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Issuer Comment: Direct Line Insurance Group's ratings (A2 IFSR, stable) unaffected by IPO Offer Price announcement

Global Credit Research - 12 Oct 2012

Moody's ratings on U K Insurance Limited ("UKI", A2 insurance financial strength, outlook stable) , the main (UK) operating subsidiary of Direct Line Insurance Group plc ("DLG"), and on DLG's subordinated debt (Baa1(hyb)) are unaffected by DLG's recent announcement of the pricing of its initial public offering ("IPO") of ordinary shares.

On 11 October, 2012, DLG announced that the offer price of its IPO had been set at 175 pence per ordinary share, slightly below the mid-point of its previously announced price range of 160 pence to 195 pence per share. Based on this offer price, the total market capitalisation of DLG at the commencement of conditional dealings will be approximately £2,625million. This compares to reported invested equity and intangible assets of £2,906 million and £391 million respectively at H1 2012, since when DLG has paid a £200 million dividend to RBS Group ("RBSG"). The IPO represents 30% of DLG's ordinary shares which is slightly higher than the mid-point of DLG's previously announced expected offer size of 25%-33%. RBSG will continue to hold 65.3% of DLG's ordinary shares, assuming exercise of the 15% over-allotment option, which are subject to a 180 day lock-up.

We regard the IPO, following the raising of lower Tier 2 capital in April, as successfully demonstrating DLG's stand-alone financial flexibility, and we see the Group as now less constrained by its current ownership. RBSG is committed to cede control of DLG by the end of 2013 and make a full divestment by the end of 2014, and we will continue to monitor developments in this regard. Our rating on UKI encompasses the planned divestment from RBSG.

Moody's A2, stable outlook, IFSR on UKI reflects DLG's very strong position in the UK personal lines market, a relatively conservative investment portfolio, good capitalisation, and relatively low financial leverage. These strengths are off-set by relatively weak geographic and business diversification, and the challenge of sustaining recent performance improvements within the very competitive UK Motor market which remains vulnerable to bodily injury claims inflation. DLG also has to complete a successful divestment from RBSG.

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