Direct Line Insurance Group plc
Trading Update for the first quarter of 2017

3 May 2017

Direct Line Group's Trading Update relates to the first quarter ended 31 March 2017, and contains information to the date of publication.

Highlights

- Gross written premium for Ongoing operations[1] 4.2% higher than the first quarter of 2016, with Motor own brands increasing 11.2%
- Continued success in the Direct Line brand in a market that continues to experience high levels of shopping around. Growth in Motor and Home own brand in-force policies for a fourth successive quarter. Continued growth in Green Flag direct and Direct Line for Business
- Investment income in line with expectations at £42.0 million and remains on course to achieve a 2.4% yield
- The Group is on course to achieve its aim of reducing its commission and expense ratios during 2017
- The Group continues to target a 2017 combined operating ratio[2] in the range of 93% to 95% for Ongoing operations, assuming a normal annual level of claims from major weather events and no further change to the Ogden discount rate

Paul Geddes, CEO of Direct Line Group, commented:

"Overall, I am pleased with the positive start we have made to the year, continuing the momentum we built in 2016 and supported by continued strong growth in the Direct Line brand. We have delivered particularly strong results in Motor and this performance has more than offset the challenging home market. Direct Line for Business and Green Flag have also performed well. We reiterate our target of a COR[2] in the range of 93%-95% for 2017."

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Notes:

1 Ongoing operations include Direct Line Group's Ongoing divisions: Motor, Home, Rescue and other personal lines and Commercial. 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 measures the amount of claims costs, commission and expenses compared to net earned premium generated.

Business update

During the first quarter of 2017, Direct Line Group (the "**Group**") maintained its trading momentum from 2016, delivering further policy growth in its Motor and Home own brands and making good progress in delivering its strategy. The Group continued investing in brand differentiation, particularly in its Direct Line brand. Direct Line Motor recently launched a new proposition to provide customers onward travel by taxi if their car is not driveable, and Direct Line for Business launched rent guarantee cover.

The Group's multi-brand and multi-channel approach helped successfully grow its Motor own brands in-force policies by 5.9% compared to Q1 2016, whilst Home own brands in-force policies grew by 2.0% compared to Q1 2016. The Group's Direct Line brand, in particular, delivered continued momentum in the first quarter. Direct Line for Business also grew in-force policies by 5.3% compared to Q1 2016, as it continued to leverage the brand.

In Motor, the Group traded well in the quarter both before and after the Lord Chancellor's decision to reduce the Ogden discount rate. While the Ogden decision had little impact on the first quarter trading result, the Group has increased prices in response to the lower discount rate and the anticipated impact on claims inflation and continued to grow in-force policies at, or slightly better than, its target loss ratio. Overall for the quarter, average written premiums were up 6.6%, and risk-adjusted prices increased significantly more than that, comfortably ahead of the Group's current view of claims inflation.

The strong performance in Motor was partially offset by the challenging home market, where the Group slowed its growth. Home claims inflation started to increase in 2016 and continued to rise above the Group's long-term expectations in Q1 2017. In response, the Group has been increasing prices through recent quarters, resulting in lower new business volumes in Q1 2017 compared to Q1 2016, albeit retention remained strong. The Group remains focused on margins and protecting the long-term value of the Home portfolio and is prepared to sacrifice some volume in support of this objective.

The Commercial business had a good quarter, with in-force policies up 5.1% compared to Q1 2016 and pricing movements overall keeping pace with underlying claims inflation. Strong growth in Direct Line for Business and portfolio mix changes in NIG and other resulted in overall growth of 0.9% in gross written premium.

Rescue premiums grew 3.3% driven by Green Flag premiums which were up 11.5% and more than offset a continued reduction in packaged bank account volumes. Green Flag grew in-force policies 6.8% as web sales continued to perform well.

Outlook

For 2017, the Group reiterates its target of achieving a combined operating ratio in the range of 93% to 95% for Ongoing operations assuming a normal annual level of claims from major weather events and no further change to the Ogden discount rate, and is on course to achieve its aim of reducing its commission and expense ratios during 2017.

Financial update

In-force policies – Ongoing operations (thousands)

As at	31 Mar 2017 ('000)	31 Dec 2016 ('000)	30 Sep 2016 ('000)	30 Jun 2016 ('000)	31 Mar 2016 ('000)
Own brands	3,691	3,642	3,607	3,541	3,487
Partnerships	220	231	233	238	244
Motor total	3,911	3,873	3,840	3,779	3,731
Own brands	1,764	1,759	1,751	1,743	1,729
Partnerships	1,593	1,619	1,638	1,660	1,677
Home total	3,357	3,378	3,389	3,403	3,406
Of which Nationwide and Sainsbury's	*706*	*719*	*723*	*724*	*724*
Rescue	3,676	3,646	3,621	3,670	3,805
Other personal lines	4,188	4,234	4,219	4,224	4,275
Rescue and other personal lines	7,864	7,880	7,840	7,894	8,080
Direct Line for Business	441	433	428	424	419
NIG and other	245	242	239	236	234
Commercial	686	675	667	660	653
Total	15,818	15,806	15,736	15,736	15,870

Gross written premium – Ongoing operations

	Q1 2017 £m	Q1 2016 £m	FY 2016 £m
Own brands	**368.5**	331.4	1,428.7
Partnerships	**24.2**	29.3	110.4
Motor total	**392.7**	360.7	1,539.1
Own brands	**95.6**	95.3	404.7
Partnerships	**99.2**	107.5	429.7
Home total	**194.8**	202.8	834.4
Of which Nationwide and Sainsbury's	**51.4**	54.9	215.5
Rescue	**40.7**	39.4	163.1
Other personal lines	**63.5**	57.4	237.7
Rescue and other personal lines	**104.2**	96.8	400.8
Direct Line for Business	**28.6**	25.9	109.6
NIG and other	**90.0**	91.6	390.2
Commercial	**118.6**	117.5	499.8
Total	**810.3**	777.8	3,274.1

Total in-force policies for Ongoing operations reduced by 0.3% compared with the first quarter of 2016. The reduction primarily resulted from lower partner volumes in Rescue and other personal lines. Growth in in-force policies continued across Motor and Home's own brands, Green Flag direct and Direct Line for Business. Gross written premium of £810.3 million was 4.2% higher than the first quarter of 2016 (£777.8 million) primarily due to continued growth in Motor, which was partially offset by a reduction in Home partnerships.

Motor
Total Motor in-force policies increased by 4.8% compared with the first quarter of 2016. The market continued to experience high levels of shopping around. Motor's own brands grew by 5.9% over the same period supported by strong customer retention. Investment in brand differentiation through a succession of Direct Line proposition initiatives and competitive pricing contributed to the improved performance. Motor gross written premium increased by 8.9% in comparison to the first quarter of 2016 which also reflects the Group's pricing response to ongoing claims inflation. The change to the Ogden discount rate had limited impact on premiums in the first quarter of 2017. Motor average written premium[1] increased by 6.6% in Q1 2017, and risk-adjusted prices increased significantly more than that, comfortably ahead of the Group's current view of claims inflation. Claims inflation remained around the top of the Group's long-term expectations, driven by damage repair costs, while bodily injury costs in respect of prior years indicated positive experience to date.

Home
In-force policies for Home's own brands increased by 2.0% compared with the first quarter of 2016, while partnership volumes reduced by 5.0%. Gross written premium was 3.9% lower than for the first quarter of 2016 primarily due to partners which were 7.7% lower, while own brands experienced a small increase of 0.3%. Home own brands' average written premium[2] decreased by 1.1% compared with the first quarter of 2016 driven by lower risk mix but low single-digit price increases. Claims inflation continued to rise in the quarter ahead of price increases. Retention continued to be strong. When compared with the long-term average, the weather in the first quarter was benign with approximately £9 million of claims from major weather events (Q1 2016: £5 million).

Rescue and other personal lines
Rescue and other personal lines experienced a reduction in in-force policies of 2.7% in the first quarter of 2017 compared with the first quarter of 2016, primarily resulting from lower partner volumes. Gross written premium for Rescue and other personal lines increased by 7.6% compared with the first quarter of 2016, primarily due to an increase in Travel premiums. Rescue gross written premium grew by 3.3% compared with Q1 2016, mainly due to continued strong growth in Green Flag.

Commercial
Commercial in-force policies were 5.1% higher than the first quarter of 2016 reflecting growth in Direct Line for Business and NIG and other. The increase in gross written premium of 0.9% compared with the first quarter of 2016 reflected growth in Direct Line for Business, with premiums through NIG and other slightly lower primarily due to product mix.

Notes:

1 Average incepted written premium excluding IPT for Motor

2 Average incepted written premium excluding IPT for Home own brands

Investment return – Ongoing operations

	Q1 2017 £m	Q1 2016 £m	FY 2016 £m
Investment income	42.0	41.1	164.5
Net realised and unrealised gains / (losses)	9.4	(7.7)	3.6
Total	51.4	33.4	168.1

The Group generated investment income of £42.0 million and achieved an annualised income yield for Ongoing operations of 2.5% in the first quarter of 2017 (Q1 2016: 2.4%). The Group remains on course to achieve a 2.4% yield for 2017.

During the first quarter of 2017, the Group recognised net realised and unrealised gains of £9.4 million (Q1 2016: losses £7.7 million). These gains included investment property gains of £5.3 million. The available-for-sale reserve increased £2.7 million to £94.8 million at 31 March 2017 (31 December 2016: £92.1 million).

Investment holdings – total Group

At 31 March 2017, total investment holdings of £6,622.6 million were 0.6% higher than at the beginning of the year (31 December 2016: £6,581.0 million), prior to the payment of the final dividend for 2016.

Capital management

Capital position

In its 2016 preliminary results announcement on 7 March 2017, the Group reported a Solvency II capital surplus as at 31 December 2016 of approximately £0.92 billion above its regulatory capital requirements, equivalent to an estimated capital coverage ratio of 165%. The Group's final regulatory capital coverage as at 31 December 2016, which will shortly be reported in its Solvency Financial Condition Report, is expected to be unchanged.

Corporate information

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

The Annual Report & Accounts 2016 is available at: www.directlinegroup.com

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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", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "plans", "predicts", "projects", "seeks", "should", "strategy", "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, among 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 return on tangible equity, risk-based capital coverage ratio, the Group's combined operating ratio, prior-year reserve releases, cost reduction, investment income yield, net realised and unrealised gains, results from the run-off segment, restructuring and other one-off costs, and risk appetite range. 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.

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