

DIRECT LINE INSURANCE GROUP PLC TRADING UPDATE FOR Q3 2022¹

PENNY JAMES, CEO OF DIRECT LINE GROUP, COMMENTED

"Trading across the Group was broadly in line with our expectations given the challenging market backdrops in Motor and Home, whilst we continued to deliver strong growth in Commercial. The pricing actions we have taken to restore margins in Motor led to a reduction in new business sales; however, we were encouraged to see this improve steadily across the quarter as the market hardened. Having restored our Motor targeted written loss ratios, based on our claims assumptions, we maintained these throughout Q3, with inflation developing in line with our expectations.

"We continued to work on the actions we set out at our H1 results to restore the resilience of our balance sheet, including reducing our exposure to credit risk in our investment portfolio, reducing costs and considering the use of strategic reinsurance. We have also made good strategic progress with the deployment of further pricing capability in Motor. In Q4, we will launch a new product for customers challenged by the cost of living crisis and start rolling out more advanced digital claims capability.

"In these challenging economic conditions, the business is strong and actions we have taken continue to underpin the Group's future earnings power."

Trading summary

	9 months 2022 £m	9 months 2021 £m	Change
Adjusted gross written premium²			
Motor direct own brands ³	1,064.9	1,159.5	(8.2%)
Motor partnerships	25.7	37.0	(30.5%)
Motor	1,090.6	1,196.5	(8.9%)
Home direct own brands ³	286.5	311.4	(8.0%)
Home partnerships	102.9	121.8	(15.5%)
Home	389.4	433.2	(10.1%)
Green Flag Rescue	69.2	69.5	(0.4%)
Other Rescue and other personal lines	228.9	224.9	1.8%
Rescue and other personal lines	298.1	294.4	1.3%
Commercial direct own brands ³	164.4	140.5	17.0%
NIG and other	387.8	349.0	11.1%
Commercial	552.2	489.5	12.8%
Total Group	2,330.3	2,413.6	(3.5%)
Of which: direct own brands ³	1,585.0	1,680.9	(5.7%)
	30 Sep 2022	31 Dec 2021	Change
In-force policies (thousands)	13,086	14,565	(10.2%)
Of which: direct own brands (thousands) ³	7,304	7,529	(3.0%)

Group trading update

We traded throughout the third quarter with care, taking actions to negotiate the uncertain economic environment, especially in relation to inflation. In Motor, we saw reduced new business early in the quarter as we increased prices to restore margins, based on our claims assumptions, however our market position improved through the quarter as we saw premium rate increases in the market accelerate. In Home, retention remained strong whereas the new business market conditions remain very challenging. We are deploying our multi-brand strategy thoughtfully as we focus on maintaining portfolio value.

Outside Home and Motor, Green Flag direct was broadly stable year to date and Commercial continued its strong growth across all channels. Overall, Group adjusted gross written premium was 3.5% lower than for the first three quarters of 2021.

Claims and costs

Motor inflation is tracking closely to our expectations of around 10% for 2022. There remains pressure in the supply chain elongating repair times, especially for third party repairs, whereas used car prices have come off their peak. In Home and Commercial, inflation has been slower to emerge to date and we have priced for this to increase over the coming year. In addition, we have experienced a modest increase in subsidence claims in Home, which is within our annual weather expectation.

As we have previously disclosed, claims are taking longer to settle, for example due to court backlogs, and this is slowing down the recognition of prior-year reserve releases, particularly from Motor large bodily injury claims. The measure used to inflate the majority of periodic payment orders was published in early November⁴ and was within the range covered by our reserving assumptions.

We continue to make progress on improving the Group's efficiency and expect operating expenses (excluding restructuring and one-off costs) to be around £700 million, a reduction compared to 2021 notwithstanding the inflationary backdrop.

Capital and Investments

As we said we would at our half year results, in August we reduced our exposure to credit risk in the investment portfolio, which has reduced our sensitivity to credit spreads by an estimated 33% and increased our solvency capital ratio by around 6 percentage points. This was achieved by the sale of £670 million of US dollar investment grade bonds which incurred a realised loss of £19 million.

The investment markets continue to be volatile. The impact of interest rate movements is expected to be broadly neutral to capital coverage, in line with our disclosed sensitivity. We expect to see some downward fair value adjustments to our investment property portfolio, in line with market indices.

The increase in interest rates has improved reinvestment rates and we currently estimate a net investment income yield of 2.1% in 2022 increasing to 2.8% in 2023.

Science-based targets

As a supporter of the Race to Zero, the Group has a target of reducing emissions based on a 1.5°C pathway. We are pleased to have received validation from the Science-Based Targets initiative ("SBTi") for the Group's carbon reduction plans, covering our operational emissions and parts of our investment portfolio.⁵

Outlook

We are in a period of economic volatility which makes an assessment of inflation more uncertain than usual. Based on our latest view of inflation, the current-year underwriting performance remains in line with our expectations, however principally due to changes in the phasing of recognition of prior-year reserve releases, the full year 2022 combined operating ratio, normalised for weather, is now expected to be around 98% or moderately above.

Based on current economic conditions and actions we have already taken and others in progress, our 2023 and medium-term targets and the outlook for dividend capacity remain unchanged.

For further information, please contact

PAUL SMITH
DIRECTOR OF BUSINESS PERFORMANCE, REPORTING
AND INVESTOR RELATIONS

Mobile: +44 (0)7795 811263

WILL SHERLOCK
GROUP CORPORATE AFFAIRS AND SUSTAINABILITY
DIRECTOR

Mobile: +44 (0)7786 836562

APPENDIX 1: Adjusted gross written premium²

	Q3 2022 £m	Q3 2021 £m	Change
Adjusted gross written premium²			
Motor direct own brands ³	376.1	426.2	(11.8%)
Motor partnerships	7.7	14.7	(47.6%)
Motor	383.8	440.9	(13.0%)
Home direct own brands ³	104.4	112.8	(7.4%)
Home partnerships	34.6	42.1	(17.8%)
Home	139.0	154.9	(10.3%)
Green Flag Rescue	28.7	28.6	0.3%
Other Rescue and other personal lines	81.3	79.3	2.5%
Rescue and other personal lines	110.0	107.9	1.9%
Commercial direct own brands ³	58.2	49.6	17.3%
NIG and other	116.2	103.8	11.9%
Commercial	174.4	153.4	13.7%
Total Group	807.2	857.1	(5.8%)
Of which: direct own brands ³	567.4	617.2	(8.1%)

APPENDIX 2: In-force policies by segment (thousands)

	30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021
Motor direct own brands ³	3,766	3,846	3,854	3,869
Motor partnerships	88	98	100	102
Motor	3,854	3,944	3,954	3,971
Home direct own brands ³	1,758	1,792	1,825	1,879
Home partnerships	775	779	783	788
Home	2,533	2,571	2,608	2,667
Green Flag Rescue	1,136	1,156	1,167	1,179
Other Rescue and other personal lines	4,651	4,676	4,684	5,877
Rescue and other personal lines	5,787	5,832	5,851	7,056
Commercial direct own brands ³	644	623	613	602
NIG and other	268	261	265	269
Commercial	912	884	878	871
Total Group	13,086	13,231	13,291	14,565
Of which: direct own brands ³	7,304	7,417	7,459	7,529

Notes:

1. Direct Line Group's Trading Update relates to the three months and nine months ended 30 September 2022 and contains information to the date of publication.
2. Adjusted gross written premium includes the impact of a contractual change to Green Flag Rescue premium such that a portion of income that was previously included in gross written premium is now included in service fees. The measure supports comparability with prior period gross written premium. This measure was introduced with effect from 1 January 2022.
3. Direct own brands include in-force policies for Home and Motor under the Direct Line, Churchill, Darwin and Privilege brands, Rescue policies under the Green Flag brand and Commercial policies under the Direct Line for Business and Churchill brands.
4. Annual Survey of Hours and Earnings SOC 6115 inflation published by the Office for National Statistics, representing the cost of care workers (80th percentile).
5. More information can be found on the Group's website.

This announcement contains inside information. The person responsible for arranging for the release of this announcement on behalf of the Company is Neil Manser, Chief Financial Officer.

Forward-looking statements disclaimer

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", "ambition", "anticipates", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "over the medium term", "plans", "predicts", "projects", "propositions", "seeks", "should", "strategy", "targets", "will" or "would" 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 may appear in several places throughout this document and include statements regarding intentions, beliefs or current expectations, including of the Directors, concerning, among other things: the Group's results of operations, financial condition, prospects, growth, strategies, the industry in which the Group operates and the Group's approach to climate-related matters. Examples of forward-looking statements include financial targets which are contained in this document specifically with respect to return on tangible equity, solvency capital ratio, combined operating ratio, percentage targets for current-year contribution to operating profit, prior-year reserve releases, cost reductions, reduction in expense ratio, investment income yield, net realised and unrealised gains, capital expenditure and risk appetite range; and targets, goals and plans relating to climate and the Group's approach and strategy in connection with climate-related risks and opportunities. 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 and/or are beyond the Group's control and/or they rely on assumptions that may or may not transpire to be correct. Forward-looking statements are not guaranteeing 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 or assumed in the forward-looking statements contained in this document, for example directly or indirectly as a result of, but not limited to:

- United Kingdom ("UK") domestic and global economic business conditions;
- the direct and indirect impacts and implications of the coronavirus Covid-19 pandemic on the economy, nationally and internationally, on the Group, its operations and prospects, and on the Group's customers and their behaviours and expectations;
- the Trade and Co-operation Agreement between the UK and the European Union ("EU") regarding the terms, following the end of the Brexit transition period, of the trading relationships between the UK and the EU and its implementation, and any subsequent trading and other relationship arrangements between the UK and the EU and their implementation;
- the terms of trading and other relationships between the UK and other countries following Brexit;
- the impact of the FCA pricing practices report and any new rules and regulations arising as a result of that report and of responses by insurers, customers and other third parties and of interpretations of such rules by any relevant regulatory authority;
- market-related risks such as fluctuations in interest rates, exchange rates and credit spreads, including those created or exacerbated by the Russian invasion of Ukraine;
- the policies and actions and/or new principles, rules and/or regulations, of regulatory authorities and bodies, and of changes to, or changes to interpretations of principles, rules and/or regulations (including changes made directly or indirectly as a result of Brexit or related to capital and solvency requirements or related to the Ogden discount rates or made in response to the Covid-19 pandemic and its impact on the economy and customers) and of changes to law and/or understandings of law and/or legal interpretation following the decisions and judgements of courts;
- the impact of competition, currency changes, inflation and deflation;
- the timing, impact and other uncertainties of future acquisitions, disposals, partnership arrangements, joint ventures or combinations within relevant industries; and
- the impact of tax and other legislation and other regulation and of regulator expectations, interventions, enforcements, fines and requirements and of court, arbitration, regulatory or ombudsman decisions, judgements and awards (including in any of the foregoing in connection with the Covid-19 pandemic) 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 Group and the Directors expressly disclaim any obligations or undertaking to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise, unless required to do so by applicable law or regulation. Nothing in this document constitutes or should be construed as a profit forecast.

Neither the content of Direct Line Group's website (or any part of it including any press release), nor the content of any other website accessible from hyperlinks on the Group's website, is incorporated into, or forms part of, this document.

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