Interim results for Direct Line Insurance Group plc
For the six months ended 30 June 2012

Financial highlights

- Operating profit from ongoing operations[1] of £224.2 million up 7% compared with the first half of 2011 (1H 2011: £209.5 million) with adverse weather in 1H 2012 offset by higher releases from prior year claims reserves
- In-force policies of 20.1 million, up 4% during 1H 2012 (FY 2011: 19.4 million) with Motor and Home stable and growth in Commercial and Rescue and other personal lines
- Combined operating ratio[2] for ongoing operations of 101.1%, an improvement against 1H 2011 (102.5%) driven by a significant improvement in the loss ratio
- Profit before tax of £106.5 million (1H 2011: £187.5 million) reflects restructuring and other one-off costs relating to the separation from RBS Group
- Earnings per share (basic) of 5.5 pence (1H 2011: 9.5 pence, FY 2011: 16.6 pence) with adjusted earnings per share[3] of 10.8 pence (1H 2011: 10.2 pence, FY 2011: 20.5 pence)
- Annualised return on tangible equity[4] ("**RoTE**") from ongoing operations of 10.2% compared with 10.0% in 2011. Had the capital actions taken by the Company in 1H 2012 (£800 million dividends and £500 million subordinated debt issuance) occurred on 1 January 2012, annualised RoTE from ongoing operations for 1H 2012 would have been 12.1%[5]
- Total dividends of £800m paid to RBS Group during 1H 2012 with an additional £200 million approved and paid on 3 September 2012
- Net asset value of £2.9 billion (FY 2011: £3.6 billion) and tangible net asset value of £2.5 billion (FY 2011: £3.2 billion) equal to 194 pence and 168 pence per share respectively

Strategic highlights

- Renewed or extended long-term distribution deals with key partners in 1H 2012 – Nationwide Building Society, and Sainsbury's Bank – and expected to reach agreement with RBS Group for RBS and NatWest in September. In addition, Churchill and Privilege launched on comparethemarket.com in July 2012
- Further progress in rebuilding competitive advantage in pricing and claims management with benefits starting to be realised
- Initiatives launched to target £100 million of gross annual cost savings[6] by the end of 2014
- Successful inaugural capital markets transaction with £500 million of Tier 2 subordinated debt issued in April 2012
- Separation from RBS Group substantially complete with independent corporate functions and governance from 1 July 2012
- Direct Line Group continues to deliver its transformation plan and has set a target of a 15% RoTE

Paul Geddes, CEO of Direct Line Group, commented

"This has been an important period for Direct Line Group. We are now beginning to see the benefits of our transformation plan in pricing, risk, claims as well as capital management actions and operational efficiency. Other than some transitional services provided by RBS Group, we have essentially achieved the goal of operating as a standalone insurance company. This means we have full ownership of our cost base and have launched initiatives to target £100 million of gross annual cost savings across the business. Real progress has been made during the first half of the year towards achieving our target of a 15% RoTE."

See page 2 for notes

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Notes:

(1) Ongoing operations

Ongoing operations include the Group's ongoing segments: Motor, Home, Rescue and other personal lines, Commercial and International. It excludes Run-off and Restructuring and other one-off costs.

(2) Combined operating ratio

Combined operating ratio is the sum of loss, commission and expense ratios (all expressed as a percentage of net earned premium). The ratio excludes instalment income and other operating income (as well as investment income).

(3) Adjusted earnings per share

Adjusted to exclude Run-off operations and Restructuring and other one-off costs and based on weighted average number of ordinary shares in issue during the period (using UK standard tax rate).

(4) Return on tangible equity (RoTE)

Adjusted to exclude Run-off operations and Restructuring and other one-off costs and based on average tangible invested equity (adjusted for the weighted average value of dividend paid in the period) (using UK standard tax rate).

(5) No adjustment for the weighted average value of dividend paid in the period as assumes all dividends paid on 1 January 2012.

(6) £100 million gross cost savings

Cost savings expected to be recognised in operating costs for ongoing operations and claims handling expenses by the end of 2014.

Forward-looking statements

Certain information contained in this announcement including any information as to the Group's strategy, plans or future financial or operating performance constitute "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "projects", "expects", "intends", "aims", "plans", "predicts", "may", "will", "seeks" or "should" 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 announcement 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.

By their nature, forward-looking statements involve risks 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 announcement. 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 announcement speak only as of the date of this announcement. The Group expressly disclaims 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, regulation or accounting standard, or the Listing Rules or the Disclosure and Transparency Rules of the FSA.

Overview

Direct Line Group made further progress in the first half of 2012 in relation to both its strategic plan and financial performance.

Business development

In the first half of 2012, Direct Line Group (the **"Group"**) continued to make significant progress in delivering its strategic aim to be Britain's best retail general insurer by rebuilding competitive advantage in the areas of distribution, pricing, claims management and operational efficiency.

The Group has renewed or expanded partnership agreements that represent a substantial portion of its portfolio, especially in its home segment. The existing contract with Nationwide Building Society has been extended to 2015, and building on this relationship, the Group began to handle all of the post sales service and claims management for Nationwide's home insurance customers. The agreement with Sainsbury's Bank to provide motor insurance to its customers is now in its second year and was extended to provide home insurance.

Furthermore, Direct Line Group expects to reach agreement with RBS Group in September for an arm's length, five year distribution agreement for the continued provision of general insurance products post divestment.

Following the launch on comparethemarket.com, Churchill and Privilege motor insurance products are now available on all four major price comparison websites in the UK. This move reinforces Direct Line Group's multi-channel distribution strategy. Home products are expected to follow later in the year.

Execution of the Group's pricing and claims transformation plans continues with further developments in its pricing capability, embedding peril level technical pricing models for Home and developing price optimisation for Motor. Within claims management, and following pilot testing, a number of claims initiatives were implemented and the benefits are beginning to emerge. Claims inflation in small bodily injury claims has abated and together with lower litigation rates has contributed to higher reserve releases from estimates for prior year claims.

In line with the strategic business transformation plan, the Group has launched further initiatives to target £100 million of gross annual cost by the end of 2014, with one-off restructuring costs expected to be c. £100 million. The initiatives include reducing administration costs in central functions and improving marketing efficiency.

The Group also made further progress in optimising its capital structure during the first six months of 2012. On 27 April 2012, £500 million of Tier 2 subordinated debt was raised following publication of inaugural credit ratings from both Standard and Poor's and Moody's Investor Services. Direct Line Group's principal underwriter, U K Insurance Limited, is rated A by Standard and Poor's and A2 by Moody's Investor Services; both ratings carry a stable outlook.

Since 1 July 2012, the Group has been operating on a substantially standalone basis from RBS Group with independent corporate functions and governance following the completion of a number of separation initiatives. During 2012 to date, these included: launching a new corporate identity, confirming further senior management appointments, appointing a new independent Chairman , agreeing and issuing new terms and conditions for staff, implementing independent HR systems and making progress on an arm's length transitional services agreement with RBS Group for residual services.

Over the last 18 months a number of regulatory reviews and initiatives have been announced by the UK Government, the Ministry of Justice, the Office of Fair Trading and others in relation to the motor insurance industry. Direct Line Group is actively engaged with the major stakeholders, and supports the introduction of a coherent set of reforms.

Overall, Direct Line Group continues to deliver on its transformation plan and remains focussed on delivering its target of a 15% RoTE.

Financial summary

	Six months ended 30 Jun 2012 £ million	30 Jun 2011 £ million	Year Ended 31 Dec 2011 £ million
In-force policies (ongoing operations, millions)	20.1	20.0	19.4
Gross written premium	2,058.4	2, 093.2	4,124.9
Net earned premium	1,860.8	1,943.7	3,890.9
Underwriting result	(20.0)	(50.2)	(72.3)
Other income	98.8	134.2	255.5
Investment return	145.4	125.5	238.7
Operating profit from ongoing operations	224.2	209.5	421.9
Run-off segment	1.2	(12.4)	(23.9)
Restructuring and other one-off costs	(108.7)	(9.8)	(54.0)
Operating result	116.7	187.3	344.0
Finance and other	(10.2)	0.2	(1.1)
Profit before tax	106.5	187.5	342.9
Tax	(23.7)	(45.3)	(93.9)
Profit for the period	82.8	142.2	249.0
Of which ongoing operations[1]	161.6	153.0	308.1
Combined operating ratio	101.1%	102.5%	101.8%
RoTE (annualised)	10.2%	n/a	10.0%

In-force policies and gross written premium

In-force policies (million)	**As at 30 Jun 2012**	30 Jun 2011	As at 31 Dec 2011
Motor	4.2	4.4	4.1
Home	4.3	4.4	4.3
Rescue and other personal lines	9.7	9.5	9.2
Commercial	0.5	0.4	0.4
International	1.4	1.3	1.4
Total ongoing operations	**20.1**	**20.0**	**19.4**

In-force policies (IFPs) for ongoing operations increased 4% during the first half of 2012 to 20.1 million and were broadly stable compared to a year ago (FY 2011: 19.4 million and 1H 2011 20.0 million). The increase related mainly to Rescue and other personal lines and arose from an increase in travel policies from packaged bank accounts. Motor and Home IFPs were stable during the period across both own brands and partnerships.

The Commercial business continued to grow IFPs through Direct Line for Business which focuses on micro and small businesses. After a period of strong growth in 2011, International consolidated its position at 1.4 million IFPs.

[1] Adjusted to exclude Run-off operations and Restructuring and other one-off costs (using UK standard tax rate)

Gross written premium (£ million)	Six months ended 30 Jun 2012	30 Jun 2011	Year Ended 31 Dec 2011
Motor	842.1	866.0	1,734.8
Home	484.4	500.8	1,031.3
Rescue and other personal lines	199.3	192.5	350.2
Commercial	229.8	231.9	438.6
International	302.8	302.0	570.0
Total ongoing operations	**2,058.4**	**2,093.2**	**4,124.9**

Gross written premiums (GWP) of £2,058 million were broadly stable with 1H 2011 (£2,093 million) reflecting the trends in IFPs. Motor market rates were broadly stable in 1H 2012.

Underwriting results

Key ratios (ongoing operations) (%)	Six months ended 30 Jun 2012	30 Jun 2011	Year Ended 31 Dec 2011
Loss ratio	67.3	74.2	70.2
Commission ratio	8.4	7.7	10.1
Expense ratio	25.4	20.6	21.5
Combined operating ratio	**101.1**	**102.5**	**101.8**

The combined operating ratio from ongoing operations of 101.1% improved over both 1H 2011 and full year 2011. This was attributable to a significant improvement in the loss ratio which more than offset an increase in the expense ratio.

The improvement in the loss ratio was despite approximately £90 million of weather related claims in the Home segment following the wettest April to June period since meteorological records began. Home weather related claims were approximately £50 million more in the UK than expected for the first half of 2012 (1H 2011: approximately £20 million better than expected).

Movements in prior year claims reserves (£ million) Release / (increase)	Six months ended 30 Jun 2012	30 Jun 2011	Year Ended 31 Dec 2011
Motor	108.5	54.5	138.2
Home	29.2	(55.8)	(48.5)
Rescue and other personal lines	12.7	24.7	52.8
Commercial	58.5	31.7	38.4
International	19.5	14.4	7.9
Total ongoing operations	**228.4**	**69.5**	**188.8**

Releases from prior year claims reserves contributed £228 million and represented 12.3 percentage points (pts) of net earned premium (1H 2011: £70 million and 3.6pts; FY 2011: £189 million and 4.9pts). Reserve releases in 1H 2012 arose from all segments particularly from Motor and Commercial. Releases from Motor were partly attributable to benefits that are starting to arise from the Group's claims transformation programme. Prior year reserve increases in Home in 2011 primarily reflected late reported claims on the 2010 weather events, some of which were released in 1H 2012.

The higher expense ratio in 1H 2012 reflected a temporary increase in central overhead charges relating to building separate corporate functions, higher management recharges from RBS Group of £16 million and accelerated spend in relation to marketing activities. The effect of lower net earned premium added around 1 percentage point to the ratio for ongoing operations. The Group expects to make progress in reducing its expense ratio in the second half of 2012.

Combined operating ratio (%)	Six months ended 30 Jun 2012	30 Jun 2011	Year Ended 31 Dec 2011
Motor	102.4	107.0	105.6
Home	103.4	98.6	95.1
Rescue and other personal lines	75.7	82.4	86.3
Commercial	112.7	103.7	112.3
International	103.0	112.5	107.6
Total ongoing operations	**101.1**	**102.5**	**101.8**

On a segmental basis the combined operating ratio improved in Motor, Rescue and other personal lines and International compared with the first six months of 2011 and full year 2011. In Motor the improvement reflects management actions taken to improve the risk profile of the book as well as benefits flowing from the Group's claims transformation programme. Given the stage of this programme, these benefits are primarily achieved through releases from prior year claims reserves.

The Home combined operating ratio was adversely affected by the increase in weather related claims as noted above. Commercial benefited from significant reserve releases but was affected by a number of one-off large claims in its property book. The International combined operating ratio benefited from significant reserve releases in 1H 2012. Rescue and other personal lines demonstrated an underlying improvement in the 1H 2012 loss ratio compared with 1H 2011.

Operating result

Operating result (£ million)	Six months ended 30 Jun 2012	30 Jun 2011	Year Ended 31 Dec 2011
Underwriting result	(20.0)	(50.2)	(72.3)
Other income	98.8	134.2	255.5
Investment return	145.4	125.5	238.7
Operating result	**224.2**	**209.5**	**421.9**

The operating result for ongoing operations of £224.2 million was a 7.0% increase on 1H 2011 (£209.5 million). The underwriting result and investment return both improved but this was partially offset by a lower contribution from other income.

Other income of £98.8 million fell 26% due to the cessation of fee income relating to managing certain elements of the run-off of the Tesco Personal Finance (TPF) business and lower instalment income reflecting lower IFPs in Motor period on period and promotional campaigns.

Investment yields	Six months ended 30 Jun 2012	Year ended 31 Dec 2011
Investment income [1]	2.1%	2.3%
Investment return [2]	3.4%	2.7%

Investment return of £145.4 million was £19.9 million (16%) higher than 1H 2011 and reflects higher realised gains arising primarily from portfolio restructuring. The income yield on the total portfolio (including run-off) was 2.1% in 1H 2012 (FY 2011: 2.3%) reflecting a higher proportion of short term deposits. The investment assets supporting the TPF liabilities are predominantly held in cash.

Financial investments and cash (£ million)	As at 30 Jun 2012	As at 31 Dec 2011
Government bonds	2,947.1	3,481.2
Corporate bonds	3,916.4	3,843.2
Mortgage backed securities	169.3	283.5
Other investment funds	-	382.8
Total available-for-sale investments	**7,032.8**	**7,990.7**
Loans and receivables	483.0	1,489.6
Total financial investments	**7,515.8**	**9,480.3**
Cash and cash equivalents	2,565.6	1,379.8
Total financial investments and cash	**10,081.4**	**10,860.1**

At 30 June 2012, exposure to peripheral Eurozone bonds was £51 million, less than 1% of the portfolio, comprising non-sovereign debt issued in Ireland, Italy and Spain. During the first half of 2012 the Group increased its investment in corporate bonds by investing approximately £400 million in US dollar corporate credit, bringing the portfolio closer to its maximum allocation of 60% toward corporate bonds. This is managed through leading global third party asset managers and is hedged back to Sterling. The Group believes that accessing the US markets should significantly increase the breadth of its investible corporate bond market and reduce its concentration risk.

Run-off and Restructuring and other one-off costs

The Run-off segment, which includes the exited personal lines broker and TPF businesses, made a profit of £1.2 million compared with a loss of £12.4 million in 1H 2011. Currently the majority of the results of operations from the TPF business are attributable to TPF through commission payments, and favourable run-off has resulted in a higher commission ratio in the period.

Restructuring and other one-off costs of £109 million primarily relate to activities associated with separation and divestment from RBS Group. It is currently expected that for the whole of 2012 costs will be approximately £170 million before any charges associated with the recently announced cost saving initiatives.

Finance and other costs

Finance costs increased to £10.2 million primarily reflecting interest associated with the £500 million Tier 2 subordinated debt issued in April 2012.

1 Investment income excludes net gains and is shown on an annualised basis.

2 Investment return includes net gains and is shown on an annualised basis.

Profit, and return on equity

Overall pre-tax profit for 1H 2012 was £106.5 million with profit after tax of £82.8 million (1H 2011: £187.5 million, £142.2 million; FY 2011: £342.9 million, £249.0 million respectively).

Annualised return on tangible equity for the period for ongoing operations was 10.2% (FY 2011: 10.0%). Had the capital actions taken by the Company in 1H 2012 (£800 million dividends and £500 million subordinated debt issuance) occurred on 1 January 2012, annualised RoTE from ongoing operations for 1H 2012 would have been 12.1%.

Earnings per share

Earnings per share were 5.5 pence (1H 2011: 9.5 pence; FY 2011: 16.6 pence). Adjusted earnings per share[3] for 1H 2012 were 10.8 pence, an increase of 5.9% on 1H 2011 ((1H 2011: 10.2 pence; FY 2011: 20.5 pence).

Dividends

Total dividends of £800 million were paid to RBS Group during 1H 2012 with an additional £200 million approved and paid by the Board on 3 September 2012.

Net asset value

The net asset value at 30 June 2012 was £2,905.7 million (31 December 2011: £3,612.8 million) with tangible net asset value of £2,514.8 million (31 December 2011: £3,247.0 million). This equates to 193.7 pence and 167.7 pence per share respectively.

Capital position

Direct Line Group continues to be well capitalised, with an estimated Insurance Groups Directive (IGD) coverage ratio of 306% at 30 June 2012 (31 December 2011: 319%).

[3] Adjusted to exclude Run-off operations and Restructuring and other one-off costs, and based on weighted average number of ordinary shares in issue during the period (using UK standard tax rate).

DIRECT LINE INSURANCE GROUP PLC
COMBINED INCOME STATEMENT

	Notes	Six months ended 30 June 2012 £ Million	Six months ended 30 June 2011 £ Million	Year ended 31 December 2011 £ Million
		(reviewed)	(unaudited)	(audited)
Gross earned premium		2,034.7	2,367.9	4,522.9
Reinsurance premium ceded		(164.5)	(127.5)	(269.9)
Net earned premium		**1,870.2**	**2,240.4**	**4,253.0**
Investment return	3	176.0	146.9	281.9
Instalment income		62.1	76.7	145.0
Other operating income	4	37.0	46.3	95.1
Total income		**2,145.3**	**2,510.3**	**4,775.0**
Insurance claims		(1,509.1)	(1,769.1)	(3,160.6)
Insurance claims recoverable from reinsurers		285.0	68.7	193.1
Net insurance claims		**(1,224.1)**	**(1,700.4)**	**(2,967.5)**
Commission expenses		(222.0)	(184.3)	(518.9)
Other operating expenses		(582.5)	(438.3)	(944.6)
Total expenses		**(804.5)**	**(622.6)**	**(1,463.5)**
Operating profit		**116.7**	**187.3**	**344.0**
Finance costs		(10.2)	(1.4)	(2.7)
Gain on disposal of subsidiary		—	1.6	1.6
Profit before tax		**106.5**	**187.5**	**342.9**
Tax charge		(23.7)	(45.3)	(93.9)
Profit for the period attributable to Owners of the Company		**82.8**	**142.2**	**249.0**
Earnings per share				
– basic (pence)	5	5.5	9.5	16.6

DIRECT LINE INSURANCE GROUP PLC

COMBINED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June		Year ended 31 December
	2012 £ Million	2011 £ Million	2011 £ Million
	(reviewed)	(unaudited)	(audited)
Profit for the period	**82.8**	**142.2**	**249.0**
Other comprehensive (loss)/income			
Actuarial loss on defined benefit plan	(3.0)	—	(0.6)
Exchange differences on translation of foreign operations	(1.5)	6.0	(3.5)
Fair value gain on available-for-sale investments	62.5	71.4	183.8
Less: realised net gains on available-for-sale investments	(64.7)	(21.4)	(52.3)
	(6.7)	56.0	127.4
Tax credit/(charge) on other comprehensive income	0.8	(12.8)	(36.8)
Other comprehensive (loss)/income for the period	**(5.9)**	**43.2**	**90.6**
Total comprehensive income for the period attributable to Owners of the Company	**76.9**	**185.4**	**339.6**

DIRECT LINE INSURANCE GROUP PLC

COMBINED BALANCE SHEET

	Notes	As at 30 June 2012 £ million (reviewed)	As at 31 December 2011 £ million (audited)
ASSETS			
Goodwill and other intangible assets		390.9	365.8
Property, plant and equipment		85.3	46.9
Investment property		—	69.5
Reinsurance assets		964.2	741.6
Deferred tax assets		31.0	26.9
Current tax assets		4.4	—
Deferred acquisition costs		337.1	310.5
Insurance and other receivables		1,233.8	1,252.9
Prepayments, accrued income and other assets		61.6	92.2
Derivative financial instruments		17.1	0.1
Retirement benefit asset		2.5	2.6
Financial investments	6	7,515.8	9,480.3
Cash and cash equivalents	7	2,565.6	1,379.8
Assets held-for-sale		1.0	1.0
Total assets		**13,210.3**	**13,770.1**
EQUITY			
Invested capital		1,500.0	1,500.0
Other reserves		613.6	575.2
Retained earnings		792.1	1,537.6
Total invested equity		2,905.7	3,612.8
Non-controlling interest		258.5	258.5
Total equity		**3,164.2**	**3,871.3**
LIABILITIES			
Subordinated liabilities		516.1	—
Insurance liabilities	8	6,514.6	6,509.0
Unearned premium reserve		1,946.7	1,931.6
Borrowings		83.7	317.9
Derivative financial instruments		1.6	—
Trade and other payables including insurance payables		737.2	910.2
Deferred tax liabilities		15.1	12.1
Current tax liabilities		231.1	218.0
Total liabilities		**10,046.1**	**9,898.8**
Total equity and liabilities		**13,210.3**	**13,770.1**

DIRECT LINE INSURANCE GROUP PLC

COMBINED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011 and the six months ended 30 June 2012

	Invested capital £ Million	Other reserves £ Million	Retained earnings £ Million	Total invested equity £ Million	Non-controlling interest £ Million	Total equity £ Million
Balance as at 1 January 2011	1,500.0	590.4	1,133.2	3,223.6	258.5	3,482.1
Profit for the year	—	—	249.0	249.0	—	249.0
Other comprehensive income	—	91.2	(0.6)	90.6	—	90.6
Transfers (from)/to non distributable reserves	—	(167.3)	167.3	—	—	—
Movement in demerger reserve	—	55.9	—	55.9	—	55.9
Movement in net assets of Direct Line Versicherung AG	—	5.0	(11.3)	(6.3)	—	(6.3)
Balance as at 31 December 2011 (audited)	1,500.0	575.2	1,537.6	3,612.8	258.5	3,871.3
Profit for the period	—	—	82.8	82.8	—	82.8
Other comprehensive income	—	(3.5)	(2.4)	(5.9)	—	(5.9)
Dividends	—	—	(800.0)	(800.0)	—	(800.0)
Transfers to/(from) non distributable reserves	—	16.9	(16.9)	—	—	—
Movement in demerger reserve	—	24.6	—	24.6	—	24.6
Movement in net assets of Direct Line Versicherung AG	—	0.4	(9.0)	(8.6)	—	(8.6)
Balance as at 30 June 2012 (reviewed)	**1,500.0**	**613.6**	**792.1**	**2,905.7**	**258.5**	**3,164.2**

DIRECT LINE INSURANCE GROUP PLC

NOTES TO THE FINANCIAL INFORMATION

1. ACCOUNTING POLICIES

Basis of preparation

The condensed combined interim financial information presented has been prepared for Direct Line Insurance Group plc ("**the Company**") and its subsidiaries (together the "**Group**"). The financial information has been prepared on a historical cost basis except for investment properties and those financial instruments that have been measured at fair value. This condensed combined interim financial information has been prepared in accordance with IAS 34 *Interim Financial Reporting,* with the exception of the requirement to include a combined Cash Flow Statement.

International Financial Reporting Standards ("**IFRS**") as adopted by the European Union ("**EU**") does not provide for the preparation of condensed combined interim financial information and accordingly, certain accounting conventions commonly used in the preparation of combined financial information issued by the UK Auditing Practices Board have been applied. The application of these conventions results in material departure from IFRS as adopted by the EU with respect to the following item:

- the preparation of the combined financial information has required the allocation of certain RBS Group costs to the Group. While such costs have been allocated on the basis intended to reflect their nature, the financial information has not necessarily reflected the results of the Group had it been a standalone group during this time. As these cost allocations did not result in a corresponding cash payment, they are offset by an entry in equity, described as 'demerger reserves'.

The Group was formed on 2 April 2012 when the Company acquired Direct Line Versicherung AG. Prior to this date, the Group was not held by a single legal entity and, accordingly, consolidated financial statements do not exist. The combined financial information has been prepared using merger accounting principles, as if the transaction that gave rise to the formation of the Group had taken place at the beginning of the comparative period. Under these principles, the condensed combined interim financial information has been prepared as if the Company were the holding company of Direct Line Versicherung AG from 1 January 2011, the date of the beginning of the comparative period. The assets, liabilities and the profit or loss of the Company and its subsidiaries, and of Direct Line Versicherung AG have been combined. All transactions and balances between the entities included within the Group have been eliminated. The condensed combined interim financial information reflects a liability payable to RBS Group, at each period end prior to acquisition for the Direct Line Versicherung AG consideration. As the basis of preparation represents a reorganisation of entities under common control, it is therefore outside the scope of IFRS 3, *Business Combinations*. Accordingly, as permitted by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, it has been accounted for as a group reorganisation.

Adoption of new and revised standards

There have been no new or revised standards adopted during the period.

Principal accounting policies

There have been no significant changes to the Group's principal accounting policies as set out on pages F-11 to F-22 of the Historical Financial Information, included in the Group's prospectus dated 25 April 2012. The policies have been applied consistently throughout all the periods presented to items considered material to the condensed combined interim financial information.

2. SEGMENTAL ANALYSIS

There have been no significant changes to the Group's reportable segments as set out on pages F-50 to F-51 of the Historical Financial Information, included in the Group's prospectus dated 25 April 2012. The following is an analysis of the Group's revenue and results by reportable segment for the six months ended 30 June 2012 (reviewed):

	Motor £ Million	Home £ Million	Rescue and other personal lines £ Million	Commercial £ Million	International £ Million	Total Ongoing £ Million	Run-off £ Million	Restructuring and other one-off costs £ Million	Total Group £ Million
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 and other operating income	79.3	12.8	(1.6)	4.8	3.5	98.8	0.3	—	99.1
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)
Other 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**
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%			

All operations are in the UK except for International which operates in Germany and Italy.

2. 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 2011 (unaudited):

	Motor £ Million	Home £ Million	Rescue and other personal lines £ Million	Commercial £ Million	International £ Million	Total Ongoing £ Million	Run-off £ Million	Restructuring and other one-off costs £ Million	Total Group £ Million
Gross written premium	866.0	500.8	192.5	231.9	302.0	2,093.2	26.1	—	2,119.3
Gross earned premium	916.7	512.2	202.4	204.9	222.0	2,058.2	309.7	—	2,367.9
Reinsurance premium ceded	(8.9)	(27.5)	(9.8)	(12.5)	(55.8)	(114.5)	(13.0)	—	(127.5)
Net earned premium	**907.8**	**484.7**	**192.6**	**192.4**	**166.2**	**1,943.7**	**296.7**	**—**	**2,240.4**
Investment return	74.6	17.4	6.7	14.4	12.4	125.5	21.4	—	146.9
Instalment income and other operating income	111.6	16.0	0.9	2.2	3.5	134.2	(11.2)	—	123.0
Total income	**1,094.0**	**518.1**	**200.2**	**209.0**	**182.1**	**2,203.4**	**306.9**	**—**	**2,510.3**
Insurance claims	(766.7)	(311.0)	(122.8)	(115.7)	(188.8)	(1,505.0)	(264.1)	—	(1,769.1)
Insurance claims recoverable from reinsurers	7.5	(1.5)	11.2	2.0	42.9	62.1	6.6	—	68.7
Net insurance claims	**(759.2)**	**(312.5)**	**(111.6)**	**(113.7)**	**(145.9)**	**(1,442.9)**	**(257.5)**	**—**	**(1,700.4)**
Commission expenses	(9.8)	(79.8)	(9.0)	(42.2)	(9.4)	(150.2)	(34.1)	—	(184.3)
Other operating expenses	(202.0)	(85.4)	(37.9)	(43.7)	(31.8)	(400.8)	(27.7)	(9.8)	(438.3)
Total expenses	**(211.8)**	**(165.2)**	**(46.9)**	**(85.9)**	**(41.2)**	**(551.0)**	**(61.8)**	**(9.8)**	**(622.6)**
Operating profit/(loss)	**123.0**	**40.4**	**41.7**	**9.4**	**(5.0)**	**209.5**	**(12.4)**	**(9.8)**	**187.3**
Finance costs									(1.4)
Gain on disposal of subsidiary									1.6
Profit before tax									**187.5**
Loss ratio	83.6%	64.5%	58.0%	59.1%	87.8%	74.2%			
Commission ratio	1.1%	16.5%	4.7%	21.9%	5.6%	7.7%			
Expense ratio	22.3%	17.6%	19.7%	22.7%	19.1%	20.6%			
Combined operating ratio	107.0%	98.6%	82.4%	103.7%	112.5%	102.5%			

2. SEGMENTAL ANALYSIS (Continued)

The following is an analysis of the Group's revenue and results by reportable segment for the year ended 31 December 2011 (audited):

	Motor £ Million	Home £ Million	Rescue and other personal lines £ Million	Commercial £ Million	International £ Million	Total Ongoing £ Million	Run-off £ Million	Restructuring and other one-off costs £ Million	Total Group £ Million
Gross written premium	1,734.8	1,031.3	350.2	438.6	570.0	4,124.9	43.4	—	4,168.3
Gross earned premium	1,797.4	1,031.1	410.3	420.5	482.8	4,142.1	380.8	—	4,522.9
Reinsurance premium ceded	(25.8)	(57.0)	(19.5)	(27.8)	(121.1)	(251.2)	(18.7)	—	(269.9)
Net earned premium	**1,771.6**	**974.1**	**390.8**	**392.7**	**361.7**	**3,890.9**	**362.1**	**—**	**4,253.0**
Investment return	145.2	28.5	9.5	30.5	25.0	238.7	43.2	—	281.9
Instalment income and other operating income	208.2	35.1	—	5.0	7.2	255.5	(15.4)	—	240.1
Total income	**2,125.0**	**1,037.7**	**400.3**	**428.2**	**393.9**	**4,385.1**	**389.9**	**—**	**4,775.0**
Insurance claims	(1,501.6)	(579.2)	(195.7)	(268.6)	(391.4)	(2,936.5)	(224.1)	—	(3,160.6)
Insurance claims recoverable from reinsurers	54.8	19.9	22.1	11.9	96.8	205.5	(12.4)	—	193.1
Net insurance claims	**(1,446.8)**	**(559.3)**	**(173.6)**	**(256.7)**	**(294.6)**	**(2,731.0)**	**(236.5)**	**—**	**(2,967.5)**
Commission expenses	(25.9)	(170.0)	(87.8)	(82.3)	(28.6)	(394.6)	(124.3)	—	(518.9)
Other operating expenses	(397.5)	(196.5)	(75.6)	(101.6)	(66.4)	(837.6)	(53.0)	(54.0)	(944.6)
Total expenses	**(423.4)**	**(366.5)**	**(163.4)**	**(183.9)**	**(95.0)**	**(1,232.2)**	**(177.3)**	**(54.0)**	**(1,463.5)**
Operating profit/(loss)	**254.8**	**111.9**	**63.3**	**(12.4)**	**4.3**	**421.9**	**(23.9)**	**(54.0)**	**344.0**
Finance costs									(2.7)
Gain on disposal of subsidiary									1.6
Profit before tax									**342.9**
Loss ratio	81.7%	57.4%	44.4%	65.4%	81.4%	70.2%			
Commission ratio	1.5%	17.5%	22.5%	21.0%	7.9%	10.1%			
Expense ratio	22.4%	20.2%	19.4%	25.9%	18.3%	21.5%			
Combined operating ratio	105.6%	95.1%	86.3%	112.3%	107.6%	101.8%			

NOTES TO THE FINANCIAL INFORMATION (Continued)

3. INVESTMENT RETURN

	Six months ended 30 June		Year ended 31 December
	2012 £ Million	**2011 £ Million**	**2011 £ Million**
	(reviewed)	(unaudited)	(audited)
Investment income:			
Interest income on debt securities	92.1	109.8	208.1
Other investment fund income	3.1	3.7	8.5
Cash and cash equivalent interest income	11.5	8.4	20.4
Property	3.5	3.6	6.6
Total	**110.2**	**125.5**	**243.6**
Net realised gains:			
Debt securities	41.5	21.4	54.3
Other*	23.2	—	—
Derivatives	1.9	—	—
Impairments on available-for-sale financial assets	—	—	(2.0)
Net unrealised losses:			
Derivatives	(0.8)	—	—
Property	—	—	(14.0)
Total investment return	**176.0**	**146.9**	**281.9**

Impairments on available-for-sale financial assets during 2011 relate to debt securities. There were no impairments in 2012.

*Other net realised gains are in relation to the sale of other investment funds in June 2012.

4. OTHER OPERATING INCOME

	Six months ended 30 June		Year ended 31 December
	2012 £ Million	**2011 £ Million**	**2011 £ Million**
	(reviewed)	(unaudited)	(audited)
Instalment income	62.1	76.7	145.0
Solicitors' referral fee income	11.0	14.6	27.9
Vehicle replacement referral income	8.5	10.9	21.9
Revenue from vehicle recovery and repair services	14.8	16.4	39.3
Fee income from insurance intermediary services	0.7	2.5	3.4
Other income	2.0	1.9	2.6
Total other operating income	**37.0**	**46.3**	**95.1**

5. EARNINGS AND NET ASSETS PER SHARE, RETURN ON EQUITY

Basic earnings per share are as follows:

	Six months ended 30 June		Year ended 31 December
	2012 £ Million	2011 £ Million	2011 £ Million
	(reviewed)	(unaudited)	(audited)
Earnings attributable to Owners of the Company	**82.8**	**142.2**	**249.0**

	Six months ended 30 June		Year ended 31 December
	2012 Million	2011 Million	2011 Million
	(reviewed)	(unaudited)	(audited)
Weighted average number of ordinary shares in issue	**1,500.0**	**1,500.0**	**1,500.0**

	Six months ended 30 June		Year ended 31 December
	2012 Pence	2011 Pence	2011 Pence
	(reviewed)	(unaudited)	(audited)
Basic earnings per share	**5.5**	**9.5**	**16.6**

Basic earnings per share are calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

Net asset and net tangible asset value per share are as follows:

	Six months ended 30 June	Year ended 31 December
	2012 £ Million	2011 £ Million
	(reviewed)	(audited)
Net assets	2,905.7	3,612.8
Goodwill and other intangible assets	(390.9)	(365.8)
Net tangible assets	**2,514.8**	**3,247.0**

	Six months ended 30 June	Year ended 31 December
	2012	2011
	(reviewed)	(audited)
Net asset value per share (pence)	**193.7**	**240.9**
Net tangible asset value per share (pence)	**167.7**	**216.5**

5. EARNINGS AND NET ASSETS PER SHARE, RETURN ON EQUITY (Continued)

Net asset value per share is calculated as total invested equity (excluding non-controlling interest) divided by the average number of shares in issue during the period.

Net tangible asset value per share is calculated as total invested equity (excluding non-controlling interest) less goodwill and other intangible assets divided by the average number of shares in issue during the period.

Return on equity is as follows:

	Six months ended 30 June 2012 £ Million (reviewed)	Year ended 31 December 2011 £ Million (audited)
Profit after tax	**82.8**	**249.0**
Opening invested equity	3,612.8	3,223.6
Closing invested equity	2,905.7	3,612.8
Average invested equity	3,259.2	3,418.2
Adjustment for time weighting of dividends paid in the period	288.8	-
Weighted average invested equity	**3,548.0**	**3,418.2**
Return on equity	**4.7%***	**7.3%**

Return on equity is calculated as profit after tax for the period divided by average invested equity, expressed as a percentage.

*Annualised.

6. FINANCIAL INVESTMENTS

	As at 30 June 2012 £ million (reviewed)	As at 31 December 2011 £ million (audited)
Available-for-sale investments:		
Government bonds	2,947.1	3,481.2
Corporate bonds	3,916.4	3,843.2
Mortgage-backed securities	169.3	283.5
Total debt securities	7,032.8	7,607.9
Debt securities:		
Listed—fixed interest rate	6,457.9	6,747.8
Listed—floating interest rate	574.9	860.1
	7,032.8	7,607.9
Other investment funds:		
Other investment funds	-	382.8
	7,032.8	7,990.7
Loans and receivables:		
Deposits with credit institutions with maturities in excess of three months		
—third parties	283.0	1,342.6
—related parties	200.0	147.0
Total loans and receivables	483.0	1,489.6
Total financial investments	**7,515.8**	**9,480.3**

Included within the debt securities balance above is £233.7 million (31 December 2011: £304.6 million) relating to securities issued by members of RBS Group.

Other investment funds comprised an investment fund which included Euro and US Dollar denominated bonds, hedged back to Sterling.

7. CASH AND CASH EQUIVALENTS

	As at 30 June 2012 £ million	As at 31 December 2011 £ million
Cash at bank and in hand:	(reviewed)	(audited)
—third parties	199.3	153.5
—related parties	73.8	48.4
	273.1	201.9
Short-term deposits with credit institutions:		
—third parties*	2,244.9	1,029.5
—related parties	47.6	148.4
Total cash and cash equivalents	**2,565.6**	**1,379.8**

* included in the above are investments held by the Group in Global Treasury Funds PLC, (an open ended umbrella investment company with variable capital incorporated with limited liability in Ireland) as at 30 June 2012 of £838.6 million (31 December 2011: £612.0 million). RBS Asset Management (Dublin) Limited is the appointed manager to the fund.

8. INSURANCE LIABILITIES, UNEARNED PREMIUM RESERVE AND REINSURANCE ASSETS

	As at 30 June 2012 £ million	As at 31 December 2011 £ million
Insurance liabilities	(reviewed)	(audited)
Life insurance business	102.2	97.8
General insurance business	6,412.4	6,411.2
Total insurance liabilities excluding unearned premiums	**6,514.6**	**6,509.0**
Gross (general insurance business)		
Claims reported	3,978.8	4,036.9
Claims incurred but not reported	2,273.9	2,217.5
Loss adjustment expenses	147.9	153.2
Liability adequacy provision	11.8	3.6
Total insurance liabilities, gross excluding unearned premiums	6,412.4	6,411.2
Unearned premiums	1,946.7	1,931.6
Total insurance liabilities, gross	**8,359.1**	**8,342.8**
Recoverable from reinsurers (general insurance business)		
Claims reported	(371.8)	(318.1)
Claims incurred but not reported	(439.1)	(281.8)
Total recoverable from reinsurers, excluding unearned premiums	(810.9)	(599.9)
Unearned premiums	(64.5)	(59.0)
Total reinsurers' share of insurance liabilities	**(875.4)**	**(658.9)**
Net (general insurance business)		
Claims reported	3,607.0	3,718.8
Claims incurred but not reported	1,834.8	1,935.7
Loss adjustment expenses	147.9	153.2
Liability adequacy provision	11.8	3.6
Total insurance liabilities, net excluding unearned premiums	5,601.5	5,811.3
Unearned premiums	1,882.2	1,872.6
Total insurance liabilities, net	**7,483.7**	**7,683.9**

8. INSURANCE LIABILITIES, UNEARNED PREMIUM RESERVE AND REINSURANCE ASSETS (Continued)

Movements in insurance liabilities and reinsurance assets

(i) Claims and loss adjustment expenses

	Gross £ Million	Reinsurance £ Million	Net £ Million
Notified claims	4,327.6	(310.0)	4,017.6
Incurred but not reported	2,514.2	(220.8)	2,293.4
At 1 January 2011	**6,841.8**	**(530.8)**	**6,311.0**
Cash paid for claims settled in the year	(3,547.7)	81.7	(3,466.0)
Increase/(decrease) in liabilities			
—arising from current-year claims	3,345.3	(134.4)	3,210.9
—arising from prior-year claims	(209.9)	(17.2)	(227.1)
Net exchange differences	(21.9)	0.8	(21.1)
At 31 December 2011	**6,407.6**	**(599.9)**	**5,807.7**
Notified claims	4,190.1	(318.1)	3,872.0
Incurred but not reported	2,217.5	(281.8)	1,935.7
At 31 December 2011 (audited)	**6,407.6**	**(599.9)**	**5,807.7**
Cash paid for claims settled in the period	(1,474.8)	56.8	(1,418.0)
Increase/(decrease) in liabilities			
—arising from current-year claims	1,589.9	(116.6)	1,473.3
—arising from prior-year claims	(104.4)	(154.0)	(258.4)
Net exchange differences	(17.7)	2.8	(14.9)
At 30 June 2012	**6,400.6**	**(810.9)**	**5,589.7**
Notified claims	4,126.7	(371.8)	3,754.9
Incurred but not reported	2,273.9	(439.1)	1,834.8
At 30 June 2012 (reviewed)	**6,400.6**	**(810.9)**	**5,589.7**

(ii) (Decrease)/increase in liabilities arising from prior-year claims

	Six months ended 30 June 2012 £ Million	Year ended 31 December 2011 £ Million
	(reviewed)	(audited)
Motor	(108.5)	(138.2)
Home	(29.2)	48.5
Rescue and other personal lines	(12.7)	(52.8)
Commercial	(58.5)	(38.4)
International	(19.5)	(7.9)
Total Ongoing	**(228.4)**	**(188.8)**
Run-off	(30.0)	(38.3)
Total Group	**(258.4)**	**(227.1)**

9. RELATED PARTY TRANSACTIONS

Related party transactions in the half year ended 30 June 2012 were similar in nature to those for the year ended 31 December 2011. Dividends of £800 million were paid to The Royal Bank of Scotland Group plc in the period and loans of £247.7 million from The Royal Bank of Scotland Group plc to the Group were repaid in June 2012. The Group acquired Direct Line Versicherung AG in April 2012 for a consideration of £105.2 million, and fixtures and fittings in the period for a consideration of £39.3 million; a payment of £31.3 million was made to the RBS Group Pension Fund to settle liabilities on the Group's exit from the scheme in respect of a number of employees. In addition, in June 2012 the Group sold its investment properties to The Royal Bank of Scotland plc for £69.5 million.

Full details of the Group's related party transactions for the year ended 31 December 2011 are included on pages F-86 to F-88 of the Group's prospectus dated 25 April 2012.

10. DATE OF APPROVAL

The condensed financial statements for the half year ended 30 June 2012 were approved by the Board of Directors on 3 September 2012.

11. POST BALANCE SHEET EVENTS

On 31 August 2012, board and shareholder resolutions were approved to subdivide the share capital of Direct Line Insurance Group plc from 1.5 billion ordinary shares of £1 each to 1.5 billion ordinary shares of 10 pence each and 1.5 billion deferred shares of 90 pence each. The deferred shares were then transferred back to the Company by its parent, The Royal Bank of Scotland Group plc, for no value and immediately cancelled by the Company. This cancellation has created a non-distributable capital redemption reserve in the Company of £1,350 million. The Company's issued share capital now comprises 1.5 billion ordinary shares of 10 pence each, all held legally and beneficially by The Royal Bank of Scotland Group plc. For the period ended 30 June 2012, this would not have altered the earnings per share calculation.

On 3 September 2012, the Board of Directors of Direct Line Insurance Group plc approved a dividend of £200 million to be paid immediately to the parent company, The Royal Bank of Scotland Group plc.

INDEPENDENT REVIEW REPORT TO DIRECT LINE INSURANCE GROUP PLC

We have been engaged by the Company to review the condensed combined set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 which comprises the combined income statement, the combined statement of comprehensive income, the combined balance sheet, the combined statement of changes in equity and related notes 1 to 11. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed combined 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-yearly financial report is the responsibility of, and has been approved by, the directors.

As disclosed in note 1, the debt prospectus for Direct Line Insurance Group plc was prepared on a combined basis, using the conventions commonly used in the preparation of historical financial information in investment circulars issued by the Auditing Practices Board as set out in the Annexure to Standard for Investment Reporting 2000 (Revised) *Investment reporting standards applicable to public reporting engagements on historical financial information*, which requires certain departures from International Financial Reporting Standards (IFRSs) as adopted by the European Union. Note 1 explains therefore that this condensed set of financial statements has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* with the exception of the inclusion of a combined Cash Flow Statement, as adopted by the European Union subject to the underlying accounting policies being modified in the same way.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial 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-yearly financial report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with the basis of preparation set out in note 1.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
3 September 2012

ADDITIONAL INFORMATION

Company overview

Direct Line Group is a retail general insurer with leading market positions in the United Kingdom, the largest direct underwriter in Italy and the third largest direct motor insurer in Germany. The Group utilises a multi-brand, multi-product and multi-distribution channel business model that covers most major customer segments in the United Kingdom for personal lines general insurance and a more targeted presence in the Commercial market. The Group has market leading positions in terms of in-force policies and has the most highly recognised brands (Direct Line and Churchill) in the United Kingdom for personal motor insurance and personal home insurance.

Corporate information

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

The Company, formerly RBS Insurance Group Limited, was incorporated on 26 July 1988 as a private limited company with a registered number 02280426 as a wholly-owned subsidiary 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 have divested its entire interest by the end of 2014.

Historical financial information

Historical financial information for the three years ended 31 December 2011 is available on Direct Line Group's website http://directlinegroup.com/investors.aspx. The historical 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 Interim results; and the operating results of activities of Tesco Personal Finance are reflected in operating profit in the historical financial information as run-off business in all periods. In RBS Group's financial results disclosures prior to 2012, the operating results of TPF were included as part of the Non-Core division of the RBS Group.

Statutory results

The information for the year ended 31 December 2011 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for the Company for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.