Interim Management Statement for Direct Line Insurance Group plc
Results for the first quarter to 31 March 2013

3 May 2013

Direct Line Group's Interim Management Statement relates to the first quarter ended 31 March 2013 and contains information to the date of publication.

Financial highlights

- Operating profit from ongoing operations[1] of £107.5 million for the first quarter 2013, up 32.9% (first quarter 2012: £80.9 million)
- Gross written premium for ongoing operations 4.5% lower reflecting competitive market conditions in UK personal lines, partially offset by growth in International
- Combined operating ratio[2] for ongoing operations of 98.0% for the first quarter 2013, an improvement of 6.5 percentage points against the first quarter 2012 (104.5%) driven by continued prior year reserve releases and lower claims from weather events
- Annualised return on tangible equity[3] from ongoing operations of 12.3% for the first quarter 2013 (first quarter 2012: 7.7%; pro forma[4] full year 2012: 13.4%)
- Net asset value per share of 195.3 pence and tangible net asset value per share of 166.0 pence (31 December 2012: 189.1 pence and 161.0 pence, respectively). Tangible net asset value per share of 158.0 pence after deducting the 2012 final dividend of 8 pence per share

Strategic and operational highlights

- Continued momentum in pricing and claims initiatives, contributing to improved underwriting result, including significant prior year reserve releases
- Actions relating to the £100 million gross annual cost savings in 2014 on track. Continue to pursue initiatives to improve efficiency further
- New customer propositions and refreshed advertising campaigns for Direct Line, Churchill and Green Flag
- Good growth in the International division, particularly Germany, and Commercial full-cycle eTrading now live

Paul Geddes, CEO of Direct Line Group, commented

"We continue to make progress towards achieving our financial targets with an increase in our ongoing operating profit of 33% to £107.5 million compared to the first quarter of 2012.

"The UK market remains competitive, particularly in motor. We made some deliberate choices in the quarter that had the effect of reducing our motor premiums. We believe these choices achieved an appropriate balance between managing risk and protecting value.

"Momentum across our five strategic pillars was sustained, and independent control of our cost base continues to present us with opportunities to improve efficiency.

"We continue to monitor and support the implementation of motor legal reforms, the impact of which we expect to be at least net neutral in the medium term. Reduced claims arising from these reforms should, over time, contribute to lower premiums for motorists, especially young drivers."

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See page 2 for notes

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 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).

4. Pro forma RoTE is based on the return on tangible equity but assumes that the capital actions taken by the Group (£1 billion dividend payment and £500 million long-term subordinated debt issue) occurred on 1 January 2012.

Forward-looking statements

This document has been prepared for, and only for, the members of 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 Company'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 Company'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 Company'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

	Quarter ended 31 Mar 2013 £m	31 Mar 2012 £m	Year ended 31 Dec 2012 £m
Gross written premium – ongoing operations	**1,005.6**	1,052.5	3,990.6
Net earned premium – ongoing operations	**885.3**	933.6	3,708.7
Underwriting profit / (loss)	**17.6**	(42.4)	28.2
Instalment and other operating income	**49.5**	50.9	198.3
Investment return	**40.4**	72.4	234.7
Operating profit – ongoing operations	**107.5**	**80.9**	**461.2**
Run-off segment	**6.5**	6.6	6.1
Restructuring and other one-off costs	**(10.4)**	(21.9)	(189.5)
Operating profit	**103.6**	**65.6**	**277.8**
Finance costs	**(9.3)**	(1.5)	(28.7)
Profit before tax	**94.3**	**64.1**	**249.1**
Tax	**(22.7)**	(7.4)	(64.8)
Profit after tax	**71.6**	**56.7**	**184.3**
Of which ongoing operations[1]	**75.4**	59.9	326.5
Key metrics			
Loss ratio	**63.9%**	70.4%	67.1%
Commission ratio	**10.9%**	8.8%	9.1%
Expense ratio	**23.2%**	25.3%	23.0%
Combined operating ratio	**98.0%**	104.5%	99.2%
Investment income yield	**2.0%**	2.2%	2.0%
Investment return	**2.0%**	3.4%	2.8%
Earnings per share:			
Basic and diluted (pence)	**4.8**	3.8	12.3
Adjusted[2] – basic and diluted (pence)	**5.0**	4.0	21.8
RoTE[3] (annualised)	**12.3%**	7.7%	11.5%
Pro forma RoTE[4]	**-**	-	13.4%

	As at 31 Mar 2013	31 Dec 2012
Net asset value per share (pence)	**195.3**	189.1
Tangible net asset per share (pence)	**166.0**	161.0
Tangible net asset per share excluding 2012 final dividend (pence)	**158.0**	-

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

Operating profit from ongoing operations of £107.5 million increased by 32.9% (first quarter 2012: £80.9 million) driven by an improved underwriting result. The combined operating ratio improved to 98.0% (first quarter 2012: 104.5%) as a result of continued significant reserve releases and a low level of claims from weather events. Annualised return on tangible equity for the first quarter 2013 was 12.3% (first quarter 2012: 7.7%; pro forma full year 2012: 13.4%).

Business update

In a competitive UK personal lines market, the Group has made good progress in improving its performance in the areas of distribution, pricing, claims and cost whilst recording further progress in Commercial and International.

Gross written premium for ongoing operations in the first quarter fell by 4.5% compared with the first quarter 2012 with reductions in UK personal lines partially offset by growth in International. Within Motor, gross written premium in the first quarter fell by 14.3% (adjusting for Direct Line for Business van business transferred to Commercial). This was partly driven by a reduction in in-force policies as the Group held prices in a competitive market, and partly by a change in risk mix in the quarter as the Group temporarily pulled back from young drivers during the roll-out and refinement of its gender neutral pricing models.

Looking ahead, developments under the distribution strategic pillar in the first quarter are targeting improved performance by the Group's UK personal lines operations. These include new customer propositions and refreshed marketing campaigns for the Group's key brands – Direct Line, Churchill and Green Flag. 'Together', a proposition from Direct Line, rewards loyal customers who take more than one Direct Line product with clear and straightforward multi-product discounts. Green Flag has been repositioned, underpinned by a one hour response commitment with a 50% renewal discount if missed, and backed up with a new advertising campaign. Churchill's propositions and advertising have been updated to align more closely with its target customer segments. Collectively these measures seek to improve the efficiency of marketing spend, move away from price-led propositions, and improve customer retention and cross-sell.

Momentum has continued with the Group's pricing and claims initiatives. Retention pricing strategies have been improved and more granular technical pricing capabilities continue to be deployed. Ongoing enhancements to pricing and risk selection, together with improvements arising from the claims transformation programme, continue to contribute to an improved underwriting result, including significant prior year reserve movements, particularly in the Motor division. Similar initiatives are being rolled out across the Home division.

The actions needed to meet the Group's target of £100 million gross annual cost savings in 2014 are on track. The Group continues to pursue opportunities to improve efficiency further and reduce costs.

The Commercial division is making good progress towards its target of a combined operating ratio of below 100% in 2014. NIG's full-cycle eTrading platform is now live and initial results for the products migrated onto the platform are encouraging. The take-up of eTrading amongst the division's brokers is increasing and further products are due to be launched through 2013. Direct Line for Business experienced further growth of in-force policies in the first quarter of 2013.

The International division grew in-force policies to over 1 million in Italy and over 0.5 million in Germany during the first quarter. The Group remains cautious in Italy given the uncertain regulatory backdrop and tough economic environment; however this environment continues to result in reducing claims frequency. Market conditions in Germany are improving and the Group has taken advantage of this to grow in the 1 January renewal season, when the majority of German motor policies incept.

Regulatory update

Over the last 18 months, 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 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 MoJ portal have reduced from £1,200 to £500. Taken together, these reforms are expected to be broadly neutral to operating profit in 2013 for the Group.

Additional reforms, including the extension of the MoJ portal limits and a number of reforms relating to the diagnosis of whiplash injuries, are expected to be introduced either later in 2013 (MoJ portal extension) or from 2014. Although details are still to be finalised, 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. Provisional findings from the investigation are currently due to be published in September 2013.

RBS Group update

In March 2013, RBS Group placed a second tranche of 251.4 million Ordinary Shares in Direct Line Group 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 Direct Line Group fell to 48.5%.

In line with the terms of the Relationship Agreement between RBS Group and Direct Line Group, Mark Catton stepped down from the Board on 26 April 2013. Bruce Van Saun is now the sole RBS Group nominated Non-Executive Director.

Outlook

The UK personal lines markets are expected to remain competitive through the course of 2013, particularly in motor. In this environment the Group will continue to target underwriting profitability, even if this is at the expense of volume.

In addition, the Group is continuing to pursue opportunities to improve efficiency and reduce costs throughout the business. This strategy, alongside the benefits arising from the Group's pricing and claims transformation programmes, means that the Group is on track to deliver its target of a 98% combined operating ratio for ongoing operations for full year 2013.

Finance review

Operating profit – ongoing operations

	Quarter ended 31 Mar 2013 £m (unaudited)	31 Mar 2012 £m (unaudited)	Year ended 31 Dec 2012 £m (audited)
Underwriting profit / (loss)	**17.6**	(42.4)	28.2
Instalment and other operating income	**49.5**	50.9	198.3
Investment return	**40.4**	72.4	234.7
Operating profit	**107.5**	**80.9**	**461.2**

First quarter operating profit for ongoing operations of £107.5 million increased by 32.9% (first quarter 2012: £80.9 million) driven by an improved underwriting result, partially offset by a lower investment return.

In-force policies – ongoing operations (thousands)

As at (unaudited)	**31 Mar 2013**	31 Dec 2012	31 Mar 2012	31 Dec 2011
Motor	**3,865**	4,050	4,149	4,107
Home	**4,199**	4,239	4,332	4,308
Rescue and other personal lines	**9,197**	9,431	9,296	9,151
Commercial	**550**	466	417	422
International	**1,572**	1,462	1,412	1,387
Total	**19,383**	**19,648**	**19,606**	**19,375**

In-force policies for ongoing operations decreased 1.3% from the beginning of the year to 19.4 million.

Motor in-force policies at 31 March 2013 were 4.6% lower than at 31 December 2012, and 6.8% lower than at 31 March 2012. The fall reflects 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 (70,000 in-force policies) from 1 January 2013. Home in-force policies were broadly stable during the period.

Commercial continued to grow in-force policies through Direct Line for Business. International growth arose from Germany where the Group expanded its share of business renewing on 1 January 2013.

Gross written premium – ongoing operations

	Quarter ended 31 Mar 2013 £m (unaudited)	31 Mar 2012 £m (unaudited)	Year ended 31 Dec 2012 £m (audited)
Motor	**364.1**	432.8	1,623.5
Home	**233.5**	245.9	989.0
Rescue and other personal lines	**93.1**	95.4	389.8
Commercial	**113.6**	107.1	435.6
International	**201.3**	171.3	552.7
Total	**1,005.6**	**1,052.5**	**3,990.6**

Gross written premium of £1,005.6 million fell 4.5% compared to the first quarter 2012 (£1,052.5 million) with a reduction in Motor partially offset by growth in International. Premium rates for Motor were broadly stable in the quarter, as the Group continued to show pricing discipline. In addition, the Group took a conservative approach to the implementation of gender neutral pricing by temporarily reducing its mix of young drivers which contributed to a fall in average premium of approximately 8%. In a competitive market both of these factors contributed to the fall in gross written premium. Motor gross written premium was also negatively affected by the reclassification of £6.4 million of van business to Commercial. International gross written premium increased by 17.5% (16.0% in local currency terms).

Underwriting profit – ongoing operations

	Quarter ended **31 Mar 2013 £m (unaudited)**	31 Mar 2012 £m (unaudited)	Year ended 31 Dec 2012 £m (audited)
Underwriting profit / (loss)	**17.6**	(42.4)	28.2
Loss ratio	**63.9%**	70.4%	67.1%
Commission ratio	**10.9%**	8.8%	9.1%
Expense ratio	**23.2%**	25.3%	23.0%
Combined operating ratio	**98.0%**	**104.5%**	**99.2%**

The combined operating ratio from ongoing operations of 98.0% improved by 6.5 percentage points compared to the first quarter 2012 (104.5%). This was attributable to an improvement in both the loss and expense ratios, partially offset by a higher commission ratio.

The improvement in the loss ratio was partially due to the absence of claims from major weather events in the first quarter of 2013, despite unseasonably cold weather across most of the UK (first quarter 2013: £nil; first quarter 2012: approximately £40 million). Claims from weather events for the first quarter of the year are normally expected to be approximately £25 million.

Releases from prior year claims reserves contributed £123.2 million, representing 13.9% of net earned premium. The bulk of the release arose in the Motor division where in particular the Group continues to experience favourable development on small bodily injury claims. Reserve releases in the quarter have arisen from better experience in the actuarial best estimate and are from the 2010 to 2012 accident years, which in part reflect actions taken through pricing improvements, changes to the risk mix and the claims transformation programme.

The attritional current year loss ratio of 77.8% was 4.8 percentage points higher than the current year attritional loss ratio for full year 2012 of 73.0%. This reflects seasonality in attritional claims and the normal pattern of conservatism in reserving at the start of the year.

The commission ratio increased by 2.1 percentage points to 10.9% primarily due to profit share payments to partners and growth in International.

The expense ratio reduced 2.1 percentage points to 23.2% (first quarter 2012: 25.3%). This reflected lower expenses, due to the non-repeat of parallel running costs in the first quarter 2012 and the move to a fully stand-alone expense base, partially offset by lower net earned premium. Benefits from the Group's cost saving plan, which is targeting £100 million gross annual cost savings in 2014, are starting to be recognised.

Instalment and other operating income – ongoing operations

	Quarter ended **31 Mar 2013 £m (unaudited)**	31 Mar 2012 £m (unaudited)	Year ended 31 Dec 2012 £m (audited)
Instalment income	**30.9**	31.4	125.4
Other operating income	**18.6**	19.5	72.9
Total	**49.5**	**50.9**	**198.3**

Instalment and other operating income from ongoing operations of £49.5 million for the first quarter 2013 was broadly in line with the same period last year (£50.9 million) and the fourth quarter of 2012 (£51.5 million). In the first quarter of 2013, the Group generated £5.8 million from referral fees from solicitors; these have ceased from 1 April 2013. 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

	Quarter ended		Year ended
	31 Mar 2013 £m (unaudited)	31 Mar 2012 £m (unaudited)	31 Dec 2012 £m (audited)
Investment income	**40.1**	50.8	179.9
Net realised and unrealised gains	**0.3**	21.6	54.8
Total investment return	**40.4**	**72.4**	**234.7**

Investment return from ongoing operations of £40.4 million was 44.2% lower than the first quarter 2012 due to lower realised gains, reduced reinvestment yields and a lower average investment asset base. Investment income from ongoing operations of £40.1 million was broadly in line with the fourth quarter of 2012 (£42.2 million). Net realised and unrealised gains allocated to the income statement in the first quarter 2012 reflect gains arising from portfolio restructuring during the period.

Investment yields – total Group

	Quarter ended		Year ended
	31 Mar 2013 £m (unaudited)	31 Mar 2012 £m (unaudited)	31 Dec 2012 £m (unaudited)
Investment income yield[1]	**2.0%**	2.2%	2.0%
Investment return[2]	**2.0%**	3.4%	2.8%

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 quarter 2013 (first quarter 2012: 2.2%) reflecting the continued low interest rate environment.

Investment holdings – total Group

As at	**31 Mar 2013 £m (unaudited)**	31 Mar 2012 £m (unaudited)	31 Dec 2012 £m (audited)
Corporate bonds	**4,776.0**	4,239.1	4,528.6
Supranational[1]	**502.6**	501.0	521.8
Local government[1]	**268.2**	148.2	271.1
Credit	**5,546.8**	**4,888.3**	**5,321.5**
Sovereign[1]	**1,735.4**	2,399.3	1,842.8
Cash and cash equivalents	**1,698.9**	3,039.0	2,062.5
Investment property	**154.1**	69.5	128.9
Total	**9,135.2**	**10,396.1**	**9,355.7**

1. Previously reported under 'Government bonds'

Total investment assets fell 2.4% in the first quarter 2013 due principally to the repayment of the £258.5 million Tesco Personal Finance ("**TPF**") loan note. The Group's investment portfolios comprised primarily of investment grade bonds and cash. During the quarter, the Group continued to execute its investment strategy with further net purchases of £250 million in corporate bonds and £25 million in investment property. Including supranational and local government bonds, the allocation to credit was 60.7% at 31 March 2013 in line with the Group's target.

At 31 March 2013, exposure to peripheral Eurozone bonds was £67.9 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.

Unrealised gains (net of deferred tax) within the revaluation reserve as at 31 March 2013 were £178.4 million (31 December 2012: £158.8 million).

Reconciliation of operating profit

	Quarter ended		Year ended
	31 Mar 2013	31 Mar 2012	31 Dec 2012
	£m (unaudited)	£m (unaudited)	£m (audited)
Ongoing operations	**107.5**	80.9	461.2
Run-off segment	**6.5**	6.6	6.1
Restructuring and other one-off costs	**(10.4)**	(21.9)	(189.5)
Total Group	**103.6**	**65.6**	**277.8**

Run-off

The Run-off segment made a profit of £6.5 million in the first quarter 2013 compared with a profit of £6.6 million in the same period 2012.

Restructuring and other one-off costs

Restructuring and other one-off costs for the first quarter were £10.4 million (first quarter 2012: £21.9 million). It is currently expected that for the whole of 2013, restructuring and other one-off costs will be approximately £140 million: £70 million relating to the Group's cost saving programme and £70 million relating to IT migration.

Finance costs

Finance costs increased to £9.3 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 24.1% was broadly in line with the UK standard corporate tax rate of 23.25%. The tax rate of 11.5% in the first quarter of 2012 benefitted from a one-off tax credit in the International operations.

Profit and return on tangible equity

Overall pre-tax profit for the first quarter 2013 was £94.3 million with profit after tax of £71.6 million (first quarter 2012: £64.1 million and £56.7 million, respectively).

Annualised return on tangible equity for the period for ongoing operations was 12.3% (annualised first quarter 2012: 7.7 %; pro forma full year 2012: 13.4%).

Earnings per share

Earnings per share were 4.8 pence (first quarter 2012: 3.8 pence). Adjusted earnings per share for the first quarter 2013 were 5.0 pence (first quarter 2012: 4.0 pence).

Net asset value

As at	31 Mar 2013 £m (unaudited)	31 Dec 2012 £m (audited)
Net assets	**2,923.5**	2,831.6
Goodwill and other intangible assets	**(438.4)**	(421.5)
Tangible net assets	**2,485.1**	**2,410.1**
Net asset value per share	**195.3**	189.1
Tangible net asset value per share	**166.0**	161.0
Tangible net asset value per share excluding 2012 final dividend	**158.0**	-

The net asset value as at 31 March 2013 was £2,923.5 million (31 December 2012: £2,831.6 million) with tangible net asset value of £2,485.1 million (31 December 2012: £2,410.1 million). This equates to 195.3 pence and 166.0 pence per share respectively as at 31 March 2013 (31 December 2012: 189.1 pence and 161.0 pence, respectively).

The net asset value and tangible net asset value is before deducting the 2012 final dividend of 8 pence per share (£120.0 million) which will be paid on 11 June 2013, subject to approval at the Annual General Meeting on 6 June 2013. The shares traded ex dividend on 6 March 2013. Tangible net asset value per share after deducting the 2012 final dividend was 158.0 pence.

Consolidated income statement
Total Group

For the period ending	Quarter ended 31 Mar 2013 £m (unaudited)	31 Mar 2012 £m (unaudited)	Year ended 31 Dec 2012 £m (audited)
Gross earned premium	**981.5**	1,020.7	4,048.5
Reinsurance premium ceded	**(95.4)**	(81.4)	(326.5)
Net earned premium	**886.1**	939.3	3,722.0
Investment return	**45.7**	91.5	281.8
Instalment income	**30.9**	31.3	125.4
Other operating income	**18.6**	19.4	73.3
Total income	**981.3**	1,081.5	4,202.5
Insurance claims	**(606.8)**	(727.2)	(2,875.3)
Insurance claims recoverable from reinsurers	**42.7**	79.2	451.0
Net insurance claims	**(564.1)**	(648.0)	(2,424.3)
Commission expenses	**(96.8)**	(108.7)	(452.9)
Other operating expenses	**(216.8)**	(259.2)	(1,047.5)
Total expenses	**(313.6)**	(367.9)	(1,500.4)
Operating profit	**103.6**	65.6	277.8
Finance costs	**(9.3)**	(1.5)	(28.7)
Profit before tax	**94.3**	64.1	249.1
Tax charge	**(22.7)**	(7.4)	(64.8)
Profit attributable to the owners of the Company	**71.6**	56.7	184.3
Earnings per share:			
Basic (pence)	**4.8**	3.8	12.3
Diluted (pence)	**4.8**	3.8	12.3

Ongoing operations

For the period ending	Quarter ended 31 Mar 2013 £m (unaudited)	31 Mar 2012 £m (unaudited)	Year ended 31 Dec 2012 £m (audited)
Gross earned premium	**979.2**	1,013.4	4,029.0
Reinsurance premium ceded	**(93.9)**	(79.8)	(320.3)
Net earned premium	**885.3**	933.6	3,708.7
Investment return	**40.4**	72.4	234.7
Instalment income	**30.9**	31.4	125.4
Other operating income	**18.6**	19.5	72.9
Total income	**975.2**	1,056.9	4,141.7
Insurance claims	**(610.0)**	(731.8)	(2,823.7)
Insurance claims recoverable from reinsurers	**44.0**	74.3	335.5
Net insurance claims	**(566.0)**	(657.5)	(2,488.2)
Commission expenses	**(96.5)**	(82.3)	(337.5)
Other operating expenses	**(205.2)**	(236.2)	(854.8)
Total expenses	**(301.7)**	(318.5)	(1,192.3)
Operating profit	**107.5**	80.9	461.2

Additional information

Company 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%.

Basis of preparation

The basis of preparation of the financial information within this Interim Management Statement for the first quarter to 31 March 2013 is the same as the financial statements and notes contained within the Direct Line Group's Annual Report & Accounts issued on 21 March 2013.

As part of the divestment from RBS Group, the way in which expenses incurred by RBS Group on behalf of Direct Line Group changed. Up until 30 June 2012, only some of these expenses were recharged to Direct Line Group by RBS Group. From 1 July 2012, some of the services previously provided by RBS Group have been brought in-house and so the expense is now incurred directly by Direct Line Group and reflected in expenses in the income statement; other services are still provided by RBS Group under a Transitional Services Agreement and the expense of these is charged to Direct Line Group. In order to aid comparability, Direct Line Group's accounting policy was changed so that all expenses were included within the income statement. For the avoidance of doubt, this includes external costs incurred by Direct Line Group and costs incurred by RBS Group, irrespective of whether RBS Group recharged them to Direct Line Group. In the case of expenses incurred by RBS Group and not recharged to Direct Line Group, a capital contribution has been credited to retained earnings to reflect this contribution from a shareholder.

The financial information is not directly comparable to the divisional results published by RBS Group principally because a number of items, including restructuring costs, separation costs and goodwill impairment, are not included in Direct Line Group's operating profit reported in the RBS Group results; and the operating results of activities of TPF are reflected in operating profit in the financial information as Run-off business in all periods.

Statutory information

The statutory accounts for 2012 were signed on 27 February 2013 and will be delivered to the Registrar of Companies following the Annual General Meeting to be 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.