: 1.0%).

Unrealised gains (net of deferred tax) within the revaluation reserve as at 30 June 2013 were £92.5 million (31 December 2012: £158.8 million).

Operating profit / (loss) – ongoing operations

	H1 2013 £m	H1 2012 £m
Motor	**157.0**	146.2
Home	**86.7**	18.4
Rescue and other personal lines	**21.9**	49.2
Commercial	**7.0**	(1.4)
International	**14.0**	11.8
Total	**286.6**	224.2

In the first half of 2013 all divisions were profitable, with all except Rescue and other personal lines improving profit versus the first half of 2012.

Reconciliation of operating profit

	Q2 2013 £m	Q2 2012 £m	H1 2013 £m	H1 2012 £m
Ongoing operations	**179.1**	143.3	**286.6**	224.2
Run-off segment	**4.1**	(5.4)	**10.6**	1.2
Restructuring and other one-off costs	**(59.5)**	(86.8)	**(69.9)**	(108.7)
Total Group	**123.7**	51.1	**227.3**	116.7

Run-off

The Run-off segment made a profit of £10.6 million in the first half 2013 compared with a profit of £1.2 million in the same period 2012 with the increase relating to reserve releases. Going forwards, it is expected that Run-off will contribute positively to operating profit.

Restructuring and other one-off costs

Restructuring and other one-off costs for the first half were £69.9 million (first half 2012: £108.7 million). Following the update on the Group's business transformation on 26 June 2013, it is now expected that for the whole of 2013, restructuring and other one-off costs will increase by £80 million to approximately £220 million: £150 million relating to the Group's cost saving programme and £70 million relating to IT infrastructure migration. The £150 million includes costs relating to onerous property leases, an element of which is likely to be deferred until 2014.

Finance costs

Finance costs increased to £18.5 million primarily reflecting interest associated with the £500 million long-term Tier 2 subordinated debt issued in April 2012.

Taxation

The effective tax rate of 27.3% is higher than the UK standard corporation tax rate of 23.25% as a consequence of higher overseas tax rates in Italy and Germany. The tax rate of 22.3% in the first half of 2012 benefited from a one-off tax credit in the International operations.

Profit and return on tangible equity

Overall pre-tax profit for the first half 2013 was £208.8 million with profit after tax of £151.8 million (first half 2012: £106.5 million and £82.8 million, respectively).

Annualised return on tangible equity for the period for ongoing operations was 17.3% (annualised first half 2012: 10.2%; pro forma full year 2012: 13.4%).

Earnings per share

Basic and diluted earnings per share were 10.1 pence (first half 2012: 5.5 pence). Adjusted earnings per share for the first half 2013 were 13.7 pence (first half 2012: 10.8 pence).

Dividends

The Board has declared an interim dividend for 2013 of 4.2 pence per share, representing an increase of 5.0% on the pro forma interim dividend for 2012. The interim dividend amounts to £63 million and will be paid on 26 September 2013 to shareholders on the register on 16 August 2013. The ex dividend date will be 14 August 2013.

The Group's progressive dividend policy aims to increase the dividend annually in real terms. If trends in the second half of 2013 follow those in the first half of 2013, the Group expects the growth in the final dividend to be at a similar level to that of the interim dividend.

The Group's current risk-based capital coverage ratio of 147.6% (adjusted for interim dividend) is within the 125% to 150% target range. The Board will continue to review the capital adequacy of the Group and if it believes the Group has capital surplus to requirements, indicated by the expectation of a risk-based capital coverage ratio significantly in excess of this range for a prolonged period, it would consider returning surplus capital to shareholders. In the event of any proposal to return capital to shareholders this would be expected to occur concurrently with any proposed final dividend.

Direct Line Group operates a dividend reinvestment plan, details of which can be obtained from the Direct Line Group website (www.directlinegroup.com). The last date for receipt of an election notice for the dividend reinvestment plan is 5 September 2013. Purchases under the dividend reinvestment plan are made on or as soon as practicable after the dividend payment date and at the prevailing market price. There is no discount available.

The final dividend for the year to 31 December 2012 of 8.0 pence per share, amounting to £120.0 million, was approved at the Annual General Meeting on 6 June 2013 and paid on 11 June 2013.

Cash flow

Net cash from operating activities before investment of insurance assets was an outflow of £138.7 million (first half 2012: £414.3 million outflow) principally due to cash used by operations of £94.5 million (first half 2012: £412.3 million cash used) reflecting faster payment of current and prior-year claims.

Net cash released from investment of insurance assets was £74.1 million in the first half 2013 (first half 2012: £2,239.9 million). The release in the first half of 2012 reflects a liquidation of available-for-sale financial investments in part to pay total 2012 dividends to RBS Group of £1,000.0 million prior to the IPO.

Cash flows from investing activities were an outflow of £74.5 million in first half 2013 (first half 2012: £88.0 million), primarily comprising of £47.3 million relating to software investment (first half 2012: £39.6 million).

During the first half of 2013, the Group repaid the TPF loan note of £258.5 million and paid dividends totalling £120.0 million. Altogether, the net outflows from financing activities during the period amounted to £403.0 million (first half 2012: £553.4 million outflow).

Net asset value

As at	**30 Jun 2013 £m**	31 Mar 2013 £m	31 Dec 2012 £m (audited)
Net assets	**2,792.8**	2,923.5	2,831.6
Goodwill and other intangible assets	**(451.8)**	(438.4)	(421.5)
Tangible net assets	**2,341.0**	2,485.1	2,410.1
Net asset value per share	**186.9**	195.3	189.1
Tangible net asset value per share	**156.6**	166.0	161.0

The net asset value as at 30 June 2013 was £2,792.8 million (31 December 2012: £2,831.6 million) with tangible net asset value of £2,341.0 million (31 December 2012: £2,410.1 million). This equates to 186.9 pence and 156.6 pence per share respectively as at 30 June 2013 (31 December 2012: 189.1 pence and 161.0 pence, respectively).

The reduction in the net asset value per share during the period reflects the payment of the final dividend (8.0 pence per share) and lower unrealised gains on the investment portfolio, partially offset by retained earnings.

Capital position

The Group is well capitalised with an Insurance Group Directive ("**IGD**") surplus of £1.7 billion and an IGD coverage ratio[1] of 272.3% as at 30 June 2013 (31 December 2012: 279.4%). The Group also has a risk-based capital coverage ratio[1] of 150.8% as at 30 June 2013 (31 December 2012: 151.4%), falling to 147.6% after deducting the interim dividend.

The Group has an overall target of holding capital resources in the range of 125% to 150% of the risk-based capital requirement.

1. Figures and ratios for the first half of 2013 include unaudited profits on a regulated basis.

The table below sets out the capital position:

As at	30 Jun 2013 £m	31 Dec 2012 £m
Regulatory solvency capital		
Shareholders' equity	**2,792.8**	2,831.6
Goodwill and other intangible assets	**(451.8)**	(421.5)
Regulatory adjustments[1]	**(64.5)**	(73.5)
Total Tier 1 capital[1]	**2,276.5**	2,336.6
Lower Tier 2 capital[2]	**495.2**	495.5
Regulatory adjustments	**(28.4)**	(23.7)
Total regulatory capital[1]	**2,743.3**	2,808.4
Insurance Group Directive		
IGD required capital	**1,007.4**	1,005.0
IGD excess solvency[1]	**1,735.9**	1,803.4
IGD coverage ratio[1]	**272.3%**	279.4%
Risk-based capital coverage ratio[1, 3]	**150.8%**	151.4%

1. See note 1 on page 14
2. Includes that element of the subordinated dated notes applicable for regulatory capital purposes
3. Not adjusted for interim dividend

The table below sets out the Group's financial leverage:

As at	30 Jun 2013 £m	31 Dec 2012 £m
Shareholders' equity	**2,792.8**	2,831.6
Undated subordinated loan[1]	**-**	258.5
Subordinated dated notes	**501.2**	529.0
Total financial debt	**501.2**	787.5
Total capital employed	**3,294.0**	3,619.1
Financial leverage ratio[2]	**15.2%**	21.8%

1. Repaid in January 2013
2. Total financial debt as a percentage of total capital employed

Following the repayment of the undated subordinated loan, the financial leverage ratio on a pro forma basis, excluding the undated subordinated loan, as at 31 December 2012 would have been 15.7%.

Credit ratings

Standard & Poor's and Moody's Investors Service provide insurance financial strength ratings for U K Insurance Limited, the Group's principal UK general insurance underwriter. U K Insurance is currently rated 'A' (strong) with a stable outlook by Standard & Poor's and 'A2' (good) with a stable outlook by Moody's.

Going concern

As stated in note 2 to the condensed consolidated financial statements, the directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

Related party transactions

Related party transactions are disclosed in note 18 to the condensed consolidated financial statements.

Principal risks and uncertainties

The Directors consider that the principal risks and uncertainties explained in detail on pages 28 and 29 of the Annual Report & Accounts continue to reflect the principal risks and uncertainties of the Group.

A summary of each of the Group's principal risks and uncertainties is provided below:

- **Strategic risk** – The economic climate could put the Group's ability to meet its strategic objectives at risk in the areas of distribution, pricing, claims, costs, Commercial and International. Further, the Group may fail to execute its ongoing strategic transformation plan, and the expected benefits of that plan may not be achieved at the time or to the extent expected, or at all.

- **Underwriting and pricing risk** – The Group is subject to the risk that inappropriate business could be written (or not specifically excluded) and inappropriate prices charged. This includes catastrophe risk arising from losses due to unpredictable natural and man-made events affecting multiple covered risks particularly given the concentration of the Home business in the UK.

- **Reserving risk** – Due to the uncertain nature and timing of the risks to which the Group is exposed, it cannot precisely determine the amounts that the Group will ultimately pay to meet the liabilities covered by the insurance policies written.

- **Operational risk** – The Group is exposed to the risk of direct or indirect losses resulting from inadequate or failed internal processes, fraudulent claims or from systems and people, or from external events including changes in the competitor, regulatory or legislative environments. In particular, the Group has IT systems risk, being highly dependent on the use of third party information technology, software, data and service providers.

- **Investment risk:**
  - **Market risk** is the risk of adverse financial impact due to changes in fair values of future cash flows of instruments held in the investment portfolio as a result of changes in interest rates, credit spread, foreign exchange rates and property values.
  - **Credit risk** is the risk that the Group will be impacted if another party fails to perform its financial obligations, including failing to perform them in a timely manner.
  - **Liquidity risk** is the risk of maintaining insufficient financial resources to meet business obligations as and when they fall due.

- **Counterparty risk** – The Group partners with many suppliers and the failure of any of these to perform their financial obligations or perform them in a timely manner could result in a financial loss. A principal area of counterparty risk is the use of reinsurance, for example relating to catastrophes and large bodily injury claims, including periodical payment orders.

- **Regulatory risk** – The Group operates in a highly regulated market. Changes in law and regulations may not be identified or understood, or may be inappropriately and incorrectly interpreted or adopted, or business practices may not be appropriately modified. Further, there is a risk that current legal or regulatory requirements are not complied with.

- **Conduct risk** – This is the risk of failing to deliver the appropriate treatment for customers throughout all stages of the customer journey, and of employees failing to behave with integrity. The fair treatment of customers in relation to the Group's products and services is central to the Group's culture.

- **Brand and reputational risk** – The Group is dependent on the strength of its brands, its reputation with customers and distributors in the sale of products and services. The Group has entered into various strategic partnerships that are important to the marketing, sale and distribution of products.

Future risks and uncertainties

There are a number of specific risks and uncertainties which could impact upon the Group's performance over the remaining six months of the financial year and cause actual results to differ materially from expected and historical results.

Bodily injury claims costs

Bodily injury claim costs are a key source of uncertainty with several regulatory, legal and market pressures facing the Group including:

- underlying trends in bodily injury claims frequency and average cost per claim inflation;
- the results of the MoJ consultation into the discount rate used to value certain types of bodily injury claim awards;
- the propensity for large injury claims to settle as periodical payment orders, and the inflation and longevity assumptions used to value periodical payment orders claims;
- the impact of the Legal Aid, Sentencing and Punishment of Offenders Act 2012; and
- the impact of the MoJ consultation and Transport Committee investigation into whiplash injuries and claims costs.

Regulatory environment

The UK motor insurance market is subject to several regulatory reviews and potential areas of focus which are sources of uncertainty including:

- the Competition Commission investigation into the private motor insurance market;
- the Financial Conduct Authority thematic review of motor legal expenses insurance; and
- the Financial Conduct Authority market study of general insurance add-on products.

Business transformation and project delivery

On 26 June 2013, the Group announced further initiatives to improve its operational efficiency as part of the continued implementation of its business transformation plan. There is a strategic risk of the potential failure to execute the plan, or that the expected benefits of the plan may not be achieved on time or to the extent targeted.

Condensed consolidated income statement

For the six months ended 30 June 2013

	Notes	6 months 2013 £m	6 months 2012 £m	Full year 2012 £m (audited)
Gross earned premium		**1,960.9**	2,034.7	4,048.5
Reinsurance premium ceded		**(187.3)**	(164.5)	(326.5)
Net earned premium	5	**1,773.6**	1,870.2	3,722.0
Investment return	6	**105.4**	176.0	281.8
Instalment income		**60.0**	62.1	125.4
Other operating income	7	**33.2**	37.0	73.3
Total income		**1,972.2**	2,145.3	4,202.5
Insurance claims	8	**(1,148.3)**	(1,509.1)	(2,875.3)
Insurance claims recoverable from reinsurers	8	**83.1**	285.0	451.0
Net insurance claims		**(1,065.2)**	(1,224.1)	(2,424.3)
Commission expenses	9	**(200.3)**	(222.0)	(452.9)
Operating expenses	10	**(479.4)**	(582.5)	(1,047.5)
Total expenses		**(679.7)**	(804.5)	(1,500.4)
Operating profit		**227.3**	116.7	277.8
Finance costs	11	**(18.5)**	(10.2)	(28.7)
Profit before tax		**208.8**	106.5	249.1
Tax charge	12	**(57.0)**	(23.7)	(64.8)
Profit for the period attributable to the owners of the Company		**151.8**	82.8	184.3
Earnings per share:				
Basic (pence)	14	**10.1**	5.5	12.3
Diluted (pence)	14	**10.1**	5.5	12.3

Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2013

	6 months 2013 £m	6 months 2012 £m	Full year 2012 £m (audited)
Profit for the period	**151.8**	82.8	184.3
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain / (loss) on defined benefit plan	**0.6**	(3.0)	(3.4)
Tax relating to items not reclassified	**-**	0.6	0.6
	0.6	(2.4)	(2.8)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	**(1.0)**	(1.5)	(2.4)
Fair value (loss) / gain on available-for-sale investments	**(71.3)**	62.5	109.9
Less: realised net gains on available-for-sale investments	**(13.1)**	(64.7)	(89.5)
Tax relating to items that may be reclassified	**18.1**	0.2	1.3
	(67.3)	(3.5)	19.3
Other comprehensive (loss) / income for the period net of tax	**(66.7)**	(5.9)	16.5
Total comprehensive income for the period attributable to owners of the Company	**85.1**	76.9	200.8

Condensed consolidated balance sheet

As at 30 June 2013

As at	Notes	30 Jun 2013 £m	31 Dec 2012 £m (audited)
Assets			
Goodwill and other intangible assets		**451.8**	421.5
Property, plant and equipment		**91.2**	92.4
Investment property		**186.9**	128.9
Reinsurance assets		**1,076.6**	1,102.0
Deferred tax assets		**21.2**	22.5
Current tax assets		**3.2**	5.5
Deferred acquisition costs		**326.8**	327.6
Insurance and other receivables		**1,172.0**	1,164.0
Prepayments, accrued income and other assets		**91.6**	82.6
Derivative financial instruments		**19.6**	37.5
Retirement benefit asset		**2.5**	2.5
Financial investments	15	**7,781.2**	7,801.5
Cash and cash equivalents	16	**942.6**	1,508.4
Assets held-for-sale		**1.0**	1.0
Total assets		**12,168.2**	12,697.9
Equity			
Shareholders' equity		**2,792.8**	2,831.6
Total equity		**2,792.8**	2,831.6
Liabilities			
Subordinated liabilities		**501.2**	787.5
Insurance liabilities	17	**6,095.1**	6,398.5
Unearned premium reserve		**1,907.4**	1,872.9
Borrowings		**63.4**	90.9
Derivative financial instruments		**8.5**	6.5
Trade and other payables including insurance payables		**754.7**	654.6
Deferred tax liabilities		**22.6**	20.9
Current tax liabilities		**22.5**	34.5
Total liabilities		**9,375.4**	9,866.3
Total equity and liabilities		**12,168.2**	12,697.9

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2013

	Shareholders' equity £m	Non-controlling interest £m	Total equity £m
Balance as at 1 January 2013	**2,831.6**	**-**	**2,831.6**
Profit for the period	**151.8**	**-**	**151.8**
Other comprehensive loss	**(66.7)**	**-**	**(66.7)**
Dividends	**(120.0)**	**-**	**(120.0)**
Share-based payments	**(3.9)**	**-**	**(3.9)**
Balance as at 30 June 2013	**2,792.8**	**-**	**2,792.8**
Balance as at 1 January 2012	3,612.8	258.5	3,871.3
Profit for the period	82.8	-	82.8
Other comprehensive loss	(5.9)	-	(5.9)
Dividends	(800.0)	-	(800.0)
Capital contribution	24.6	-	24.6
Movement in net assets of Direct Line Versicherung AG[1]	(8.6)	-	(8.6)
Balance as at 30 June 2012	2,905.7	258.5	3,164.2
Balance as at 1 January 2012	3,612.8	258.5	3,871.3
Profit for the period	184.3	-	184.3
Other comprehensive income	16.5	-	16.5
Dividends	(1,000.0)	-	(1,000.0)
Capital contribution	30.9	-	30.9
Movement in net assets of Direct Line Versicherung AG[1]	(8.2)	-	(8.2)
Share-based payments	(4.7)	-	(4.7)
Issue of own shares	150.0	-	150.0
Own shares redeemed	(150.0)	-	(150.0)
Transfer to subordinated liabilities	-	(258.5)	(258.5)
Balance as at 31 December 2012	2,831.6	-	2,831.6

1. The movements in net assets of Direct Line Versicherung AG ceased on 2 April 2012.

Condensed consolidated cash flow statement

For the six months ended 30 June 2013

	Note	**6 months 2013 £m**	6 months 2012 £m	Full year 2012 £m (audited)
Net cash used by operating activities before investment of insurance assets		**(138.7)**	(414.3)	(966.0)
Cash generated from investment of insurance assets		**74.1**	2,239.9	2,004.8
Net cash (used by) / generated from operating activities		**(64.6)**	1,825.6	1,038.8
Cash flows from investing activities				
Purchases of property, plant and equipment		**(14.8)**	(48.4)	(63.7)
Purchases of intangible assets		**(47.3)**	(39.6)	(96.6)
Cash flows (used by) / generated from net investment hedges		**(12.4)**	-	6.1
Net cash used by investing activities		**(74.5)**	(88.0)	(154.2)
Cash flows from financing activities				
Dividends paid		**(120.0)**	(800.0)	(1,000.0)
Repayment of borrowings		**(258.5)**	(246.4)	(246.4)
Proceeds on issue of subordinated debt		**-**	493.0	493.0
Finance costs		**(18.9)**	-	(16.1)
Purchase of employee share trusts		**(5.6)**	-	(5.0)
Net cash used by financing activities		**(403.0)**	(553.4)	(774.5)
Net (decrease) / increase in cash and cash equivalents		**(542.1)**	1,184.2	110.1
Cash and cash equivalents at the beginning of the year		**1,417.5**	1,309.6	1,309.6
Effect of foreign exchange rate changes		**3.8**	(11.9)	(2.2)
Cash and cash equivalents at the end of the period	16	**879.2**	2,481.9	1,417.5

Notes to the condensed consolidated financial statements

1. General information

The financial information for the year ended 31 December 2012 and included in the condensed consolidated financial statements does not constitute statutory accounts as defined in S434 of the Companies Act 2006, but has been abridged from the statutory accounts for that year which have been delivered to the Registrar of Companies. The independent auditor's report on the Group accounts for the year ended 31 December 2012 is unqualified, does not draw attention to any matters by way of emphasis and does not include a statement under S498(2) or (3) of the Companies Act 2006.

2. Accounting policies

Basis of preparation

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("**IFRSs**") as adopted by the European Union ("**EU**"). The condensed consolidated financial statements included in this Half Year Interim Report have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the EU.

Going concern

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

Accounting policies and accounting developments

The following developments in accounting standards have been implemented by the Group during the period:

IAS 1 'Presentation of Items of Other Comprehensive Income' requires items that will never be recognised in the income statement to be presented in other comprehensive income separately from those that are subject to subsequent reclassification;

IFRS 13 'Fair Value Measurement' which sets out a single IFRS framework for defining and measuring fair value and requiring disclosures about fair value measurements. This has not given rise to any change in the measurement of fair value of the Group's assets or liabilities; and

IAS 19 (revised 2011) 'Employee Benefits' requires the immediate recognition of all actuarial gains and losses eliminating the 'corridor approach'; interest costs calculated on the net pension liability or asset at the appropriate bond rate; and all past service costs recognised immediately when a scheme is curtailed. This change, if applied to the Group's results for the full year 2012, would have resulted in a reduction of the profit after tax of £0.6 million. A charge for this amount has been made in the income statement in the six months ended 30 June 2013.

Otherwise, the same accounting policies, presentation and methods of computation are followed in the condensed consolidated financial statements as applied in the Group's latest annual audited financial statements.

3. Critical accounting estimates and judgements

The Annual Report & Accounts 2012 provides full details of critical accounting estimates and judgements used in the application of the Group's accounting policies on pages 111 to 113. There have been no significant changes to the principles or assumptions of these critical accounting estimates and judgements during the period.

Notes to the condensed financial statements continued

4. Segmental analysis

There have been no significant changes to the Group's reportable segments as set out on pages 126 to 127 of the Annual Report & Accounts 2012. The nature and costs associated with 'Restructuring and other one-off costs' are also unchanged. The following is an analysis of the Group's revenue and results by reportable segment for the six months ended 30 June 2013:

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	International £m	Ongoing operations £m	Run-off £m	Restructuring and other one-off costs £m	Total Group £m
Gross written premium	731.4	460.4	193.2	250.7	340.2	**1,975.9**	4.3	-	**1,980.2**
Gross earned premium	765.3	477.8	192.1	234.1	287.4	**1,956.7**	4.2	-	**1,960.9**
Reinsurance premium ceded	(26.8)	(25.2)	(9.5)	(18.1)	(104.8)	**(184.4)**	(2.9)	-	**(187.3)**
Net earned premium	738.5	452.6	182.6	216.0	182.6	**1,772.3**	1.3	-	**1,773.6**
Investment return	58.8	12.0	2.9	13.7	10.1	**97.5**	7.9	-	**105.4**
Instalment income	39.8	12.6	0.6	3.4	3.6	**60.0**	-	-	**60.0**
Other operating income	27.3	0.3	4.1	1.3	0.2	**33.2**	-	-	**33.2**
Total income	864.4	477.5	190.2	234.4	196.5	**1,963.0**	9.2	-	**1,972.2**
Insurance claims	(505.4)	(183.6)	(120.4)	(133.9)	(217.8)	**(1,161.1)**	12.8	-	**(1,148.3)**
Insurance claims recoverable from reinsurers	11.1	(13.3)	10.2	4.0	80.9	**92.9**	(9.8)	-	**83.1**
Net insurance claims	(494.3)	(196.9)	(110.2)	(129.9)	(136.9)	**(1,068.2)**	3.0	-	**(1,065.2)**
Commission expenses	(18.9)	(98.7)	(11.2)	(45.7)	(25.2)	**(199.7)**	(0.6)	-	**(200.3)**
Operating expenses	(194.2)	(95.2)	(46.9)	(51.8)	(20.4)	**(408.5)**	(1.0)	(69.9)	**(479.4)**
Total expenses	(213.1)	(193.9)	(58.1)	(97.5)	(45.6)	**(608.2)**	(1.6)	(69.9)	**(679.7)**
Operating profit / (loss)	**157.0**	**86.7**	**21.9**	**7.0**	**14.0**	**286.6**	**10.6**	**(69.9)**	**227.3**
Finance costs									**(18.5)**
Profit before tax									**208.8**
Underwriting profit / (loss)	**31.1**	**61.8**	**14.3**	**(11.4)**	**0.1**	**95.9**			
Loss ratio	66.9%	43.5%	60.4%	60.1%	74.9%	**60.3%**			
Commission ratio	2.6%	21.8%	6.1%	21.2%	13.8%	**11.3%**			
Expense ratio	26.3%	21.0%	25.7%	24.0%	11.2%	**23.0%**			
Combined operating ratio	**95.8%**	**86.3%**	**92.2%**	**105.3%**	**99.9%**	**94.6%**			

Notes to the condensed financial statements continued

4. Segmental analysis continued

The following is an analysis of the Group's revenue and results by reportable segment for the six months ended 30 June 2012:

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	International £m	Ongoing operations £m	Run-off £m	Restructuring and other one-off costs £m	Total Group £m
Gross written premium	842.1	484.4	199.3	229.8	302.8	2,058.4	4.1	-	2,062.5
Gross earned premium	840.2	504.3	201.7	215.2	260.7	2,022.1	12.6	-	2,034.7
Reinsurance premium ceded	(22.4)	(26.9)	(10.0)	(16.6)	(85.4)	(161.3)	(3.2)	-	(164.5)
Net earned premium	817.8	477.4	191.7	198.6	175.3	1,860.8	9.4	-	1,870.2
Investment return	86.4	22.2	4.2	19.0	13.6	145.4	30.6	-	176.0
Instalment income	44.0	12.7	0.6	1.6	3.2	62.1	-	-	62.1
Other operating income	35.3	0.1	(2.2)	3.2	0.3	36.7	0.3	-	37.0
Total income	983.5	512.4	194.3	222.4	192.4	2,105.0	40.3	-	2,145.3
Insurance claims	(698.4)	(314.9)	(103.2)	(153.6)	(207.4)	(1,477.5)	(31.6)	-	(1,509.1)
Insurance claims recoverable from reinsurers	105.8	11.6	12.3	24.8	69.9	224.4	60.6	-	285.0
Net insurance claims	(592.6)	(303.3)	(90.9)	(128.8)	(137.5)	(1,253.1)	29.0	-	(1,224.1)
Commission expenses	(9.3)	(77.4)	(9.6)	(39.7)	(19.9)	(155.9)	(66.1)	-	(222.0)
Operating expenses	(235.4)	(113.3)	(44.6)	(55.3)	(23.2)	(471.8)	(2.0)	(108.7)	(582.5)
Total expenses	(244.7)	(190.7)	(54.2)	(95.0)	(43.1)	(627.7)	(68.1)	(108.7)	(804.5)
Operating profit / (loss)	146.2	18.4	49.2	(1.4)	11.8	224.2	1.2	(108.7)	116.7
Finance costs									(10.2)
Profit before tax									106.5
Underwriting (loss) / profit	(19.5)	(16.6)	46.6	(25.2)	(5.3)	(20.0)			
Loss ratio	72.5%	63.5%	47.4%	64.9%	78.4%	67.3%			
Commission ratio	1.1%	16.2%	5.0%	20.0%	11.4%	8.4%			
Expense ratio	28.8%	23.7%	23.3%	27.8%	13.2%	25.4%			
Combined operating ratio	102.4%	103.4%	75.7%	112.7%	103.0%	101.1%			

Notes to the condensed financial statements continued

4. Segmental analysis continued

The following is an analysis of the Group's revenue and results by reportable segment for the year ended 31 December 2012 (audited):

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	International £m	Ongoing operations £m	Run-off £m	Restructuring and other one-off costs £m	Total Group £m
Gross written premium	1,623.5	989.0	389.8	435.6	552.7	3,990.6	10.8	-	4,001.4
Gross earned premium	1,677.8	1,005.2	402.5	433.2	510.3	4,029.0	19.5	-	4,048.5
Reinsurance premium ceded	(48.6)	(54.4)	(19.7)	(30.4)	(167.2)	(320.3)	(6.2)	-	(326.5)
Net earned premium	1,629.2	950.8	382.8	402.8	343.1	3,708.7	13.3	-	3,722.0
Investment return	140.0	34.1	7.5	29.4	23.7	234.7	47.1	-	281.8
Instalment income	88.4	25.9	1.2	3.5	6.4	125.4	-	-	125.4
Other operating income	59.7	0.6	9.5	2.4	0.7	72.9	0.4	-	73.3
Total income	1,917.3	1,011.4	401.0	438.1	373.9	4,141.7	60.8	-	4,202.5
Insurance claims	(1,364.8)	(560.7)	(218.1)	(278.2)	(401.9)	(2,823.7)	(51.6)	-	(2,875.3)
Insurance claims recoverable from reinsurers	148.3	6.0	23.2	24.1	133.9	335.5	115.5	-	451.0
Net insurance claims	(1,216.5)	(554.7)	(194.9)	(254.1)	(268.0)	(2,488.2)	63.9	-	(2,424.3)
Commission expenses	(31.9)	(154.2)	(22.9)	(87.0)	(41.5)	(337.5)	(115.4)	-	(452.9)
Operating expenses	(407.1)	(209.2)	(98.8)	(94.8)	(44.9)	(854.8)	(3.2)	(189.5)	(1,047.5)
Total expenses	(439.0)	(363.4)	(121.7)	(181.8)	(86.4)	(1,192.3)	(118.6)	(189.5)	(1,500.4)
Operating profit / (loss)	261.8	93.3	84.4	2.2	19.5	461.2	6.1	(189.5)	277.8
Finance costs									(28.7)
Profit before tax									249.1
Underwriting (loss) / profit	(26.3)	32.7	66.2	(33.1)	(11.3)	28.2			
Loss ratio	74.6%	58.4%	50.9%	63.1%	78.1%	67.1%			
Commission ratio	2.0%	16.2%	6.0%	21.6%	12.1%	9.1%			
Expense ratio	25.0%	22.0%	25.8%	23.5%	13.1%	23.0%			
Combined operating ratio	101.6%	96.6%	82.7%	108.2%	103.3%	99.2%			

Notes to the condensed financial statements continued

5. Net earned premium

	6 months 2013 £m	6 months 2012 £m	Full year 2012 £m (audited)
Premium income from insurance contracts issued:			
Premium receivable	**1,980.2**	2,062.4	4,001.4
Change in unearned premium reserve	**(19.3)**	(27.7)	47.1
	1,960.9	2,034.7	4,048.5
Premium revenue ceded to reinsurers on insurance contracts issued:			
Premium payable	**(191.2)**	(170.1)	(365.4)
Change in reinsurance unearned premium reserve	**3.9**	5.6	38.9
	(187.3)	(164.5)	(326.5)
Total	**1,773.6**	1,870.2	3,722.0

6. Investment return

	6 months 2013 £m	6 months 2012 £m	Full year 2012 £m (audited)
Investment income:			
Interest income on debt securities	**82.9**	92.1	172.5
Other investment funds income	**-**	3.1	3.1
Cash and cash equivalent interest income	**4.0**	11.5	19.3
Rental income on investment property	**4.4**	3.5	4.4
	91.3	110.2	199.3
Net realised gains / (losses):			
Debt securities	**13.1**	41.5	66.3
Other investment funds	**-**	23.2	23.2
Derivatives	**(52.2)**	1.9	17.8
Net unrealised gains / (losses):			
Derivatives	**54.0**	(0.8)	(20.0)
Investment property	**(0.8)**	-	(4.8)
	14.1	65.8	82.5
Total	**105.4**	176.0	281.8

7. Other operating income

	6 months 2013 £m	6 months 2012 £m	Full year 2012 £m (audited)
Solicitors' referral fee income	**6.1**	11.0	21.2
Vehicle replacement referral income	**8.1**	8.5	17.5
Revenue from vehicle recovery and repair services	**15.5**	14.8	25.9
Fee income from insurance intermediary services	**0.9**	0.7	1.9
Other income	**2.6**	2.0	6.8
Total	**33.2**	37.0	73.3

8. Insurance claims

	6 months 2013		
	Gross £m	**Reinsurance £m**	**Net £m**
Current accident year claims paid	**487.2**	**(34.9)**	**452.3**
Prior accident years' claims paid	**993.7**	**(49.9)**	**943.8**
Movement in claims provision	**(332.6)**	**1.7**	**(330.9)**
Total	**1,148.3**	**(83.1)**	**1,065.2**

Notes to the condensed financial statements continued

8. Insurance claims continued

	6 months 2012		
	Gross £m	Reinsurance £m	Net £m
Current accident year claims paid	466.8	(28.0)	438.8
Prior accident years' claims paid	1,020.0	(38.0)	982.0
Movement in claims provision	22.3	(219.0)	(196.7)
Total	1,509.1	(285.0)	1,224.1

	Full year 2012 (audited)		
	Gross £m	Reinsurance £m	Net £m
Current accident year claims paid	1,360.0	(71.3)	1,288.7
Prior accident years' claims paid	1,612.1	(55.6)	1,556.5
Movement in claims provision	(96.8)	(324.1)	(420.9)
Total	2,875.3	(451.0)	2,424.3

Claims handling expenses for the six months ended 30 June 2013 of £114.5 million (six months ended 30 June 2012: £124.2 million and year ended 31 December 2012: £290.3 million) have been included in the claims figures above.

An increase in the liability adequacy provision for the six months ended 30 June 2013 of £0.7 million (six months ended 30 June 2012: £8.2 million increase and year ended 31 December 2012: £0.7 million increase) have been included in the movement in claims provision.

9. Commission expenses

	6 months 2013 £m	6 months 2012 £m	Full year 2012 £m (audited)
Commission expenses	**162.7**	144.6	316.5
Expenses incurred under profit participations	**37.6**	77.4	136.4
Total	**200.3**	222.0	452.9

10. Operating expenses

	6 months 2013 £m	6 months 2012 £m	Full year 2012 £m (audited)
Staff costs	**220.0**	214.9	416.7
Marketing	**102.1**	120.7	203.1
Management fees	**-**	145.5	145.5
Depreciation	**10.9**	4.9	13.1
Amortisation and impairment of other intangible assets	**17.1**	14.3	40.7
Other operating expenses	**129.3**	82.2	228.4
Total	**479.4**	582.5	1,047.5

Staff costs attributable to claims handling activities are allocated to the cost of insurance claims.

Management fees are in respect of expenses recharged from RBS Group up until 30 June 2012 and charged on an arm's length basis. These costs since 30 June 2012 have been incurred directly and included in staff costs and other operating expenses.

Notes to the condensed financial statements continued

10. Operating expenses continued

Included in operating expenses are run-off, restructuring and other one-off costs as follows:

	6 months 2013 £m	6 months 2012 £m	Full year 2012 £m (audited)
Staff costs	**49.1**	58.9	103.9
Management fees	**-**	16.3	16.3
Other operating expenses	**21.8**	35.5	72.5
Total	**70.9**	110.7	192.7

11. Finance costs

	6 months 2013 £m	6 months 2012 £m	Full year 2012 £m (audited)
Interest expense on subordinated dated notes[1]	**18.5**	7.4	26.7
Other interest expense	**-**	2.8	2.0
Total	**18.5**	10.2	28.7

1. On 27 April 2012, the Group entered into a 10-year hedge to exchange the fixed rate of interest on the subordinated loan notes for a floating rate of six-month LIBOR plus a spread of 706 basis points.

12. Tax charge

	6 months 2013 £m	6 months 2012 £m	Full year 2012 £m (audited)
Current taxation:			
Charge for the period	**48.9**	29.2	61.7
Under / (over) provision in respect of prior period	**2.7**	(4.4)	(1.0)
	51.6	24.8	60.7
Deferred taxation:			
Charge / (credit) for the period	**4.5**	(1.1)	13.9
Under / (over)-provision in respect of prior period	**0.9**	-	(9.8)
	5.4	(1.1)	4.1
Current taxation	**51.6**	24.8	60.7
Deferred taxation	**5.4**	(1.1)	4.1
Tax charge for the period	**57.0**	23.7	64.8

13. Dividends

	pence	6 months 2013 £m	6 months 2012 £m	Full year 2012 £m (audited)
Ordinary dividend:				
Interim dividend paid in respect of 2012 on 27 March 2012[1]	20.0	**-**	300.0	300.0
Interim dividend paid in respect of 2012 on 6 June 2012[1]	33.3	**-**	500.0	500.0
Interim dividend paid in respect of 2012 on 3 September 2012[1]	13.3	**-**	-	200.0
Final dividend paid in respect of 2012 on 11 June 2013	8.0	**120.0**	-	-
Total		**120.0**	800.0	1,000.0

1. Dividend paid to RBS Group prior to the IPO.

Notes to the condensed financial statements continued

14. Earnings and net assets per share, return on equity

Earnings per share is calculated by dividing earnings attributable to the owners of the Company by the weighted average of ordinary shares in issue during the period.

Basic earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to owners of the Company by the weighted average of ordinary shares in issue during the period, excluding ordinary shares held as employee trust shares.

	6 months 2013 £m	6 months 2012 £m	Full year 2012 £m (audited)
Earnings attributable to owners of the Company	**151.8**	82.8	184.3
Weighted average number of ordinary shares in issue (millions)	**1,496.1**	1,500.0	1,499.4
Basic earnings per share (pence)	**10.1**	5.5	12.3

Diluted earnings per share

Diluted earnings per share is calculated by dividing the earnings attributable to the owners of the Company by the weighted average of ordinary shares in issue during the period adjusted for the dilutive potential ordinary shares. The Company has share options and contingently issuable shares as categories of dilutive potential ordinary shares.

	6 months 2013 £m	6 months 2012 £m	Full year 2012 £m (audited)
Earnings attributable to owners of the Company	**151.8**	82.8	184.3
Weighted average number of ordinary shares in issue (millions)	**1,496.1**	1,500.0	1,499.4
Adjustments for share options and contingently issuable shares (millions)	**5.1**	-	0.6
Weighted average number of ordinary shares for diluted earnings per share (millions)	**1,501.2**	1,500.0	1,500.0
Diluted earnings per share (pence)	**10.1**	5.5	12.3

Net asset value and tangible net asset value per share

Net asset value per share is calculated as shareholders' equity divided by the number of ordinary shares in issue at the end of the period. Ordinary shares in issue exclude shares held by employee share trusts at 30 June 2013 of 5,460,876 (31 December 2012: 2,848,991).

Tangible net asset value per share is calculated as shareholders' equity less goodwill and other intangible assets divided by the number of ordinary shares in issue at the end of the period.

At	**30 Jun 2013 £m**	31 Dec 2012 £m (audited)
Net assets	**2,792.8**	2,831.6
Goodwill and other intangible assets	**(451.8)**	(421.5)
Tangible net assets	**2,341.0**	2,410.1
Number of ordinary shares in issue (millions)	**1,500.0**	1,500.0
Less: shares held by employee share trusts (millions)	**(5.5)**	(2.8)
Closing number of ordinary shares in issue (millions)	**1,494.5**	1,497.2
Net asset value per share (pence)	**186.9**	189.1
Tangible net asset value per share (pence)	**156.6**	161.0

Notes to the condensed financial statements continued

14. Earnings and net assets per share, return on equity continued

Return on equity

Return on equity is calculated by dividing the profit attributable to the owners of the Company by average shareholders' equity for the period.

	6 months 2013 £m	Full year 2012 £m (audited)
Profit after tax	**151.8**	184.3
Opening shareholders' equity	**2,831.6**	3,612.8
Closing shareholders' equity	**2,792.8**	2,831.6
Average shareholders' equity	**2,812.2**	3,222.2
Return on equity	**5.4%**	5.7%

15. Financial investments

At	**30 Jun 2013 £m**	31 Dec 2012 £m (audited)
Available-for-sale debt securities		
Sovereign, supranational and local government debt securities	**2,396.5**	2,635.7
Corporate debt securities	**4,781.2**	4,475.6
Mortgage backed securities	**38.5**	45.2
	7,216.2	7,156.5
Available-for-sale debt securities		
Listed – fixed interest rate	**6,984.3**	6,854.2
Listed – floating interest rate	**231.9**	302.3
	7,216.2	7,156.5
Loans and receivables		
Deposits with credit institutions with maturities in excess of six months:		
Third parties	**515.0**	595.0
Related parties	**50.0**	50.0
	565.0	645.0
Total	**7,781.2**	7,801.5

Fair value measurements at the end of the reporting period for available-for-sale debt securities equate to their carrying value and are either based on quoted prices in an active market (Level 1) £1,651.0 million (31 December 2012: £1,839.9 million) or by a valuation technique based on assumptions that are supported by prices from observable current market transactions (Level 2) £5,565.2 million (31 December 2012: £5,316.6 million).

Included within the debt securities balance above is £66.7 million (31 December 2012: £75.0 million) relating to securities issued by members of RBS Group.

Notes to the condensed financial statements continued

16. Cash and cash equivalents

At	30 Jun 2013 £m	31 Dec 2012 £m (audited)
Cash at bank and in hand:		
Third parties	**121.1**	132.6
Related parties	**55.6**	69.1
	176.7	201.7
Short-term deposits with credit institutions:		
Third parties[1]	**739.7**	1,277.9
Related parties	**26.2**	28.8
	765.9	1,306.7
Total	**942.6**	1,508.4

1. Included in the above are investments of £183.4 million (31 December 2012: £492.5 million) held by the Group in Global Treasury Funds PLC (an open ended umbrella investment company with variable capital incorporated with limited liability in Ireland). RBS Asset Management (Dublin) Limited is the appointed manager to the fund.

The effective interest rate on short-term deposits with credit institutions for the six months ended 30 June 2013 was 0.39% (year ended 31 December 2012: 0.35%) and has an average maturity of 13 days (31 December 2012: 11 days).

For the purposes of the cash flow statement, cash and bank overdrafts are as follows:

At	30 Jun 2013 £m	31 Dec 2012 £m (audited)
Cash and cash equivalents	**942.6**	1,508.4
Bank overdrafts	**(63.4)**	(90.9)
Total	**879.2**	1,417.5

Notes to the condensed financial statements continued

17. Insurance liabilities, unearned premium reserve and reinsurance assets

At	30 Jun 2013 £m	31 Dec 2012 £m (audited)
Insurance liabilities		
Life insurance	**112.6**	107.2
General insurance	**5,982.5**	6,291.3
Total	**6,095.1**	6,398.5
Gross general insurance		
Claims reported	**3,734.0**	3,969.3
Claims incurred but not reported	**2,100.0**	2,153.9
Claims handling provision	**143.5**	163.8
Liability adequacy provision	**5.0**	4.3
	5,982.5	6,291.3
Unearned premium reserve	**1,907.4**	1,872.9
Total	**7,889.9**	8,164.2
Reinsurers' share of general insurance		
Claims reported	**(422.6)**	(397.8)
Claims incurred but not reported	**(487.0)**	(511.6)
	(909.6)	(909.4)
Unearned premium reserve	**(66.6)**	(97.9)
Total	**(976.2)**	(1,007.3)
Net general insurance		
Claims reported	**3,311.4**	3,571.5
Claims incurred but not reported	**1,613.0**	1,642.3
Claims handling provision	**143.5**	163.8
Liability adequacy provision	**5.0**	4.3
	5,072.9	5,381.9
Unearned premium reserve	**1,840.8**	1,775.0
Total	**6,913.7**	7,156.9

17. Insurance liabilities, unearned premium reserve and reinsurance assets continued

Movements in general insurance liabilities and reinsurance assets

	Gross £m	Reinsurance £m	Net £m
Notified claims	4,190.1	(318.1)	3,872.0
Incurred but not reported	2,217.5	(281.8)	1,935.7
Liability adequacy provision	3.6	-	3.6
At 1 January 2012	6,411.2	(599.9)	5,811.3
Cash paid for claims settled in the year	(2,949.1)	108.6	(2,840.5)
Increase / (decrease) in liabilities:			
Arising from current-year claims	3,038.2	(227.2)	2,811.0
Arising from prior-year claims	(196.5)	(193.0)	(389.5)
Net exchange differences	(13.2)	2.1	(11.1)
Increase in liability adequacy provision	0.7	-	0.7
At 31 December 2012 (audited)	6,291.3	(909.4)	5,381.9
Notified claims	4,133.1	(397.8)	3,735.3
Incurred but not reported	2,153.9	(511.6)	1,642.3
Liability adequacy provision	4.3	-	4.3
At 31 December 2012 (audited)	6,291.3	(909.4)	5,381.9
Cash paid for claims settled in the period	**(1,470.8)**	**76.7**	**(1,394.1)**
Increase / (decrease) in liabilities:			
Arising from current-year claims	**1,421.8**	**(115.5)**	**1,306.3**
Arising from prior-year claims	**(288.1)**	**44.9**	**(243.2)**
Net exchange differences	**27.6**	**(6.3)**	**21.3**
Increase in liability adequacy provision	**0.7**	**-**	**0.7**
At 30 June 2013	**5,982.5**	**(909.6)**	**5,072.9**
Notified claims	**3,877.5**	**(422.6)**	**3,454.9**
Incurred but not reported	**2,100.0**	**(487.0)**	**1,613.0**
Liability adequacy provision	**5.0**	**-**	**5.0**
At 30 June 2013	**5,982.5**	**(909.6)**	**5,072.9**

Movement in prior-year net claims liabilities by operating segment

	30 Jun 2013 £m	31 Dec 2012 £m (audited)
Motor	**(148.6)**	(174.3)
Home	**(37.0)**	(37.4)
Rescue and other personal lines	**(0.4)**	(23.9)
Commercial	**(31.9)**	(56.2)
International	**(21.3)**	(30.2)
Ongoing operations	**(239.2)**	(322.0)
Run-off	**(4.0)**	(67.5)
Total Group	**(243.2)**	(389.5)

18. Related party transactions

Related party transactions in the six months ended 30 June 2013 were similar in nature to those for the year ended 31 December 2012. Dividends of £78.3 million were paid to The Royal Bank of Scotland Group plc in the period.

Full details of the Group's related party transactions for the year ended 31 December 2012 are included on pages 161 to 163 of the Annual Report & Accounts 2012.

Directors' responsibility statement

We confirm that to the best of our knowledge:

1. the condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union;
2. the interim management report includes a fair review of the information required by:
   a. Disclosure and Transparency Rule 4.2.7R being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
   b. Disclosure and Transparency Rule 4.2.8R being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report & Accounts that could do so.

Signed on behalf of the Board

Paul Geddes
Chief Executive Officer
2 August 2013

John Reizenstein
Chief Financial Officer
2 August 2013

Independent review report to Direct Line Insurance Group plc

We have been engaged by Direct Line Insurance Group plc (the "**Company**") to review the condensed set of financial statements in the Half Year Interim Report for the first six months ended 30 June 2013 which comprises the condensed income statement, the condensed statement of comprehensive income, the condensed balance sheet, the condensed statement of changes in equity, the condensed cash flow statement and related notes 1 to 18. We have read the other information contained in the Half Year Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The Half Year Interim Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half Year Interim Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this Half Year Interim Report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Half Year Interim Report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Half Year Interim Report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
2 August 2013

Additional information

Group overview

Direct Line Group is the largest retail general insurer in the UK, the number one direct motor insurer in Italy and the number three direct motor insurer in Germany. We operate a multi-brand, multi-product and multi-channel business that covers the majority of customer segments in the UK for personal lines general insurance and small and medium-sized enterprise commercial insurance. Our brands offer the following products: motor, home, rescue, pet, travel and commercial.

Corporate information

Direct Line Insurance Group plc is a public limited company registered in England number 02280426. The address of the registered office is Churchill Court, Westmoreland Road, Bromley BR1 1DP, England.

The Company is an associate of The Royal Bank of Scotland Group plc. RBS Group comprises The Royal Bank of Scotland Group plc and its subsidiaries. In 2009, RBS Group committed to the European Commission to sell its insurance business as a condition of its receipt of State Aid. To comply with this requirement, RBS Group must cede control of the Company by the end of 2013 and must divest its entire interest by the end of 2014.

In March 2013, RBS Group placed a second tranche of 251.4 million Ordinary Shares in Direct Line Group. This represented 16.8% of the total share capital, generated gross proceeds of £505.4 million and took RBS Group's holding down to 48.5%.

Statutory information

The statutory accounts for 2012 were signed on 27 February 2013 and were delivered to the Registrar of Companies following the Annual General Meeting held on 6 June 2013. A copy of the statutory accounts for the Group for that year is available at the following website: ara2012.directlinegroup.com .