Interim Management Statement for Direct Line Insurance Group plc
Results for the first quarter to 31 March 2014

2 May 2014

Direct Line Group's Interim Management Statement relates to the first quarter ended 31 March 2014 and contains information to the date of publication.

Highlights

- Continued progress on delivery of the Group's strategic development, including completing the roll-out of smartphone and tablet optimised websites for Motor, full launch of self-install telematics offering and launch of DLG Legal Services
- Gross written premium (at constant currency) for ongoing operations[1] 5.1% lower for the first quarter of 2014 compared with the first quarter of 2013, reflecting competitive market conditions in UK personal lines, partially offset by growth in Commercial and in Germany
- Motor gross written premium 10.2% lower compared to the first quarter of 2013. Motor prices reduced by 4% year-on-year, supported by positive claims trends and technical pricing initiatives
- Home major weather event claims of approximately £60 million in the first quarter of 2014, lower than the previously announced estimate of £70 to £90 million; Commercial major weather event claims of approximately £20 million, as previously indicated
- Investment income yield of 2.2% for the first quarter of 2014 (first quarter 2013: 2.0%), reflecting the positive effect of portfolio actions
- Reiterate 2014 aim to achieve a combined operating ratio in the range of 95% to 97% for ongoing operations, assuming a normal level of weather claims

Paul Geddes, CEO of Direct Line Group, commented

"It was another busy quarter for us as we continued to progress strategic initiatives throughout the business. We have improved our digital capability, developed customer propositions and extended our product offering. We are also excited by the launch of a new self-install telematics product. It's a robust, cheaper alternative to black box technology and it enables us to offer the benefits of telematics to a wider group of customers. We plan to continue investing in initiatives that improve how we interact with customers and boost our competitiveness in what remains a highly competitive market."

For further information, please contact:

Neil Manser	Jennifer Thomas
Director of Corporate Strategy and Investor Relations	Head of Financial Communications
Tel: +44 (0)1651 832183	Tel: +44 (0)1651 831686

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

Business update

Direct Line Group (the "**Group**") continued to make good progress in the first quarter of 2014 on its strategic priorities, while maintaining its disciplined approach to underwriting in a competitive marketplace.

The Group continued to build on its new digital architecture by fully rolling out new smartphone and tablet optimised customer websites for Motor. Initial performance has been encouraging with an improved 'quote and buy' journey. The Group will continue to optimise performance of the websites through a test and learn approach.

On 23 April 2014 the Group launched its self-install telematics proposition in the UK after a successful pilot. The Group believes this positions it as one of the leaders in developing the telematics market and enables it to offer telematics to a broader range of customers. Take-up remains strong in Direct Line new policies with one in five under 25 year olds electing for telematics.

In addition, DLG Legal Services started providing legal services on 3 March 2014 to the Group's existing Motor and Home customers, broadening the range of services directly offered to the Group's customers. Within Commercial, a new Churchill Van product for small and medium-sized enterprise customers was launched, which allows it to extend its distribution to price comparison websites.

Financial update

In-force policies – ongoing operations (thousands)

As at	**31 Mar 2014**	31 Dec 2013	30 Sep 2013	30 Jun 2013	31 Mar 2013
Motor	**3,717**	3,762	3,790	3,829	3,865
Home[1]	**3,666**	3,719	3,753	3,753	4,199
Rescue and other personal lines	**8,446**	8,801	8,917	9,014	9,197
Commercial	**592**	583	571	561	550
International	**1,670**	1,610	1,597	1,586	1,572
Total ongoing	**18,091**	18,475	18,628	18,743	19,383

In-force policies for ongoing operations decreased by 2.1% during the first quarter of 2014 to 18.1 million (31 December 2013: 18.5 million). The fall related primarily to Rescue and other personal lines, partially offset by International. The Rescue and other personal lines reduction derived mainly from travel policies, these being connected to the sale of packaged building society and bank accounts.

The fall in Motor and Home in-force policies of 1.2% and 1.4% respectively reflected the Group's focus on maintaining its underwriting discipline in a competitive marketplace. In-force policy growth in Commercial arose mainly from Direct Line for Business with positive effects on Landlord and Tradesman products, partially offset by Van where premium rates came under pressure. International growth arose from Germany where the Group has taken advantage of improved market conditions. Since the end of the first quarter of 2012, in-force policies in Germany have increased by 31.9%.

Gross written premium

	Q1 2014 £m	Q1 2013 £m	Full year 2013 £m
Motor	**326.9**	364.1	1,421.1
Home	**220.5**	233.5	943.1
Rescue and other personal lines[2]	**87.9**	93.1	383.4
Commercial	**118.0**	113.6	474.5
International	**196.0**	201.3	604.5
Total ongoing	**949.3**	1,005.6	3,826.6

Notes:

1. Home in-force policies fell between 31 March 2013 and 30 June 2013 mainly as a result of the removal of Home Response policies (approximately 420,000) from certain packaged bank accounts.
2. Rescue and other personal lines included Direct Line Life Insurance Company Limited. The sale of this business was completed on 28 November 2013 and gross written premium for the first quarter of 2013 amounted to £7.9 million and £27.8 million for 2013.

Gross written premium of £949.3 million decreased by 5.6% compared with the same quarter in the prior year (first quarter 2013: £1,005.6 million), with currency movements accounting for 0.5 percentage points of the decrease. This reflects the impact of a competitive market, particularly in UK motor and home, together with the Group's continued focus on maintaining its underwriting discipline, partially offset by growth in Commercial and in Germany.

Rescue and other personal lines gross written premium decreased by 5.6% compared with the same quarter in the prior year. Adjusting for the Life business, which was disposed of in November 2013, underlying gross written premium for Rescue and other personal lines was up 3.2% primarily relating to Rescue.

International gross written premium of £196.0 million was 2.6% lower than the previous period mainly due to the effect of foreign currency movements. Gross written premium for Germany in local currency increased by 9.1%, reflecting the expansion of the Group's share of business renewing on 1 January 2014.

Motor – effect on premium income of changes in price and risk mix[1]

Change versus same period in previous year	**Q1 2014 £m**	Q1 2013 £m	Full year 2013 £m
Change in price	**-4%**	+1%	-3%
Change in risk mix	**-2%**	-6%	-4%

Overall the Group reduced motor prices on average by 4% during the first quarter of 2014 compared with the first quarter of 2013. This reduction was supported by positive claims trends and technical pricing initiatives. Claims trends benefited from the Group's claims transformation programme, but also recognised the positive effect of recent legal reforms. Risk mix reduced during the first quarter of 2014, albeit at a slower pace than previous quarters.

Underwriting – weather claims and reserving trends

Home claims from UK major weather events for the first quarter of 2014 were approximately £60 million, lower than the previously announced estimate of £70 to £90 million. Commercial claims from weather-related events for the same period were approximately £20 million, in line with the preliminary estimate.

The Group continued to experience reserve releases in the first quarter of 2014 arising from positive claims trends. Assuming these trends continue, a significant contribution from prior-year reserve releases is currently expected in 2014, albeit at a lower level than in 2013.

Total cost base[2]

	Q1 2014 £m	Q1 2013 £m	Full year 2013 £m
Operating expenses	**197.0**	205.2	786.4
Claims handling expenses	**58.2**	61.5	245.5
Total cost base	**255.2**	266.7	1,031.9

The total cost base for the first quarter of 2014 was £255.2 million, 4.3% lower than the first quarter of 2013 (£266.7 million). In what is typically a higher cost quarter given the seasonal phasing of marketing spend, the improvement reflected recent cost initiatives. The Group continues to target a total cost base of approximately £1,000 million in 2014.

Notes:
1. Risk mix reflects the expected level of claims from the portfolio.
2. Operating expenses and claims handling expenses from ongoing operations, excluding the Run-off segment and Restructuring and other one-off costs.

Investment return – ongoing operations

	Q1 2014 £m	Q1 2013 £m	Full year 2013 £m
Investment income	**46.5**	40.1	175.5
Net investment gains	**16.4**	0.3	32.6
Total investment return	**62.9**	40.4	208.1

The total investment return increased to £62.9 million which compared favourably with the first quarter of 2013, due to an increase in both realised gains and higher investment income. Investment income was £46.5 million, a 16.0% increase on the first quarter of 2013, as a result of changes in asset mix to diversify the portfolio and improve expected returns, which were offset partially by a lower average investment asset base.

The annualised investment income yield for the Group for the first quarter of 2014 was 2.2% compared to 2.0% for the first quarter of 2013. Net investment gains recognised in the first quarter of 2014 were £16.4 million, and included a £5.2 million unrealised gain arising from the quarterly revaluation of the investment property portfolio.

Investment portfolio – total Group

As at	**31 Mar 2014 £m**	31 Dec 2013 £m	31 Mar 2013 £m
Corporate debt securities	**4,792.7**	4,915.8	4,729.4
Supranational	**360.9**	365.7	502.6
Local government	**188.2**	134.5	268.2
Credit	**5,341.8**	5,416.0	5,500.2
Securitised credit	**417.2**	229.8	46.6
Sovereign	**1,207.9**	1,399.5	1,735.4
Total debt securities	**6,966.9**	7,045.3	7,282.2
Cash and cash equivalents	**1,283.7**	1,288.9	1,698.9
Investment property	**228.6**	223.4	154.1
Total	**8,479.2**	8,557.6	9,135.2

Following an asset and liability management study, the Group plans to diversify the investment portfolio further during 2014 with investments in infrastructure debt and high yield debt. Following the decision in 2013 to increase the weighting to securitised credit, a further £187.4 million was invested in the quarter.

Disposal of subsidiary

On 5 February 2014, the Group sold its stolen vehicle recovery business, Tracker.

Dividends

As previously announced, the Board is recommending a final dividend of 8.4 pence per share for shareholder approval at the Annual General Meeting on 15 May 2014. The Board has also previously announced a second special interim dividend of 4.0 pence per share, partly attributable to the sale of Tracker.

The shares have traded ex dividend since 11 March 2014. The payment date for both dividends is 20 May 2014.

Regulatory update

The Group has continued to operate within a highly dynamic and evolving regulatory landscape, particularly in the UK motor insurance market where over the past two years a number of reviews and initiatives have been announced by the UK Government, the Ministry of Justice, the Financial Conduct Authority, and the Competition Commission.

During the first quarter, the Financial Conduct Authority published its review of add-on products as well as its business plan for 2014 and 2015. The Group will continue to support reforms which result in a level playing field across the industry.

Outlook

The UK motor and home markets are highly competitive. The Group will continue to prioritise targeting appropriate margins, even if this is at the expense of policy volumes. The Group continues to progress initiatives supporting its strategic objectives of improving its competitive position and performance in the longer term.

For 2014, the Group aims to achieve a combined operating ratio in the range of 95% to 97% for ongoing operations, assuming a normal level of claims from weather events, and a combined operating ratio of less than 100% for its Commercial division, assuming a normal level of claims from weather-related events and large losses.

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.

Statutory information

The Annual Report & Accounts for 2013 were signed on 25 February 2014 and will be delivered to the Registrar of Companies following the Annual General Meeting to be held on 15 May 2014. The Annual Report & Accounts 2013 is available at: ara2013.directlinegroup.com .

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", "anticipates", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "outlook", "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, 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: return on tangible equity, the Group's combined operating ratio, the combined operating ratio for the Group's Commercial division, 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, for example directly or indirectly as a result of, 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 and deflation, the timing impact and other uncertainties of future acquisitions, disposals, joint ventures 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 Group 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.

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