

Trading Update for Q3 2018¹

6 November 2018

On track to deliver strategic and financial targets

Paul Geddes, CEO of Direct Line Group, commented:

"The Group's performance during the quarter was robust in a competitive market. We continued to grow our direct own brands² in-force policies while maintaining discipline on loss ratios. We are delivering our key strategic priorities, including strong growth in our direct Rescue and Commercial businesses, Green Flag and Direct Line for Business, and we are on track to begin rolling out our new personal lines systems in 2019.

"Overall, we are making good progress on our strategic priorities and are on course to meet our 2018 and medium-term financial targets³."

Results summary: Q3 2018	Q3 2018 £m	Q3 2017 £m	Change
Gross written premium:			
Motor	456.4	462.0	(1.2%)
Home: own brands	115.3	114.3	0.9%
Home: partnerships	51.4	102.7	(50.0%)
<i>Of which Nationwide and Sainsbury's</i>	3.8	51.1	(92.6%)
Rescue and other personal lines	113.4	110.0	3.1%
Commercial	118.0	118.2	(0.2%)
<i>Of which Direct Line for Business</i>	35.3	32.8	7.6%
Total	854.5	907.2	(5.8%)
<i>Of which direct own brands²</i>	610.4	606.6	0.6%
	30 Sep 2018 '000	30 Sep 2017 '000	Change
In-force policies:	15,183	15,775	(3.8%)
<i>Of which direct own brands²</i>	7,078	6,838	3.5%

Highlights

- Motor in-force policies grew by 1.9% (own brands: 3.0% growth) compared to the prior year, driven by strong retention levels, particularly in Direct Line. Premiums were lower by 1.2% (own brands: 0.5% lower) as a result of lower average premiums, primarily due to changes to propositions in the price comparison website channel, partially offset by positive rate movements. Underlying claims inflation was at the upper end of the Group's long-term expectation of 3% to 5%.
- Home own brands in-force policies grew by 0.3% and premiums grew by 0.9% compared to the prior year. Retention levels improved in the quarter while new business volumes declined. Premiums in the partnerships channel decreased by £51.3m, primarily due to the exit from the Nationwide and Sainsbury's partnerships. The Group expects claims inflation to remain within the Group's long-term expectation of 3% to 5% and that subsidence claims, including those associated with the dry summer weather in the UK, will not materially be above normal annual expectations.
- The Group's investment in its direct Rescue and Commercial brands, Green Flag and Direct Line for Business, continued to make good progress, as premiums grew by 13.1% and 7.6% respectively. In Commercial, NIG and other premiums fell by 3.2% due, in part, to exiting several larger risks which were not expected to achieve target returns.

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Notes:

1. Direct Line Group's Trading Update relates to the three months and nine months ended 30 September 2018, and contains information to the date of publication.
2. Direct own brands include Home and Motor under the Direct Line, Churchill and Privilege brands, Rescue under the Green Flag brand and Commercial under the Direct Line for Business brand.
3. For 2018 and over the medium-term, the Group targets a 93% to 95% combined operating ratio, assuming a normal level of *weather** claims and no change in the Ogden discount rate, supported by reductions in expense and commission ratios and an ongoing target of achieving at least a 15% return on tangible equity. For 2018, the Group expects overall investment income of in the region of £150 million. [*The word 'weather' has been inserted following the version issued at 7a.m on 6 November 2018.]

Results summary: 9 months to 30 September 2018	9 months 2018 £m	9 months 2017 £m	Change
Gross written premium:			
Motor	1,296.2	1,286.4	0.8%
Home: own brands	309.7	307.5	0.7%
Home: partnerships	147.7	297.6	(50.4%)
Of which Nationwide and Sainsbury's	9.5	148.7	(93.6%)
Rescue and other personal lines	323.3	323.3	—
Commercial	387.9	386.6	0.3%
Of which Direct Line for Business	99.3	92.9	6.9%
Total	2,464.8	2,601.4	(5.3%)
Of which direct own brands ²	1,709.4	1,670.5	2.3%

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 2017 is available at: www.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", "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" 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 and guidance which are contained in this document specifically with respect to the return on tangible equity, solvency capital ratio, the Group's combined operating ratio, prior-year reserve releases, cost reduction, reductions in expense and commission ratios, investment income yield, net realised and unrealised gains 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.

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, the negotiations relating to the UK's withdrawal from the European Union, 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.

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