Interim Management Statement for Direct Line Insurance Group plc
Results for the third quarter and first nine months of 2013

1 November 2013

Direct Line Group's Interim Management Statement relates to the third quarter and first nine months ended 30 September 2013, and contains information to the date of publication.

Financial highlights

- Operating profit[1] of £417.8 million for the first nine months of 2013, up 20.1% (first nine months 2012: £347.9 million)
- Operating profit[1] of £131.2 million for the third quarter of 2013, up 6.1% (third quarter 2012: £123.7 million)
- Gross written premium[1] 4.3% lower for the first nine months of 2013, reflecting competitive market conditions in UK personal lines, partially offset by growth in International and Commercial
- Combined operating ratio[1,2] of 95.4% for the first nine months of 2013, an improvement of 4.3 percentage points against the same period last year (99.7%) arising from improved underwriting, including lower costs, as well as fewer claims from major weather events
- Annualised return on tangible equity[3] from ongoing operations of 16.8% for the first nine months of 2013 (first nine months 2012: 10.6% and pro forma[4] 13.5%). Annualised RoTE normalised for claims from major weather events of approximately 15%[5]
- Net asset value per share of 187.9 pence and tangible net asset value per share of 155.8 pence

Strategic and operational highlights

- Good progress across each of the Group's strategic priorities and towards its target of a 15% return on tangible equity and its full year 2013 target of a 98% combined operating ratio
- Improved customer propositions, including the roll-out of telematics products with one in five new Direct Line motor policies with drivers aged under 25 now including telematics
- Cost saving programmes progressing well and on track to meet target to reduce the cost base[6] to approximately £1,000 million in 2014
- First stage of IT migration from RBS Group delivered with new data centres established which offer more flexibility to progress digital plans
- Announcement on 8 October for the sale of the UK closed life insurance business and intention to pay a special interim dividend of 4.0 pence per share following completion

Paul Geddes, CEO of Direct Line Group, commented

"These are good results in competitive markets, with a 20% improvement in operating profit, a 95.4% combined operating ratio and a return on tangible equity of 16.8%. Even after allowing for normal weather losses, our performance proves we are delivering our self-help agenda and making good progress towards our strategic targets.

"While these results demonstrate our continuing choice to focus on value of business over volume, in Motor we were able to reduce average prices for our customers helped by our own claims efficiencies and the benefits of the recent legal reforms.

"We continue to invest in technology, adapting to new ways in which our customers want to interact with us and with the aim of driving further business improvements. The launch of our own data centres, the first stage in the delivery of our IT migration to a stand-alone platform, is an enabler of this plan. Combined with our other major initiatives, we continue to transform our business."

See page 2 for notes

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Notes

1. Ongoing operations include Direct Line Group's (the "**Group**") ongoing divisions: 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 (£1 billion dividend payment and £500 million long-term subordinated debt issue) occurred on 1 January 2012.

5. Return on tangible equity normalised for expected level of claims from major weather events which is assumed to be £80 million per annum.

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, disposals 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

	Q3 2013 £m	Q3 2012 £m	9 months 2013 £m	9 months 2012 £m
Ongoing operations[1]:				
Gross written premium	**977.7**	1,026.8	**2,953.6**	3,085.2
Net earned premium	**880.3**	929.5	**2,652.6**	2,790.3
Underwriting profit	**26.5**	28.4	**122.4**	8.4
Instalment and other operating income	**44.3**	48.0	**137.5**	146.8
Investment return	**60.4**	47.3	**157.9**	192.7
Operating profit	**131.2**	123.7	**417.8**	347.9
Run-off segment	**20.2**	(3.0)	**30.8**	(1.8)
Restructuring and other one-off costs	**(17.3)**	(28.2)	**(87.2)**	(136.9)
Operating profit	**134.1**	92.5	**361.4**	209.2
Finance costs	**(9.9)**	(10.1)	**(28.4)**	(20.3)
Profit before tax	**124.2**	82.4	**333.0**	188.9
Tax	**(32.9)**	(23.4)	**(89.9)**	(47.1)
Profit after tax	**91.3**	59.0	**243.1**	141.8
Of which ongoing operations[1]	**93.1**	85.7	**298.9**	247.3
Key metrics – ongoing operations				
Loss ratio	**64.2%**	66.8%	**61.6%**	67.2%
Commission ratio	**10.4%**	9.2%	**11.0%**	8.7%
Expense ratio	**22.4%**	20.9%	**22.8%**	23.8%
Combined operating ratio	**97.0%**	96.9%	**95.4%**	99.7%
Earnings per share:				
Adjusted[2] – basic (pence)			**20.0**	16.5
Adjusted[2] – diluted (pence)			**19.9**	16.5
Return on tangible equity[3] (annualised)			**16.8%**	10.6%
Pro forma return on tangible equity[4]				13.5%
Key metrics – total Group				
Investment income yield			**2.1%**	2.0%
Investment return			**2.5%**	3.1%
Earnings per share:				
Basic (pence)			**16.3**	9.5
Diluted (pence)			**16.2**	9.5

		As at	
	30 Sep 2013	30 Jun 2013	31 Dec 2012
Net asset value per share (pence)	**187.9**	186.9	189.1
Tangible net asset per share (pence)	**155.8**	156.6	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 £417.8 million for the first nine months of 2013 increased by 20.1% (first nine months 2012: £347.9 million) driven by an improved underwriting profit, partially offset by lower investment returns. The improvement in underwriting profit reflects fewer major weather events in the UK, continued reserve releases and lower costs. The COR improved to 95.4% (first nine months 2012: 99.7%).

Gross written premium was 4.3% lower for the first nine months of 2013, reflecting competitive market conditions in UK personal lines, partially offset by growth in International and Commercial.

Annualised return on tangible equity for the first nine months of 2013 was 16.8% (first nine months 2012: 10.6%; pro forma: 13.5%). Normalising for expected claims from major weather events, the annualised return on tangible equity in the first nine months of 2013 would have been approximately 15%[1].

The 6.1% increase in the third quarter operating profit from ongoing operations of £131.2 million (third quarter 2012: £123.7 million) reflects stable underwriting profit together with increased net investment gains.

Business update

During 2013, the Group has made good progress across each of its strategic priorities with further development of a number of the Group's initiatives in the third quarter.

The take-up of the Group's telematics offerings has increased in the quarter following the roll-out of its propositions. The Group believes telematics will become increasingly important in the UK motor market and is installing around 400 telematics devices each week. For drivers aged under 25, one in five Direct Line new business motor sales includes telematics.

During the third quarter the Group has continued to experience positive trends in Motor small bodily injury claims, in part reflecting ongoing benefits from its claims transformation programme. In addition, the Group believes the recent legal reforms have also been a contributory factor. Together with other observed claims trends, this has helped enable the Group to reduce average motor prices in the quarter by 5% compared with the same period last year. The Group continued to increase its risk mix on a selective basis in the quarter, although this still remains marginally below 2012 levels.

The total cost base[2] for the first nine months was 9.9% lower than the same period in 2012 as benefits from cost savings initiatives began to be recognised. The total cost base[2] in the third quarter of £259.9 million showed good progress towards the £250 million quarterly run rate required to meet the Group's target of a cost base[2] of approximately £1,000 million in 2014.

The Group continues to develop its operations to meet the needs of evolving customer requirements, in particular the need to enhance its digital capabilities. During the quarter the Group's stand-alone data centres became operational and marked the first major milestone in migrating the Group's IT infrastructure from RBS Group. This is a key step towards enabling a more flexible IT strategy with the first result being the upcoming launch of new customer facing websites.

In October, the Group agreed the sale of its closed life insurance operation, Direct Line Life Insurance Limited ("**DLL**"), for £62 million. The proceeds of the sale of DLL represent inorganic capital generation and the Board believes that in this instance it is appropriate to return the sale proceeds to shareholders. Assuming the sale completes as expected, the Board intends to declare a special interim dividend of 4.0 pence per share shortly after completion. The sale of DLL and the proposed subsequent dividend are not expected to have a material impact on Direct Line Group's capital position.

1. See note 5 on page 2
2. See note 6 on page 2

RBS Group

In September 2013, RBS Group sold a further 300.3 million Ordinary Shares in Direct Line Group to institutional investors. This represented 20.0% of the total issued share capital and generated gross proceeds of £630.7 million for RBS Group. Following the placing, RBS Group's shareholding in Direct Line Group fell to 28.5%.

On 1 October, Bruce Van Saun stepped down from the Board and Mark Catton was reappointed. RBS Group is entitled, under its Relationship Agreement with Direct Line Group, to nominate one Non-Executive Director to the Board while its shareholding in the Company remains 20% or more.

UK weather since the end of the third quarter

Many parts of the UK were impacted by strong winds and flooding on the 27 and 28 October. Following the storm, the Group's priority has been to focus on its customers to ensure they are provided with immediate support, with policyholder enquiries running at more than twice the normal volume of calls. The Group's major incident response operations were fully mobilised, including its on-the-ground customer assistance resources. While it remains too early to assess the probable claims costs from this event with certainty, according to the Group's projected estimates it is currently expected that these will fall within its expectation for the entire fourth quarter of approximately £25 million of claims costs from major weather events.

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

	Q3 2013 £m	Q3 2012 £m	**9 months 2013 £m**	9 months 2012 £m
Underwriting profit	**26.5**	28.4	**122.4**	8.4
Instalment and other operating income	**44.3**	48.0	**137.5**	146.8
Investment return	**60.4**	47.3	**157.9**	192.7
Operating profit	**131.2**	123.7	**417.8**	347.9

Operating profit from ongoing operations of £417.8 million increased in the first nine months of 2013 by 20.1% (first nine months 2012: £347.9 million) driven by a significantly improved underwriting result, partially offset by a lower investment return.

Operating profit from ongoing operations for the third quarter of 2013 increased by 6.1% to £131.2 million (third quarter 2012: £123.7 million) and reflects a stable underwriting profit together with increased net investment gains.

In-force policies – ongoing operations (thousands)

As at	**30 Sep 2013**	30 Jun 2013	31 Mar 2013	31 Dec 2012
Motor	**3,790**	3,829	3,865	4,050
Home	**3,753**	3,753	4,199	4,239
Rescue and other personal lines	**8,917**	9,014	9,197	9,431
Commercial	**571**	561	550	466
International	**1,597**	1,586	1,572	1,462
Total	**18,628**	18,743	19,383	19,648

Since the beginning of the year, in-force policies from ongoing operations reduced by 5.2% to 18.6 million. Motor in-force policies have been broadly stable over the last two quarters, although are 6.4% lower than at 31 December 2012. The fall reflects the Group's focus on maintaining its underwriting discipline in a competitive marketplace, particularly for new business. In addition, the reclassification of van business to Commercial (around 70,000 in-force policies) from 1 January 2013, represented 1.7 percentage points of the reduction.

Home in-force policies were in line with last quarter with a continued focus on retention, but fell by 11.5% since the start of the year mainly as a result of the removal of Home Response[1] policies (around 420,000) from certain packaged bank accounts no longer sold through partners. Excluding this effect, which had little impact on gross written premium, Home in-force policies have decreased by 1.7% since the year end. Commercial continued to grow in-force policies, particularly in Direct Line for Business. International growth arose from Germany where the Group has benefited from improved market conditions.

Gross written premium – ongoing operations

	Q3 2013 £m	Q3 2012 £m	**9 months 2013 £m**	9 months 2012 £m
Motor	**386.0**	439.6	**1,117.4**	1,281.7
Home	**256.4**	267.0	**716.8**	751.4
Rescue and other personal lines	**102.0**	104.0	**295.2**	303.3
Commercial	**110.8**	103.7	**361.5**	333.5
International	**122.5**	112.5	**462.7**	415.3
Total	**977.7**	1,026.8	**2,953.6**	3,085.2

Gross written premium of £2,953.6 million fell by 4.3% compared to the first nine months of 2012 (£3,085.2 million) reflecting the impact of a competitive market, particularly in UK motor, together with the Group's continued focus on maintaining its underwriting discipline.

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

Commercial gross written premium increased by 8.4% compared with the first nine months of 2012 due to the transfer of van business and growth in Direct Line for Business. International continued to see growth, with gross written premium increasing by 11.4% compared with the first nine months of 2012 (6.9% in local currency terms). Strong growth in Germany was partially offset by subdued trading in Italy.

In total, gross written premiums of £977.7 million in the third quarter fell by 4.8% compared to 2012 (third quarter 2012: £1,026.8 million).

Underwriting profit – ongoing operations

	Q3 2013 £m	Q3 2012 £m	**9 months 2013 £m**	9 months 2012 £m
Underwriting profit	**26.5**	28.4	**122.4**	8.4
Loss ratio	**64.2%**	66.8%	**61.6%**	67.2%
Commission ratio	**10.4%**	9.2%	**11.0%**	8.7%
Expense ratio	**22.4%**	20.9%	**22.8%**	23.8%
Combined operating ratio	**97.0%**	96.9%	**95.4%**	99.7%

	9 months 2013	9 months 2012
Reported loss ratio	**61.6%**	67.2%
Prior year reserve releases	**11.7%**	10.3%
Major weather events – Home	**(0.2%)**	(3.6%)
Current year attritional loss ratio	**73.1%**	73.9%

The improvement in underwriting profit for the nine months of 2013 reflects in part benefits from the Group's transformation plan, including pricing and claims initiatives, as well as fewer claims from major weather events in the UK.

The COR improved by 4.3 percentage points to 95.4% compared to the first nine months of 2012 (first nine months 2012: 99.7%). This was attributable to an improvement in the loss and expense ratios, partially offset by a higher commission ratio.

The loss ratio improved by 5.6 percentage points reflecting ongoing benefits from pricing and claims initiatives, which supported continued reserve releases, together with fewer claims from major weather events in Home. In 2013, the Home division incurred approximately £5 million of claims from major weather events (first nine months 2012: approximately £100 million).

Releases from prior year claims reserves contributed £311.1 million, representing 11.7% of net earned premium for the first nine months of 2013 (first nine months 2012: £286.8 million). The bulk of the release arose in the Motor division where the Group has experienced favourable development on bodily injury claims, which is currently expected to continue.

After adjusting for prior year reserve releases and claims from major weather events, the current year attritional loss ratio of 73.1% for the first nine months of 2013 improved by 0.8 percentage points (first nine months 2012: 73.9%). This included approximately £9 million of claims relating to hailstorms in Germany in the third quarter.

The commission ratio increased by 2.3 percentage points to 11.0% (first nine months 2012: 8.7%) mainly due to profit-share payments reflecting the higher profitability of partnership business in the Home division due mainly to fewer claims from major weather events.

The expense ratio improved 1.0 percentage points to 22.8% (first nine months 2012: 23.8%). This reflected benefits from cost reduction initiatives together with reduced parallel running costs, partially offset by the effect of lower net earned premium.

The COR in the third quarter of 2013 of 97.0% is in line with the same quarter of 2012. A lower loss ratio was offset by higher commission and expense ratios. The third quarter in 2012 benefited from an abnormally low level of expenses in the period immediately following separation from RBS Group.

Operating expenses and cost base – ongoing operations

	Q3 2013 £m	Q3 2012 £m	9 months 2013 £m	9 months 2012 £m
Operating expenses	**197.5**	194.5	**606.0**	666.3
Claims handling expenses	**62.4**	80.6	**178.0**	203.7
Total cost base[1]	**259.9**	275.1	**784.0**	870.0
Expense ratio	**22.4%**	20.9%	**22.8%**	23.8%
Claims handling ratio	**7.1%**	8.7%	**6.7%**	7.3%

Ongoing operating expenses of £606.0 million for the first nine months of 2013 reduced 9.0% from the same period in 2012 (£666.3 million) principally due to cost savings initiatives and a reduction in parallel costs in head office functions. The Group is on track to meet its target of approximately £1,000 million total cost base[1] in 2014.

Instalment and other operating income – ongoing operations

	Q3 2013 £m	Q3 2012 £m	9 months 2013 £m	9 months 2012 £m
Instalment income	**29.3**	31.6	**89.3**	93.7
Other operating income	**15.0**	16.4	**48.2**	53.1
Total	**44.3**	48.0	**137.5**	146.8

Instalment and other operating income from ongoing operations of £137.5 million for the first nine months of 2013 was £9.3 million lower than the same period last year (£146.8 million). This reflects the cessation of solicitors' referral fee income from 1 April 2013 and lower in-force policies in Motor and Home.

Investment return – ongoing operations

	Q3 2013 £m	Q3 2012 £m	9 months 2013 £m	9 months 2012 £m
Investment income	**45.8**	40.4	**129.2**	137.7
Net investment gains[2]	**14.6**	6.9	**28.7**	55.0
Total investment return	**60.4**	47.3	**157.9**	192.7

Investment return from ongoing operations of £157.9 million for the first nine months of 2013 was 18.1% lower than the same period last year due to a decreased average investment asset base and lower investment gains as set out overleaf.

Total investment return in the third quarter of 2013 of £60.4 million was 27.7% higher than the same period in 2012. This was due to a number of factors including the benefit of portfolio restructuring on investment yields and higher net investment gains including revaluation of the Group's property portfolio, partially offset by lower assets under management. Part of the increase was also attributable to a revised allocation of investment income between ongoing operations and the Run-off segment.

1. See note 6 on page 2
2. Net realised gains includes a net £4.7 million increase in fair value adjustments on investment properties re-valued during the third quarter of 2013

Investment yields – total Group

	9 months 2013	9 months 2012
Investment income yield[1]	**2.1%**	2.0%
Investment return[2]	**2.5%**	3.1%

The investment income yield on the total portfolio (including the Run-off segment) was 2.1% for the first nine months of 2013 (first nine months 2012: 2.0%). This increase reflects the benefit of the portfolio restructuring carried out over the last 18 months.

Investment holdings – total Group

As at	**30 Sep 2013 £m**	30 Jun 2013 £m	31 Dec 2012 £m	30 Sep 2012 £m
Corporate debt securities[3]	**4,986.5**	4,833.9	4,528.6	4,308.4
Supranational[4]	**449.3**	463.8	521.8	518.9
Local government[4]	**227.1**	278.7	271.1	264.0
Credit	**5,662.9**	5,576.4	5,321.5	5,091.3
Sovereign[4]	**1,448.0**	1,654.0	1,842.8	1,874.9
Cash and cash equivalents	**1,420.4**	1,444.2	2,062.5	2,546.6
Investment property	**206.2**	186.9	128.9	33.2
Total	**8,737.5**	8,861.5	9,355.7	9,546.0

Total investment assets fell 6.6% in the first nine months of 2013 due principally to the repayment of the £258.5 million Tesco Personal Finance loan note and payment of the final (£120.0 million) and interim (£62.8 million) dividends as well as a reduction in insurance liabilities.

The Group's investment portfolio is comprised primarily of investment grade debt securities and cash. During the first nine months, the Group continued to execute its investment strategy with further purchases of £427.4 million in corporate debt securities alongside a reduction in cash holdings and sovereign debt securities. The allocation to credit, including supranational and local government debt securities, was 64.8% at 30 September 2013 (31 December 2012: 56.9%), which is broadly in line with the Group's target. The Group has approved changes to the investment policy which will permit investment of up to approximately 5% of total investments in structured credit in addition to the existing credit allocation and an increase in the weighting to triple B corporate debt securities, the latter of which the Group has started to implement in the third quarter of 2013.

Net unrealised gains (net of current tax) within the revaluation reserve as at 30 September 2013 reduced to £82.5 million (31 December 2012: £158.8 million) primarily as a result of increases in risk-free yields. During the quarter, net unrealised gains (net of current tax) reduced by £10.0 million.

Reconciliation of operating profit

	Q3 2013 £m	Q3 2012 £m	**9 months 2013 £m**	9 months 2012 £m
Ongoing operations	**131.2**	123.7	**417.8**	347.9
Run-off segment	**20.2**	(3.0)	**30.8**	(1.8)
Restructuring and other one-off costs	**(17.3)**	(28.2)	**(87.2)**	(136.9)
Total Group	**134.1**	92.5	**361.4**	209.2

1. Investment income yield excludes net gains and is shown on an annualised basis
2. Investment return includes net gains and is shown on an annualised basis
3. Includes investment portfolio derivatives (30 September 2013: £47.7 million asset; 30 June 2013: £14.2 million asset; 31 December 2012: £7.8 million asset; and 30 September 2012: £9.0 million asset)
4. Previously reported under 'Government bonds'

Run-off segment

The Run-off segment benefited from significant reserve releases in the third quarter and made a profit of £30.8 million in the first nine months of 2013 compared with a loss of £1.8 million in the same period in 2012. Going forward, it is currently expected that Run-off will contribute positively to operating profit, albeit at a lower level than in 2013 to date.

Restructuring and other one-off costs

Restructuring and other one-off costs for the first nine months were £87.2 million (first nine months 2012: £136.9 million). It is now expected that the aggregate restructuring and other one-off costs in 2013 and 2014 will be approximately £220 million, £30 million lower than previously expected, reflecting lower costs relating to the Group's cost saving initiatives. In addition, certain costs previously expected to be incurred in 2013 are now expected to be incurred in 2014. Consequently, it is anticipated that the 2013 costs will be approximately £140 million, £80 million in respect of cost saving initiatives with the remainder in respect of IT migration. Restructuring and other one-off costs for 2014 are now expected to be approximately £80 million.

Finance costs

Finance costs of £28.4 million primarily reflect interest associated with the £500 million long-term Tier 2 subordinated debt issued in April 2012.

Taxation

The effective tax rate of 27.0% is higher than the UK standard corporation tax rate of 23.25% as a consequence of higher overseas tax rates in Italy and Germany as well as a number of one-off items including a deferred tax asset adjustment. The tax rate of 24.9% in the first nine months 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 nine months of 2013 was £333.0 million with profit after tax of £243.1 million (first nine months 2012: £188.9 million and £141.8 million, respectively).

Annualised return on tangible equity for the period for ongoing operations was 16.8% (annualised first nine months 2012: 10.6%; pro forma: 13.5%).

Earnings per share

Basic earnings per share were 16.3 pence and diluted earnings per share were 16.2 pence (first nine months 2012: basic and diluted 9.5 pence). Adjusted earnings per share for the first nine months of 2013 were 20.0 pence basic and 19.9 pence diluted (first nine months 2012: basic and diluted 16.5 pence).

Dividends

The Board 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 of £62.8 million was paid on 26 September 2013.

The Group's progressive dividend policy aims to increase the dividend annually in real terms. If trends continue in the fourth quarter of 2013 to follow those of the rest of the year, the Group expects the growth in the final dividend for 2013 to be at a similar level to that of the interim dividend.

Separately, on 8 October 2013, the Group announced an agreement with Chesnara plc for the sale of the UK closed life insurance business. Assuming the sale completes as expected, the Board intends to declare a special interim dividend of 4.0 pence per share after completion.

Net asset value

As at	30 Sep 2013 £m	30 Jun 2013 £m	31 Dec 2012 £m (audited)
Net assets	**2,809.0**	2,792.8	2,831.6
Goodwill and other intangible assets	**(480.5)**	(451.8)	(421.5)
Tangible net assets	**2,328.5**	2,341.0	2,410.1
Net asset value per share	**187.9**	186.9	189.1
Tangible net asset value per share	**155.8**	156.6	161.0

Net asset value as at 30 September 2013 of £2,809.0 million (31 December 2012: £2,831.6 million) and tangible net asset value of £2,328.5 million (31 December 2012: £2,410.1 million) decreased from the start of the year, principally reflecting the payment of the final 2012 and interim 2013 dividends and a reduction in unrealised gains in the debt securities portfolio, offset by profit for the period.

Consolidated income statement

Total Group

For the three and nine months ended 30 September 2013 and 2012

	Q3 2013 £m	Q3 2012 £m	**9 months 2013 £m**	9 months 2012 £m
Gross earned premium	**976.5**	1,014.2	**2,937.4**	3,048.9
Reinsurance premium ceded	**(95.4)**	(81.5)	**(282.7)**	(246.0)
Net earned premium	**881.1**	932.7	**2,654.7**	2,802.9
Investment return	**63.1**	61.6	**168.5**	237.6
Instalment income	**29.3**	31.6	**89.3**	93.7
Other operating income	**15.0**	15.4	**48.2**	52.4
Total income	**988.5**	1,041.3	**2,960.7**	3,186.6
Insurance claims	**(567.5)**	(626.3)	**(1,715.8)**	(2,135.4)
Insurance claims recoverable from reinsurers	**19.8**	36.1	**102.9**	321.1
Net insurance claims	**(547.7)**	(590.2)	**(1,612.9)**	(1,814.3)
Commission expenses	**(91.7)**	(135.5)	**(292.0)**	(357.5)
Operating expenses	**(215.0)**	(223.1)	**(694.4)**	(805.6)
Total expenses	**(306.7)**	(358.6)	**(986.4)**	(1,163.1)
Operating profit	**134.1**	92.5	**361.4**	209.2
Finance costs	**(9.9)**	(10.1)	**(28.4)**	(20.3)
Profit before tax	**124.2**	82.4	**333.0**	188.9
Tax charge	**(32.9)**	(23.4)	**(89.9)**	(47.1)
Profit for the period attributable to the owners of the Company	**91.3**	59.0	**243.1**	141.8
Earnings per share:				
Basic (pence)	**6.2**	3.9	**16.3**	9.5
Diluted (pence)	**6.1**	3.9	**16.2**	9.5

Ongoing operations

	Q3 2013 £m	Q3 2012 £m	**9 months 2013 £m**	9 months 2012 £m
Gross earned premium	**974.3**	1,009.5	**2,931.0**	3,031.6
Reinsurance premium ceded	**(94.0)**	(80.0)	**(278.4)**	(241.3)
Net earned premium	**880.3**	929.5	**2,652.6**	2,790.3
Investment return	**60.4**	47.3	**157.9**	192.7
Instalment income	**29.3**	31.6	**89.3**	93.7
Other operating income	**15.0**	16.4	**48.2**	53.1
Total income	**985.0**	1,024.8	**2,948.0**	3,129.8
Insurance claims	**(610.3)**	(683.7)	**(1,771.4)**	(2,161.2)
Insurance claims recoverable from reinsurers	**45.6**	62.7	**138.5**	287.1
Net insurance claims	**(564.7)**	(621.0)	**(1,632.9)**	(1,874.1)
Commission expenses	**(91.6)**	(85.6)	**(291.3)**	(241.5)
Operating expenses	**(197.5)**	(194.5)	**(606.0)**	(666.3)
Total expenses	**(289.1)**	(280.1)	**(897.3)**	(907.8)
Operating profit	**131.2**	123.7	**417.8**	347.9

Additional information

Group overview

Direct Line Group: 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.

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 which is available at the following website: ara2012.directlinegroup.com .