

## CREDIT ANALYSIS

# U K Insurance Limited

United Kingdom

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### Summary Rating Rationale

Moody's A2, stable outlook, insurance financial strength rating on U K Insurance Limited ("UKI") reflects Direct Line Insurance Group plc's ("DLG") 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.

### A New Group Structure, Preparing for Divestment

DLG also has to execute a successful divestment from its current owner, the Royal Bank of Scotland Group plc (RBSG, A3 senior debt, on review for possible downgrade), by the end of 2014. To comply with EC State Aid requirements, RBSG must cede control of DLG by 31 December 2013 and have divested its entire interest by 31 December 2014. In line with this requirement, RBSG is planning the commencement of an IPO for DLG in H2 2012, subject to market conditions.

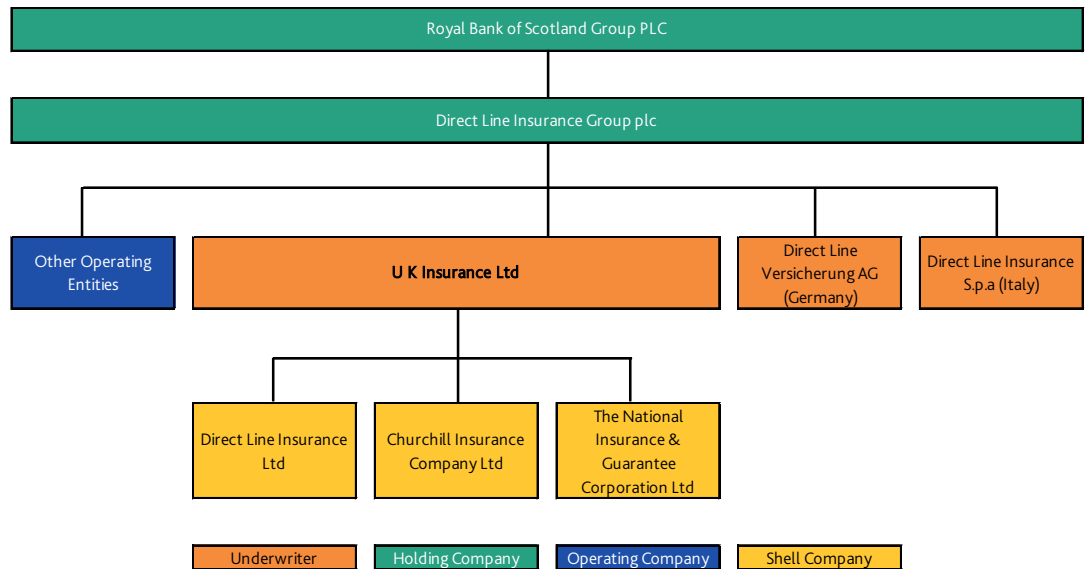
DLG is progressing in separating its business from RBSG including the launch of a new corporate identity - Direct Line Group – in February 2012. This follows the Part VII transfer effected in December 2011 whereby, as per Exhibit 1, UKI became DLG's main (UK) operating subsidiary. UKI underwrites over 85% of the Group's business and has received almost all of the assets and liabilities of Direct Line Insurance Ltd, Churchill Insurance Company Ltd, and the National Insurance and Guarantee Corporation Ltd.

DLG's business, which is UK Motor orientated, was split in 2011 on a gross written premium basis: 42% UK Personal Lines Motor, 25% UK Personal Lines Home, 8% UK Personal Lines Rescue & Other, 10% UK Commercial, 14% International and 1% Other (predominantly personal lines brokers in run off). The Group's principal product brands are: Direct Line, Churchill, Privilege, Green Flag and NIG.

This Credit Analysis provides an in-depth discussion of credit rating(s) for U K Insurance Limited and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website](#).

EXHIBIT 1

## Simplified Organisational Chart



Source: Direct Line Insurance Group plc

## Very Strong Position in UK Personal Lines Market, with Powerful Brands

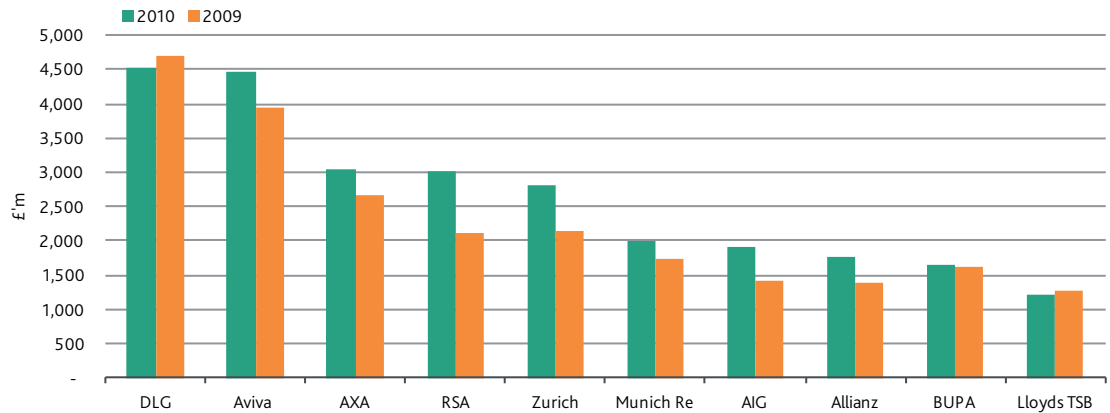
### Leading UK Market Position, but Dominated by Personal Lines

As at YE2010, not only was DLG the largest personal Motor and Home lines writer in the UK with market shares in both segments of around 20%<sup>1</sup>, it was also the largest UK general insurer in terms of premium written. As per Exhibit 2, in 2010 general insurers in the UK generated gross written premiums of £41 billion of which DLG had a leading 11% share. DLG is also a top 3 direct player in the two largest European Motor markets - Italy and Germany, but due to the small share of direct writers in these markets its overall market position in these countries is very small at less than 2%.

<sup>1</sup> Source: Association of British Insurers (ABI)

EXHIBIT 2

## Top 10 UK General Insurers by GWP



Source: ABI

### Loss of Market Share Expected to Plateau

In contrast to the majority of players in Exhibit 2, DLG's UK market share, especially in Motor, has been declining as a result of DLG's strategy of improving profitability through exiting unprofitable business, de-risking the book and re-pricing. Furthermore, in recent years, a substantial and generally increasing amount of new general insurance policies has been sold through price comparison websites ("PCWs"), particularly Motor insurance. In our opinion, DLG's market share has been negatively impacted by the strong market growth in PCW which focus on pricing and encourage consumer switching.

DLG markets its Churchill and Privilege branded products on PCWs, but in our view its overall presence remains relatively underweight in this key distribution channel compared to some of its peers. One reason is that its Direct Line branded business is deliberately not quoted on PCWs, which we believe has the benefit of making this business less vulnerable to pricing pressure. On the other hand, the growing prevalence of PCWs could reduce the market access of the Direct Line brand. One of DLG's key initiatives is to expand the availability of its products through PCWs, and a challenge in this regard is balancing the desire to maintain/enhance market share without meaningfully compromising profitability.

A combination of PCWs, exiting unprofitable business (such as fleet, taxi and personal lines business sold via brokers), and de-risking, which has contributed to DLG's total GWP reducing by around 16% during 2011 means that DLG's UK market share is likely to have further reduced at YE2011. However, going forward, we expect DLG's market position to remain very strong, aided, as discussed below, by its strong multi-brand approach, its ability to sell directly and the benefits of having partnership agreements:

#### 1. A Strong Multi-Brand Approach

As insurers search for a competitive edge to attract and retain customers, other than aggressive pricing and ancillary sales, brand is become increasingly important.

DLG has adopted a multi-brand approach and successfully uses different brands to target different customer segments. The Group's brands are well established household names, with Direct Line and

Churchill being especially powerful. In 2011, we believe this allowed the group to achieve higher customer retention rates than the market<sup>2</sup>.

## 2. Direct Sales Provide Cross-Selling Opportunities

The ability to meaningfully sell directly to customers and the greater control of pricing that ensues, is important from a profitability perspective, especially given the low interest rate environment and the adverse profit effects of PCWs. Direct selling, for which brand and the ability to invest heavily is vital, also enables cross-selling opportunities. DLG, which already has a successful direct sales strategy, is well-placed in this regard. As at 31 December 2011, 53% of Direct Line home insurance customers and 37% of Churchill home insurance customers also had Motor insurance with those brands<sup>3</sup>.

## 3. Access to Different Customer Segments through Partnerships

Partnerships, as distribution channels, provide access to different customers and sales tend to benefit from greater customer loyalty. Compared to peers, DLG has a large number of partnership agreements which include: NatWest/RBS, Nationwide, Prudential and Sainsbury's. At 28%<sup>4</sup> of gross written premiums, partner brands accounted for a reasonable portion of the Group's UK personal lines business at YE2011, and are particularly important for Personal Home lines.

## Performance Improved Significantly in 2011 but Sustainability will be Challenging

### Recent Performance Record Blighted by Significant Motor Losses in 2009 and 2010

DLG's profitability from 2007-2011<sup>5</sup> has been mixed, with very good return on capital performance in 2007 and 2008. However, DLG's results were impacted in 2009, and especially 2010, by significant UK Motor bodily injury reserve strengthening. In these years, DLG reported very high combined ratios for its ongoing UK Motor business of 126% and 144% respectively, with ongoing combined ratios for the Group of 110% and 121%. DLG's reliance on personal lines Motor for its profits is highlighted by the meaningful net loss the Group recorded in 2010 of £272 million and a loss would also have been recorded for 2009 were it not for a one-off disposal gain.

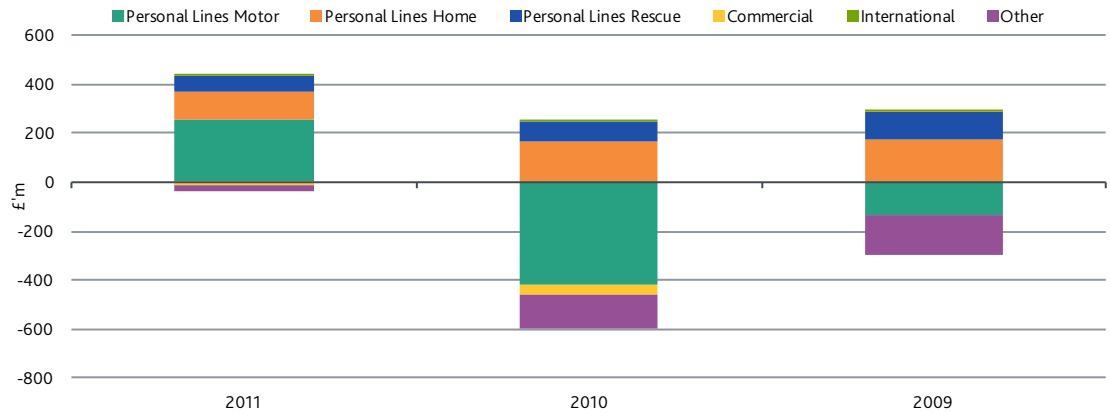
<sup>2</sup> Retention Rates for the Market, Direct Line and Churchill were: 71%, 79% and 73% respectively, as per Direct Line Insurance Group plc, Fixed/Floating rate guaranteed subordinated Notes due 2042, Prospectus dated 25 April 2012

<sup>3</sup> Source: Direct Line Insurance Group plc, Fixed/Floating rate guaranteed subordinated Notes due 2042, Prospectus dated 25 April 2012

<sup>4</sup> Source: Direct Line Insurance Group plc, Fixed/Floating rate guaranteed subordinated Notes due 2042, Prospectus dated 25 April 2012

<sup>5</sup> 2011-2009 figures derived from Direct Line Insurance Group plc, Fixed/Floating rate guaranteed subordinated Notes due 2042, Prospectus dated 25 April 2012. 2008 and 2007 figures derived from RBS Group Annual Reports.

EXHIBIT 3

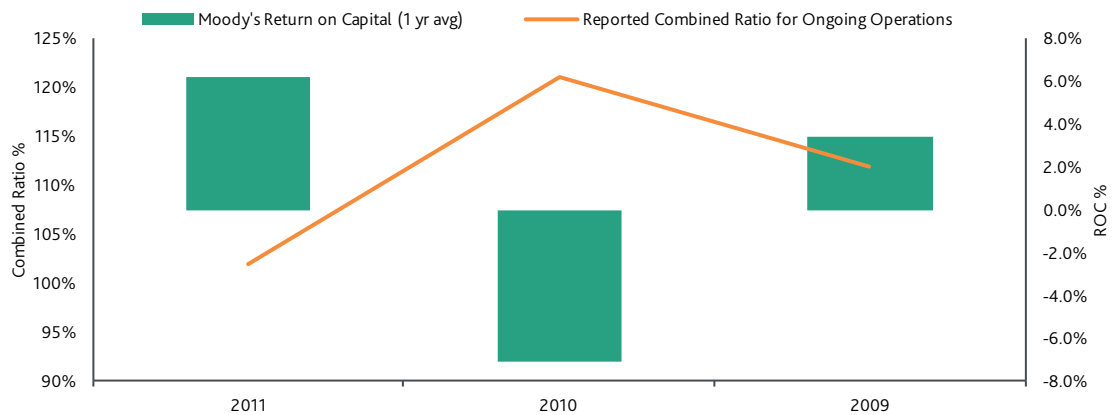
DLG's Operating Profit Split by Product Line (2011 – 2009)<sup>6</sup>

Source: Direct Line Insurance Group plc, Fixed/Floating rate guaranteed subordinated Notes due 2042, Prospectus dated 25 April 2012

Consequently, DLG's recent average return on capital (ROC) performance, as illustrated by Exhibit 4, does not compare favourably with more diverse peers.

EXHIBIT 4

## DLG's Return on Capital and Combined Ratio (2011 – 2009)



Source: Moody's and Direct Line Insurance Group plc, Fixed/Floating rate guaranteed subordinated Notes due 2042, Prospectus dated 25 April 2012

### But 2011 Witnessed Significantly Improved Performance and Return to Profitability

But performance significantly improved during 2011, with DLG returning to profit and recording a Moody's return on capital metric of 6.2% (YE2010: -7.1%), and reporting an improved overall combined ratio of 102% for its ongoing business. The reported UK personal lines Motor combined ratio also improved significantly to 106%.

The UK Motor book benefited in 2011 from significant rate increases, new pricing models and engines, de-risking, exiting unprofitable lines, claims systems improvements, and the non-repeat of

<sup>6</sup> Excludes restructuring and other one off costs of £54m, £29m and £80m for 2011, 2010 and 2009 respectively.

2010 reserve strengthening. Furthermore, the performance of DLG's UK Home and Rescue books has been generally good in recent years with respective three year combined ratios of 92% and 85%<sup>7</sup>.

### Key Challenge is Sustaining Performance Improvements and Growing Profitably

Going forward, DLG is targeting further improvement in the performance of its UK personal lines Motor book. However, a key challenge is that UK Motor remains a highly competitive market and vulnerable to bodily injury claims inflation, and DLG is heavily reliant for its profits on UK Motor. Following the 40% year on year increase in rates in 2010/2011<sup>8</sup>, the UK Motor market appears to be softening again and the increase in PCWs will only add to this pressure. DLG will also face one-off separation costs, which are expected to be incurred in 2012, of an estimated pre-tax £125 million-£175 million. These costs, which include costs relating to the assumption of property leases, may be capitalized in part. However, one advantage DLG has, and which has enabled it to remain profitable over the last few years, bar 2010, despite under-performing the UK Motor market, is that it materially benefits from additional low risk income (e.g. legal cover and instalment income) generated from its own brand Motor policies. Furthermore, as part of the next stage of its transformation plan, DLG is targeting reduced costs via improved claims handling and additional cost saving measures.

### Bodily Injury Claims are Primary Risk for DLG's Reserves

#### Significant Strengthening in 2009 and 2010, Followed by Bodily Injury Reserve Stability in 2011

In common with a number of other UK Motor underwriters, in 2009 and 2010, DLG experienced a significant increase in bodily injury claims resulting in part from the rise of claims management companies, an increase in no-win/no-fee litigation, and an increase in Periodical Payment Orders (PPO). These all contributed to significant financial underperformance, as DLG's underwriting and pricing assumptions had not taken into account these developments at the time the risk was priced. DLG's reserves, excluding TPF, were strengthened during 2009 and 2010, driven by respective £391 million and £420 million increases for UK Motor bodily injury reserves<sup>9</sup>.

Aside from reserve strengthening, DLG's remedies, from 2009/2010, have also included de-risking, re-pricing, and new tools. The benefit of this is reflected in DLG returning to an overall prior year release during 2011, with reserves relating to UK Motor bodily injury across prior years being stable overall.

#### But Bodily Injury Claims Inflation Remains a Key Risk

However, volatility still remains within the external Motor market with large bodily injury claims continuing to be an industry-wide issue, and the number of Periodical Payment Order (PPO) awards continuing to increase. This is particularly relevant when one considers that DLG's total net reserves are dominated by Motor and in particular Motor bodily injury claims, which now account for around two thirds of the Group's total technical reserves<sup>10</sup>.

Despite the success of recent initiatives, and the fact that DLG's reserves include an additional margin beyond the actuarial best estimate, technical reserves will remain, to a large extent, at the mercy of

<sup>7</sup> Source: Direct Line Insurance Group plc, Fixed/Floating rate guaranteed subordinated Notes due 2042, Prospectus dated 25 April 2012.

<sup>8</sup> Source: ABI

<sup>9</sup> Source: Divisional IMS numbers derived from RBS Insurance Investor Roundtable presentation, 7 October 2011

<sup>10</sup> Source: Direct Line Insurance Group plc, Fixed/Floating rate guaranteed subordinated Notes due 2042, Prospectus dated 25 April 2012

external market factors. In particular, the following could have a significant impact on claims settlements (or claims adequacy) in the UK Motor market and DLG:

**1. The continued upward trend in Motor Bodily Injury cases in recent years.**

Motor Bodily Injury claims continue to increase, both in absolute and proportionate terms. However, we note the growing political and industry focus on curtailment of opportunistic and fraudulent Bodily Injury Claims, in particular the recent action taken in response to the Jackson review<sup>11</sup> and the anticipated ban on referral fees by the MoJ; and

**2. The increasing propensity of PPOs<sup>12</sup> in settling high value Bodily Injury claims.**

PPOs significantly increase both the cost of claims and reserves uncertainty, by effectively exposing non life insurers to annuity style reserving risks. As at YE2011, the total discounted technical reserves in relation to PPO claims equated to around 14%<sup>13</sup> of DLG's total net outstanding claims provision, but this could increase in the future.

PPOs are increasingly becoming a common way for courts in England and Wales to settle high value personal injury claims, and unlike lump sum awards, PPO payments are distributed over the claimant's life. As a result, they can stay open for decades and the ultimate claim value remains unknown until the claim is closed. Given the uncertainty inherent in assumptions regarding future inflation rates, investment returns, legislative reforms, and reinsurance recoveries, PPOs increase the volatility, and therefore the risk of the ultimate claim amount. This volatility makes it harder for insurers to both set reliable reserves and accurately adjust premium rates to take into account the new risks that they are underwriting.

## Financial Flexibility is Good

### Financial Leverage Expected to Remain Relatively Low Post Recent Debt Issuance

We view DLG's overall financial flexibility as good. Adjusted financial leverage at YE2011 remained relatively low, reducing to 14.7% (YE2010: 16.4%) driven by increased equity. For this metric, we include the TPF non-controlling interest amount of £259 million which is in the form of a perpetual subordinated loan and which DLG intends repaying in 2013. Following the £500 million issuance in April 2012 of lower Tier 2 capital in the form of dated subordinated notes which qualify for 25% equity credit from Moody's, together with the proposed repayment in 2012 of £248 million of intra-group debt, adjusted financial leverage on a pro-forma YE2011 basis increases slightly to 16.7% but remains low compared to peers.

Going forward, we expect DLG's financial leverage to remain relatively low. This is notwithstanding that prior to divestment, shareholders' equity will be negatively impacted by proposed dividend payments from DLG to RBSG in the range of £500 million - £1 billion, of which £300 million was paid in March 2012. However, from a financial leverage perspective, these dividend payments will be off-set by the proposed repayment of the TPF loan.

<sup>11</sup> Please see Moody's Sector Comment "[UK Litigation Changes will Reduce Costs for Property and Casualty Insurers, a Credit Positive](#)", published 4 April 2011

<sup>12</sup> Please see Moody's Special Comment "[Increase in PPOs: Credit Negative for UK Motor Lines](#)", published 17 April 2012

<sup>13</sup> Source: Direct Line Insurance Group plc, Fixed/Floating rate guaranteed subordinated Notes due 2042, Prospectus dated 25 April 2012

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### But Earnings Cover to Become a More Meaningful Metric for The Group

Driven by the intra-group nature of financial debt, DLG's finance costs were around a mere £3 million in 2010 and 2011. Following the lower Tier 2 issuance, interest costs will increase significantly going forward with the coupon on the notes being a relatively high 9.25%, which we believe reflects volatile financial market conditions, first time debt issuance, and some uncertainty over the ultimate ownership of DLG notwithstanding the planned IPO. The earnings cover metric will therefore become more meaningful in our analysis of the Group. Assuming finance costs of £46 million (i.e. £500 million x 9.25%), one year earnings cover on a pro-forma YE2011 basis is around 6.5x which is approximately in the middle of Moody's A parameter.

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### DLG's Passes First Test in Accessing Capital Markets, but Another Larger Test Awaits in the Form of Planned IPO

Financial flexibility is somewhat constrained by DLG's limited record in accessing capital markets as a result of its current ownership. However, DLG successfully passed its first test in this regard, namely raising £500 million of lower Tier 2 capital in difficult financial market conditions (April 2012), notwithstanding the relatively high coupon.

RBSG's targeted commencement of its IPO of DLG in H2 2012, subject to market conditions, will be another major and larger test of stand-alone financial flexibility. In preparation for its divestment, we note that DLG is in the process of establishing its own stand-alone arrangements in a wide range of areas, apart from mainly certain IT services which will form part of a transitional services agreement with RBSG. Moody's current view is that the risks and costs involved in achieving operational independence are manageable for DLG.



## Appendices

### Appendix 1: DLG Market Position: International Peer Comparison

DLG's position in the UK general insurance market enables peer comparison on a number of fronts. In addition to its immediate UK business peers, which include both personal and commercial lines writers, it can also be compared to the market leaders in other Western European countries and the USA, for example. However, DLG is not only significantly smaller than the likes of Allianz, Axa, Generali and State Farm, but these peers occupy top tier positions in many different and geographically diverse general insurance segments. In light of its Motor orientation and market share, DLG can also be compared to national Motor orientated players, as per the table below. Like DLG, these insurers are reliant on Motor lines and have a significant share of their domicile Motor markets where they compete with much larger and geographically diverse players. However, as of these entities, only DLG is the general insurance market leader.

Motor Market	UK	US	Italy	Germany
<b>Motor Gross Written Premiums</b>	YE2010: £12.3bn [1]	YE2009: \$97.6bn [1]	YE2010: €17.0bn [1]	YE2011: €20.9bn [1]
<b>Personal Lines Market Leader</b>	Direct Line Group	State Farm Mutual Group	Generali Group	Allianz Versicherung AG Group
IFSR Rating	A2, Stable	--	A1, Negative	Aa2, Negative
Market Share Rating	Aa	--	--	Aaa
<b>Personal Motor Market Leader</b>	Direct Line Group	State Farm	Fondiarria-SAI	HUK-Coburg Insurance Group
<b>Motor Orientated Insurer</b>	<b>Direct Line Group</b>	<b>The Progressive Corporation Group</b>	<b>Fondiarria-SAI Group</b>	<b>HUK-Coburg Insurance Group</b>
Total Group GWP	YE2011: £4.1bn	YE2010: \$14.7bn	YE2010: €13bn	YE2010: €5.0bn
Market Share	<ul style="list-style-type: none"> <li>» 19% of the UK Personal Motor market [2]</li> <li>» 18% of the UK Home market [2]</li> <li>» 11% of the UK General Insurance market [1]</li> </ul>	<ul style="list-style-type: none"> <li>» 8% of the US Motor market [1 &amp; 2]</li> <li>» 5% of the US Personal Lines market [3]</li> <li>» 3% of the US General Insurance market [1]</li> </ul>	<ul style="list-style-type: none"> <li>» 23% of the Italian Motor market [1]</li> <li>» 19% of the Italian General Insurance market [2]</li> </ul>	<ul style="list-style-type: none"> <li>» 21% share of the German Private motor market [2]</li> <li>» 11% share of the German Motor market [2]</li> <li>» 5% share of German General Insurance market [3]</li> </ul>
Background Information	<p>As at YE2010, Direct Line Group was the largest general insurer in the UK with a number one position in both personal motor and personal home lines [1].</p> <p>The Group's GWP is split: 42% UK Personal Motor, 25% UK Home and 33% Other. 86% of total GWP is derived from the UK [2].</p>	<p>Progressive is the fourth largest motor provider in the US and operates in 50 states. Progressive is also an online player in the Australian Motor Market [3].</p> <p>90% of Progressive's NWP is derived from personal lines of which the majority is motor. The remaining 10% of NWP is derived from commercial motor lines [2].</p>	<p>Fondiarria- SAI is the third largest insurance group and the second largest general insurer in Italy, with a leading position in personal motor lines. [2]</p> <p>The Group's GWP is split 55% P&amp;C and 45% Life. Of the P&amp;C segment, 65% of premiums are from the motor business. [3]</p>	<p>HUK-Coburg is the largest motor insurer by number of vehicles and the number one private motor insurer in Germany. The Group is also the second largest home and private liability insurer in Germany. [2].</p> <p>Although it is a player in all segment of private general insurance, it has a strong focus on motor insurance at 47% of GWP [2].</p>
Peers / Competitors	<ul style="list-style-type: none"> <li>» Aviva Insurance Ltd (Aa3 Neg)</li> <li>» RSA Insurance Group (A2, Sta)</li> <li>» Liverpool Victoria Group</li> <li>» Admiral Group</li> </ul>	<ul style="list-style-type: none"> <li>» State Farm Mutual Group</li> <li>» Allstate P&amp;C Insurance Group (Aa3, Neg)</li> <li>» GEICO Group (Aa1, Sta)</li> </ul>	<ul style="list-style-type: none"> <li>» Generali S.p.A (A1, Neg)</li> <li>» Unipol Assicurazioni (A3, RUR Down)</li> <li>» Allianz S.p.A (A1, Neg)</li> </ul>	<ul style="list-style-type: none"> <li>» Allianz Versicherung AG (Aa3 Neg)</li> <li>» Axa Versicherungen AG (Aa3, Neg)</li> <li>» Generali Deutschland Group (A1, Neg)</li> <li>» Ergo Versicherungsgruppe AG (Aa3, Sta)</li> </ul>
Source	<p>[1] Association of British Insurers</p> <p>[2] Direct Line Insurance Group plc, Fixed/Floating rate guaranteed subordinated Notes due 2042, Prospectus dated 25 April 2012</p>	<p>[1] SNL Financial LC</p> <p>[2] Progressive Annual Report 2010</p> <p>[3] Moody's Industry Outlook: US Personal Lines Insurers: Outlook Remains Stable, published February 2010</p>	<p>[1] ANIA (Italian Association of Insurance Companies)</p> <p>[2] PWC Report on The Italian Insurance Market, July 2011</p> <p>[3] Fondiarria Group 2010 Results Presentation, March 2011</p>	<p>[1] GDV (German Insurance Association for Private Insurers in Germany)</p> <p>[2] HUK-Coburg website, <a href="http://www.huk.de">www.huk.de</a></p> <p>[3] Axa Investor Conference Presentation, November 2007</p>

Appendix 2: Scorecard Peer Comparison<sup>14, 15, 16</sup>

Company Name	UK Insurance Ltd	Chartis Europe Ltd	Allianz Insurance plc	Aviva Insurance Ltd	ERGO Versicherungsgruppe AG	The Progressive Corp. Group	RSA Insurance Group
IFSR	A2	A2	A2	Aa3	A1	Aa2	A2
Country	UK	UK	UK	UK	Germany	US	UK
Scorecard Yearend	2011	2010	2010	2010	2010	2010	2011
<b>Raw/Adjusted Factor Rating</b>							
Factor 1: Market Position and Brand	A/Aa	Baa/A	Baa/A	Aa/Aa	Aaa/Aa	Aaa/Aa	A/A
Factor 2: Product Focus and Diversification	Baa/Baa	A/A	A/A	A/A	A/Aa	A/Aa	A/A
Factor 3: Asset Quality	Aaa/A	A/A	A/A	A/Aa	Baa/A	Aa/Aa	A/Aa
Factor 4: Capital Adequacy	Aa/A	Baa/A	A/A	Aaa/Aa	Baa/Baa	A/A	Baa/A
Factor 5: Profitability	Ba/A	A/A	Aa/A	Ba/A	Baa/Baa	A/Aa	A/A
Factor 6: Reserve Adequacy	Aaa/A	Aa/A	Aaa/Aa	Aaa/Aa	Aaa/Aa	Aaa/Aaa	Aaa/A
Factor 7: Financial Flexibility	A/A	Ba/A	A/A	A/A	Aa/Aa	Aa/Aa	A/A
<b>Aggregate Rating</b>	<b>A1/A2</b>	<b>A3/A2</b>	<b>A2/A2</b>	<b>A2/Aa3</b>	<b>A1/A1</b>	<b>Aa2/Aa2</b>	<b>A2/A2</b>
<b>Scorecard Metrics</b>							
Relative Market Share Ratio	Aa	A	A	Aa	Aaa	Aaa	A
Underwriting Expense Ratio % Net Premiums	Ba	Baa	Ba	B and Lower	--	Aa	Baa
Product Risk - P&C	Aa	Baa	A	Aa	Aa	Aaa	A
Product Diversification	Baa	Aaa	Aa	Aa	Aaa	Ba	A
Geographic Diversification	B and Lower	B and Lower	B and Lower	B and Lower	A	Aa	Baa
High Risk Assets % Shareholders' Equity	2.6%	3.2%	39.8%	79.0%	118.1%	59.5%	50.9%
Reinsurance Recoverables % Shareholders' Equity	17.0%	194.6%	48.5%	1.2%	71.6%	13.7%	53.0%
Goodwill & Intangibles % Shareholders' Equity	17.5%	17.3%	60.0%	54.9%	53.5%	6.9%	54.9%
Gross Underwriting Leverage	2.7x	5.0x	4.3x	0.2x	--	3.8x	5.4x
Return on Capital (5 yr Avg) <sup>15</sup>	0.9%	10.2%	14.2%	1.2%	5.4%	12.8%	9.9%
Sharpe Ratio of ROC (5 yr Avg) <sup>15</sup>	12.3%	112.4%	236.9%	20.0%	135.8%	154.1%	307.1%
Adverse Reserve Development % of Beginning Reserves (5 yr Avg) <sup>16</sup>	-2.4%	1.9%	-7.5%	-3.6%	-0.8%	-2.3%	-3.7%
Adjusted Financial Leverage	14.7%	53.9%	26.1%	29.1%	23.6%	27.3%	29.7%
Total Leverage	14.7%	66.7%	29.5%	33.6%	25.7%	29.6%	34.4%
Earnings Coverage (5 yr Avg) <sup>15</sup>	3.0x	1.4x	7.5x	3.0x	7.8x	10.5x	5.3x

<sup>14</sup> Based on credit opinions published on [www.moodys.com](http://www.moodys.com)

<sup>15</sup> DLG's ROC, Sharpe Ratio of ROC and Earnings Coverage Metrics are based on a 3 year average. Peer metrics are based on a 5 year average.

<sup>16</sup> 2011, 2010 and 2009 % based on Direct Line Insurance Group plc, Fixed/Floating rate guaranteed subordinated Notes due 2042, Prospectus dated 25 April 2012. 2008 and 2007 % based on RBS Group Annual Reports

## Moody's Related Research

### Special Reports

- » [UK General Insurance: Stable Outlook, as Modest Rate Increase Prevail, April 2012 \(141449\)](#)
- » [Increase in PPOs: Credit Negative for UK Motor Lines, April 2012 \(140902\)](#)

### Credit Opinions

- » [Allianz Insurance plc](#)
- » [Aviva Insurance Limited](#)
- » [Chartis Europe Limited](#)
- » [ERGO Versicherungsgruppe AG](#)
- » [The Progressive Corporation](#)
- » [RSA Insurance Group](#)
- » [U K Insurance Limited](#)

### Rating Methodology

- » [Moody's Global Rating Methodology for Property and Casualty Insurers, May 2010 \(121761\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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