Direct Line Insurance Group plc
Preliminary results for the year ended 31 December 2015

1 March 2016

Financial highlights

- Gross written premium from ongoing operations[1] up 1.7% to £3,152.4 million, with 4.8% growth in Motor for 2015 and 7.1% in the fourth quarter. Motor and Home own brands in-force policies up 1.4%
- Operating profit from ongoing operations increased to £520.7 million for 2015 (2014: £506.0 million). Combined operating ratio[2] from ongoing operations of 94.0% for 2015, an improvement of 1.0 percentage point
- Return on tangible equity[3] of 18.5% for 2015 (2014: 16.8%). Profit before tax for continuing operations[1] increased to £507.5 million (2014: £456.8 million)
- Results benefited from disciplined underwriting, prior-year reserve releases from ongoing operations of £378.9 million (2014: £397.6 million) which were higher than expected, together with lower costs, partially offset by higher claims from major weather events and lower volumes
- 4.5% increase in final dividend per share to 9.2 pence per share and additional special dividend of 8.8 pence per share. Total dividends for 2015, including special interim dividend of 27.5 pence per share following sale of International division, of 50.1 pence per share (2014: 27.2 pence per share)

Strategic and operational highlights

- Investment in brand differentiation through further enhancements, a succession of initiatives to Direct Line proposition and improved trading capability across Churchill and Privilege, particularly on price comparison websites
- Improved customer retention rates for motor and home products, and Net Promoter Score for Direct Line brand
- Reduced total costs[4] for ongoing operations by 4.6% in 2015 while investing in technical pricing, claims management and self-service initiatives
- Doubled Motor telematics insurance in-force policies; and growth in Commercial in-force policies through eTrade and direct channels
- Invested in digital capability, including the roll out of new quote and buy journeys for Home and Green Flag insurance products, and development of next generation of customer systems

Paul Geddes, CEO of Direct Line Group, commented

"Our customers are benefiting from the many improvements we've been making, including new propositions and enhanced customer service. This has resulted in more customers coming to our brands and renewing with us.

"Growth in own brands policies has contributed to overall premium growth and, alongside lower costs, has again allowed us to deliver an improved financial performance for the year. Operating profits are up and return on tangible equity is well ahead of our target, despite the bad weather at the end of the year. We've also continued to grow regular dividends and announced another special dividend.

"To meet our ambition of being at the forefront of the fast-moving, ever-changing insurance landscape, we are focused on building on this momentum by investing in our people, brands and systems."

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:
See page 2 for notes

Notes:

1. Ongoing operations comprise Direct Line Group's ongoing divisions: Motor, Home, Rescue and other personal lines, and Commercial. It excludes discontinued operations, the Run-off segment, and restructuring and other one-off costs. Continuing operations comprise all activities other than discontinued operations.
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.
3. Return on tangible equity ("**RoTE**") is adjusted profit after tax from ongoing operations divided by the Group's average shareholders' equity, less goodwill and other intangible assets and net assets held for sale in the disposal group relating to discontinued operations. Profit after tax is adjusted to exclude discontinued operations, the Run-off segment, restructuring and other one-off costs and the gain on disposal of subsidiary. It is stated after charging tax (using the UK standard tax rate of 20.25%; 2014: 21.5%). RoTE for the comparative period includes the net assets held for sale in the disposal group and profit after tax for discontinued operations, as the International division was managed as part of ongoing operations.
4. Total costs comprise operating expenses and claims handling expenses.

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", "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 RoTE, risk-based capital coverage ratio, the Group's COR and investment income yield. 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.

Financial summary

	H2 2015 £m	H2 2014 £m	FY 2015 £m	FY 2014 £m
Ongoing operations[1]:				
In-force policies (thousands)			16,068	16,302
Gross written premium	1,600.4	1,553.4	3,152.4	3,099.4
Net earned premium	1,480.3	1,482.8	2,920.8	2,987.1
Underwriting profit	22.0	89.4	175.2	148.1
Instalment and other operating income	78.0	74.4	150.8	147.3
Investment return	84.9	106.5	194.7	210.6
Operating profit – ongoing operations	184.9	270.3	520.7	506.0
Run-off	34.8	34.9	73.1	55.3
Restructuring and other one-off costs	(8.3)	(41.6)	(48.7)	(69.6)
Operating profit	211.4	263.6	545.1	491.7
Finance costs	(18.9)	(18.5)	(37.6)	(37.2)
Gain on disposal of subsidiary	–	–	–	2.3
Profit before tax	192.5	245.1	507.5	456.8
Tax	(39.9)	(49.7)	(108.3)	(97.5)
Profit from discontinued operations, net of tax	–	1.6	181.2	13.3
Profit after tax	152.6	197.0	580.4	372.6
Of which ongoing operations[2]	132.4	197.7	385.3	368.0
Key metrics – ongoing operations				
Loss ratio	64.6%	58.0%	59.5%	59.6%
Commission ratio	10.3%	12.8%	10.9%	11.8%
Expense ratio	23.6%	23.2%	23.6%	23.6%
Combined operating ratio	98.5%	94.0%	94.0%	95.0%
Adjusted diluted earnings per share[3] (pence)			26.6	25.5
Return on tangible equity[4]			18.5%	16.8%

	FY 2015	FY 2014
Key metrics		
Investment income yield – continuing operations[1]	2.4%	2.4%
Investment return – continuing operations	2.9%	2.9%
Basic earnings per share – continuing operations (pence)	27.9	24.0
Return on equity	21.3%	13.3%
Net asset value per share (pence)	192.2	188.2
Tangible net asset value per share (pence)	153.8	153.1
Capital coverage ratio (2015: pro forma[5] Solvency II standard formula; 2014: risk-based)	147.4%	148.2%
Dividend per share – interim (pence)	4.6	4.4
– final (pence)	9.2	8.8
– regular (pence)	13.8	13.2
– first special interim (pence)	27.5	10.0
– second special interim (pence)	8.8	4.0
– total (pence)	50.1	27.2

Notes:
1. See note 1 on page 2
2. See note 1 on page 2, adjusted for finance costs, excluding gain on disposal of subsidiary and stated after charging tax (using the standard tax rate of 20.25%; 2014: 21.5%).
3. Adjusted diluted earnings per share includes ongoing operations and excludes discontinued operations, the Run-off segment, restructuring and other one-off costs and the gain on disposal of subsidiary (using UK standard tax rate of 20.25%; 2014: 21.5%). The comparative periods include profit after tax for discontinued operations (at the UK standard tax rate), as these were managed as part of ongoing operations.
4. See note 3 on page 2
5. Calculated on a pro forma basis, assuming that expected changes to hedging arrangements were in effect at 31 December 2015.

Business update

Overview

Direct Line Group (the "**Group**") achieved good results in 2015 while making progress on implementing its strategy. A focus on operating efficiency and disciplined underwriting in competitive markets enabled the Group to improve operating profit from ongoing operations. This was despite higher than normal claims from major weather events, which totalled approximately £130 million across Home and Commercial.

Operating profit from ongoing operations rose to £520.7 million (2014: £506.0 million) while the COR for ongoing operations improved by 1.0 percentage point to 94.0% (2014: 95.0%). Group profit before tax for continuing operations increased to £507.5 million (2014: £456.8 million) reflecting lower restructuring and other one-off costs, and improved operating profits from the Run-off segment and ongoing operations.

Strategic priorities

The Group's strategy is to make insurance much easier and better value for our customers. This strategy is set out across three pillars: to be a great retailer; to be a smart and efficient manufacturer; and to lead and disrupt the market. These pillars are supported by the key enablers of data and technology, culture and capability and capital and risk management.

During the year, the Group delivered a number of initiatives which benefited customers in 2015 while building capability for the future.

Great retailer

Work on differentiating the Group's brands has continued with, in particular, enhancements for the Direct Line brand's customers. Following a succession of initiatives during 2015, Direct Line customers now benefit from a seven day car repair service, guaranteed hire car as standard on comprehensive motor policies, an eight hour turnaround to dispatch certain lost or damaged household goods and the removal of amendment fees from all Direct Line branded products.

Churchill's branding has also been refreshed with a campaign to highlight its dependability and to reinforce the product and service propositions which differentiate it from other brands, including on price comparison websites ("**PCW**"). This together with an increased trading capability across Churchill and Privilege has contributed to an improvement in Motor and Home own brands PCW sales for the Group.

These improved propositions, as well as a focus on improving customer experience and reducing complaints further, have contributed to an increase in the Direct Line brand's Net Promoter Score, along with a further improvement in customer retention for Motor and Home own brands products.

The Group's investment in digital capability continued with the roll out of smartphone and tablet optimised websites, including new quote and buy journeys, for its Home and Green Flag insurance products. These have built on last year's successful implementation of a new quote and buy journey for Motor. Quote and buy journeys have continued to be optimised to take account of customer preference depending on brand and distribution channel.

For 2016, improving customer experience remains a key target, with a focus on cross channel distribution, while reducing complaints and improving the renewal process for customers.

Smart and efficient manufacturer

The Group continued to improve its efficiency with a reduction in total costs in 2015 of 4.6% while continuing to invest in capability. Reductions in underlying costs have been achieved in a number of areas including marketing, technology and property. The Group will continue to strive to improve operating efficiency.

New pricing projects have been implemented which aim to broaden Motor's and Home's competitive quote footprints and the Group continues to invest in and evolve the sophistication of its telematics pricing.

The Group has rolled out additional self-service capability within claims management where certain stages of Motor, Home, pet and travel claims can now be managed online. This has improved efficiency and led to faster settlement times. The Group continues to aim to beat market claims inflation.

A real proof point for the Group's claims performance was the severe flooding in December 2015. Emergency plans were immediately put into action where a network of almost 200 claims advisers and loss adjustors assessed damage, distributed emergency payments and put customers in alternative accommodation as quickly as possible. The Group processed nearly 5,000 storm and flood claims and feedback from customers and partners has been positive.

Notwithstanding the above, two of the Group's Home partners, Nationwide Building Society ("**NBS**") and Sainsbury's have recently reviewed their insurance arrangements. In respect of NBS, the Group will no longer underwrite home insurance for its customers from early 2017, while in respect of Sainsbury's the Group will no longer write new business from February 2017. Arrangements for the Sainsbury's renewal book will follow contractual terms. Whilst these developments are disappointing, it is the nature of the partnership market that relationships will be reviewed periodically and in the case of Sainsbury's it is reviewing its current insurance operating arrangements. In 2015, NBS and Sainsbury's accounted for 25.5% of Home's gross written premium while Sainsbury's accounted for 3.5% of Motor's gross written premium, albeit they contributed a considerably lower proportion of profit.

Partnerships remain strategically important and the Group will look to build on its improving manufacturing capability to deliver what the Group aims to be market leading propositions to current partners, as well as to build relationships with future partners. Consistent with this, the Group is in discussion with RBS on a three year extension to its Home insurance partnership, which includes the RBS and NatWest brands.

The Group is also importing relevant personal lines capabilities into its Commercial operations with, in particular, improved Van technical pricing and the launch of webchat for the broker market.

Lead and disrupt the market

The Group continues to build on its current strong market positions by identifying and investing in market developments that it believes can contribute to future growth. In particular, the Group has continued to grow its telematics-based motor insurance in-force policies, with a doubling of in-force policies in the year to 78,000. This growth has been achieved with the help of wider market appreciation of the benefits of telematics for younger drivers, recognition of the Group's straightforward self-install proposition and improved distribution through PCWs. Retention has proved strong amongst better drivers. Furthermore, the Group has launched an app-based over 25s offering and has supported a major motor manufacturer by using telematics as a key part of a new car customer proposition.

In Commercial, the Group continues to be recognised for its leading capabilities in eTrade and direct Commercial insurance, both of which are expected to be growing parts of the commercial market place. Commercial products are now more widely available to customers directly, with the launch of Churchill Van on two of the major PCWs. With its focus on providing insurance to small and medium-sized enterprises in the UK, Commercial's product offering has been extended with the roll-out of professional indemnity for Direct Line for Business and cyber cover for NIG's customers distributed through the broker channel. These new products are fully reinsured.

New car technology centred around improving safety is emerging at a fast pace and the Group aims to take a lead by becoming the insurer of choice for these cars. Furthermore, the Group is the insurance partner to the Move UK consortium which is looking at analysing the development and deployment of automated driving systems as well as investigating the motor liability legal framework in the future.

Key enablers

Alongside the strategic pillars, the Group has also made progress on its key enablers. In particular, the Group has now essentially finished the migration of its IT systems from RBS. This has been a complex and challenging programme, and the Group is still working to improve the performance of its IT systems across the board. Furthermore, work associated with the implementation of the next generation of customer systems continued. When fully deployed, these systems aim to bring significant customer benefits.

During the year, the Group has continued to invest in training and developing customer-facing employees and this has contributed to better customer satisfaction scores. At a Group level, staff engagement levels have risen and a new initiative, which rewards employees for proposing ideas that reduce Group costs or make insurance easier for customers, has been introduced.

During 2015, the Group continued to prepare for the introduction of Solvency II on 1 January 2016. In December 2015, it submitted its application to the Prudential Regulation Authority ("**PRA**") for internal model approval for its principal underwriter U K Insurance Limited ("**UKI**") as part of a Group-wide partial internal model. The principles underlying the internal model are already embedded within the Group's Enterprise Risk Management framework.

Sale of International division, special dividend and share consolidation

On 29 May 2015, the Group completed the disposal of its International division, which comprised its Italian and German operations, to Mapfre, S.A. Accordingly, this division is treated as discontinued operations in this report. Total cash sale proceeds were £438.1 million. The gain on disposal of £167.1 million is included in profit after tax from discontinued operations of £181.2 million.

On 24 July 2015, a special interim dividend of 27.5 pence per share was paid which amounted to substantially all of the net proceeds from the sale of the Group's International division. Concurrent with the shares trading ex this dividend, and following approval at the General Meeting on 29 June 2015, an 11 for 12 consolidation of the Group's shares was completed.

Dividends and capital management

The Board is proposing a final dividend of 9.2 pence per share, an increase of 4.5%, making a total regular dividend for 2015 of 13.8 pence per share. This represents 4.5% growth over the 2014 regular dividend and is in line with the Group's aim to grow the regular dividend annually in real terms.

In addition, the Board has resolved to pay a further special interim dividend of 8.8 pence per share. This takes the total special interim dividends for 2015 to 36.3 pence per share and includes the 27.5 pence per share dividend in relation to the sale of International division.

After deducting the final and special dividends, the Group's estimated pro forma capital coverage ratio based on the Solvency II standard formula at 31 December 2015 was 147.4%.

The Group is assessing its solvency capital requirements ("**SCR**") using the standard formula until such time that the Group-wide partial internal model is approved by the PRA. Following approval, which is expected in mid-2016, the Group will disclose its recalibrated risk appetite range based on its Solvency II internal model which will take into account the sensitivities of the Group's capital position on this basis. Whilst receiving internal model approval will remove a key uncertainty in relation to the Group's capital position, the Board does not currently expect the recalibration of the risk appetite range to lead to a step change in the appropriate level of capital to be held by the Group.

Regulatory update

From 1 April 2016, Flood Re, the government and industry-backed scheme to provide affordable home insurance to households at high risk of flooding, is planned to become operational. The Group has supported Flood Re's formation and is expected to be ready to cede chosen risks to Flood Re on its inception. The Group's share of the annual levy, based on its market share, is expected to be in the region of £24 million for 2016 and will be charged to operating expenses.

During November, the Government announced plans designed to reduce the cost of soft tissue damage whiplash claims. These plans, which will be subject to consultation, include increasing the value of claims settled through the small claims track and removing general damages for certain claims. The Group has been calling for reform in this area for some time and is working with the Government and industry bodies on how these reforms should be implemented. The reforms are not expected to be in place before 2017.

Outlook

The Group's markets remained highly competitive during 2015 and in early 2016. While premium rates in the motor market have increased, this should be viewed in the context of rising claims costs and higher levels of insurance premium tax ("**IPT**"). The home market experienced premium deflation in 2015 overall, although underlying market pricing was broadly stable in the fourth quarter after adjusting for the change in IPT. Overall the increase in IPT has seen shopping in the market increase modestly. The Rescue and Commercial markets also experienced increased competitor activity during the year.

Against this backdrop, the Group continues to adopt a disciplined approach to managing the trade-off between margin and volumes, whilst continuing to seek opportunities to improve efficiency. The Group aims to reduce total costs in absolute terms in 2016 compared to 2015. The rate of reduction is expected to be lower in 2016 than in 2015 due in part to the cost of the Flood Re levy. Meanwhile, the Group is continuing to invest in building future capability.

For 2016, the Group expects to achieve a COR in the range of 93% to 95% for ongoing operations, assuming a normal annual level of claims from major weather events.

Finance review

Performance

Operating profit – ongoing operations

	H2 2015 £m	H2 2014 £m	FY 2015 £m	FY 2014 £m
Underwriting profit	22.0	89.4	175.2	148.1
Instalment and other operating income	78.0	74.4	150.8	147.3
Investment return	84.9	106.5	194.7	210.6
Operating profit	184.9	270.3	520.7	506.0

In 2015, operating profit from ongoing operations increased to £520.7 million (2014: £506.0 million) primarily due to an improvement in the underwriting result, while the investment return decreased. The underwriting result improved significantly to £175.2 million (2014: £148.1 million) principally due to a better current-year attritional claims performance and reduced costs, partially offset by a higher level of claims costs from major weather events and lower volumes. This result included higher than expected prior-year reserve releases of £378.9 million (2014: £397.6 million). Total claims costs across Home and Commercial from the December weather events were approximately £130 million (2014: £63 million, which was incurred in first half of the year). Investment return was lower primarily due to lower assets under management ("**AUM**") impacting investment income and a reduction in net realised and unrealised gains.

Overall operating profit from ongoing operations for the second half of 2015 of £184.9 million decreased £85.4 million on the second half of 2014 (£270.3 million). The decrease in operating profit was driven by higher claims from major weather events and a lower investment return, partially offset by slightly higher instalment and other operating income.

In-force policies and gross written premium

In-force policies – ongoing operations (thousands)

As at	31 Dec 2015	30 Sep 2015	30 Jun 2015	31 Mar 2015 Revised[1]	31 Dec 2014 Revised[1]
Own brands	3,459	3,441	3,435	3,417	3,415
Partnerships	248	252	251	251	257
Motor total	3,707	3,693	3,686	3,668	3,672
Own brands	1,719	1,696	1,696	1,696	1,693
Partnerships	1,699	1,725	1,755	1,782	1,833
Home total	3,418	3,421	3,451	3,478	3,526
Rescue	3,932	3,997	4,034	4,008	3,976
Other personal lines	4,356	4,361	4,374	4,385	4,517
Rescue and other personal lines	8,288	8,358	8,408	8,393	8,493
Commercial	655	648	629	617	611
Total	16,068	16,120	16,174	16,156	16,302

Gross written premium – ongoing operations

	Q4 2015 £m	Q4 2014 £m	H2 2015 £m	H2 2014 £m	FY 2015 £m	FY 2014 £m
Own brands	308.9	290.5	672.3	631.2	1,307.5	1,248.4
Partnerships	24.6	20.9	51.1	45.4	99.2	93.6
Motor total	333.5	311.4	723.4	676.6	1,406.7	1,342.0
Own brands	99.9	99.3	214.5	216.3	408.4	416.2
Partnerships	112.8	118.3	234.0	245.0	457.9	482.4
Home total	212.7	217.6	448.5	461.3	866.3	898.6
Rescue	36.2	35.2	82.7	80.2	163.3	156.9
Other personal lines	57.2	54.4	116.6	110.4	230.8	214.9
Rescue and other personal lines	93.4	89.6	199.3	190.6	394.1	371.8
Commercial	116.3	115.3	229.2	224.9	485.3	487.0
Total	755.9	733.9	1,600.4	1,553.4	3,152.4	3,099.4

Note:
1. Rescue in-force policies have been revised to exclude partner post-accident vehicle recoveries.

Total in-force policies for ongoing operations during 2015 reduced by 1.4% to 16.1 million (31 December 2014: 16.3 million). The fall primarily related to other personal lines, within the Rescue and other personal lines division, and Home partnerships. Commercial grew in-force policies by 7.2% across the period, while Motor increased marginally. Gross written premium of £3,152.4 million increased by 1.7% compared with 2014 (£3,099.4 million) and by 3.0% on the second half of 2014 as growth in Motor, Commercial and Rescue and other personal lines was partially offset by Home.

Motor

Effect on premium income of changes in price and risk mix[1] – total

Change versus same quarter in previous year	Q4 2015	Q3 2015	FY 2015
Change in price	7.7%	7.0%	5.8%
Change in risk mix	(1.0%)	0.1%	(0.7%)

Total Motor in-force policies increased by 1.0% during 2015. Own brands grew by 1.3% whilst partner in-force policies fell by 3.5%. Overall, Motor gross written premium increased by 4.8% in comparison to 2015, as premium inflation returned to the motor market alongside ongoing claims inflation.

Improvements in the Group's trading capability across Churchill and Privilege, and better price competitiveness in an inflating market all contributed to the improved performance. The growth in gross written premium accelerated during the year with growth of 7.1% in the fourth quarter. Risk-adjusted prices increased by 7.7% in the fourth quarter compared with the fourth quarter of 2014, whilst for the full year risk-adjusted prices were 5.8% higher than in 2014. Annual premium inflation in 2015 reflected expected claims inflation, in addition to a catch up for higher than expected claims inflation during the previous period.

The market experienced continued high levels of shopping behaviour, especially during the fourth quarter following the rise in IPT. In this context, the Group's retention ratio remained strong and for 2015 was 1.0 percentage point higher than for 2014.

Home

Effect on premium income of changes in price and risk mix – own brands

Change versus same quarter in previous year	Q4 2015	Q3 2015	FY 2015
Change in price	(3.0%)	(1.6%)	(2.4%)
Change in risk mix	(2.6%)	(0.5%)	(1.1%)

In-force policies for Home own brands increased by 1.5% to 1.7 million over 2015, while partner in-force policies reduced by 7.3%. Gross written premium was 3.6% lower than for 2014 primarily due to partnerships which were 5.1% lower, while own brands experienced a smaller reduction of 1.9%.

Home's strong own brands maintained their competitiveness in a deflationary market supported by previous investments in claims and pricing initiatives. Total Home gross written premium reduced by 2.8% in comparison to the second half of 2014, with own brands broadly stable. Risk-adjusted Home prices decreased by 3.0% in the fourth quarter of 2015 compared with the same quarter last year, while risk mix decreased by 2.6%. Own brands retention continued to be strong, supported by previous investments in propositions.

Rescue and other personal lines

Gross written premium for Rescue and other personal lines experienced growth of 6.0% compared with 2014. Rescue gross written premium increased by 4.1% compared with 2014, mainly due to Green Flag direct sales. Refreshed web content, a new quote and buy journey and additional PCW distribution, together with take-up of higher levels of cover and competitive propositions, supported this. Gross written premium for other personal lines rose 7.4% compared to 2014, driven primarily by pricing and upgraded levels of cover on travel partnerships. The reduction in in-force policies for other personal lines of 3.6% across 2015 primarily reflected lower packaged bank account volumes.

Note:

1. Risk mix reflects the expected level of claims from the portfolio. It measures the estimated movement based on risk models used in that period and is revised when risk models are updated.

Commercial

Commercial in-force policy growth across 2015 was achieved by increased sales through the Direct Line for Business and eTrade channels. In-force policies in Direct Line for Business are now in excess of 400,000. Commercial gross written premium was broadly stable at £485.3 million in comparison to 2014. In the first half of 2015, gross written premium decreased following competitive pressures in the regional broker market, while growth of 1.9% was achieved in the second half primarily through the eTrade and direct channels.

Underwriting profit – ongoing operations

	H2 2015	H2 2014	FY 2015	FY 2014
Underwriting profit (£ million)	22.0	89.4	175.2	148.1
Loss ratio	64.6%	58.0%	59.5%	59.6%
Commission ratio	10.3%	12.8%	10.9%	11.8%
Expense ratio	23.6%	23.2%	23.6%	23.6%
COR	98.5%	94.0%	94.0%	95.0%

The COR for ongoing operations improved by 1.0 percentage point to 94.0% (2014: 95.0%). The loss and expense ratios were stable, whereas the commission ratio decreased by 0.9 percentage points.

At the start of the year, the Group set a 2015 COR guidance for ongoing operations in the range of 94% to 96%. This assumed a normal level of claims from major weather events. The range reflected uncertainty surrounding claims inflation versus motor market pricing. This guidance, assuming normal weather, was subsequently updated in the year to between 92% and 94%, following higher than expected prior-year reserve releases. A COR of approximately 93%, normalised for weather, was achieved.

Within the stable headline loss ratio, the attritional loss ratio improved, but this was offset by a lower contribution from prior-year reserve releases and higher weather-related claims. The reduction in the commission ratio primarily reflected lower payments to partners, particularly in Home, following higher weather-related claims.

The Group's expense ratio remained stable at 23.6%, with the effect of the reduction in operating expenses offset by the impact of lower net earned premium.

Current-year attritional loss ratio – ongoing operations

	H2 2015 £m	H2 2014 £m	FY 2015 £m	FY 2014 £m
Reported loss ratio	64.6%	58.0%	59.5%	59.6%
Prior-year reserve releases	11.1%	12.5%	13.0%	13.3%
Major weather events – Home[1]	(6.1%)	–	(3.1%)	(2.1%)
Current-year attritional loss ratio	69.6%	70.5%	69.4%	70.8%

The movement in the current-year attritional loss ratio is a key indicator of underlying accident year performance as it excludes prior-year reserve movements and claims from major weather events in the Home division. The Group's current-year attritional loss ratio improved by 1.4 percentage points to 69.4% in 2015 (2014: 70.8%) with improvements in Motor and Home partially offset by a deterioration in Rescue and other personal lines, and in Commercial primarily because of higher weather claims.

Prior-year reserve releases from ongoing operations continued to be significant at £378.9 million (2014: £397.6 million) and were equivalent to 13.0% of net earned premium (2014: 13.3% of net earned premium). Reserve releases were higher than expected in 2015 and the overall level for 2016 is expected to remain significant, albeit lower than in 2015.

Analysis by division

	Motor	Home	Rescue and other personal lines	Commercial[2]	Total ongoing
For the year ended 31 December 2015					
COR	92.4%	92.2%	91.2%	104.5%	94.0%
Current-year attritional loss ratio	85.0%	45.8%	63.5%	75.5%	69.4%
Prior-year reserve releases (£ million)	266.8	41.9	13.6	56.6	378.9
For the year ended 31 December 2014					
COR	96.2%	92.7%	92.0%	98.8%	95.0%
Current-year attritional loss ratio	88.5%	49.3%	61.7%	69.2%	70.8%
Prior-year reserve releases (£ million)	278.4	49.8	15.7	53.7	397.6

Notes:

1. Home claims from major weather events, including inland and coastal flooding and storms.
2. Commercial attritional loss ratio, includes claims costs from all weather-related events

By division, the COR improved in Motor, Home and Rescue and other personal lines compared with 2014, but deteriorated in Commercial, primarily due to the December 2015 storms.

Motor

The COR for the Motor division improved by 3.8 percentage points reflecting a better loss ratio while the expense and commission ratios were stable. The loss ratio improvement was due to a lower current-year attritional loss ratio. Stable prior-year reserve releases represented a similar percentage of net earned premium, and primarily relate to large bodily injury claims. Prior-year reserve releases in 2015 were £266.8 million (2014: £278.4 million) and are expected to be lower in 2016.

The current-year attritional loss ratio improved by 3.5 percentage points to 85.0%. Of this improvement, 2.0 percentage points related to the refinement in the Group's approach to determining the level of margin above the actuarial best estimate for the current year. The underlying loss ratio, excluding the change in risk margin, improved by 1.5 percentage points compared to last year, primarily arising from lower levels of large bodily injury claims which were elevated in 2014.

The Group's experience in relation to large bodily injury claims has improved during the second half of 2015 versus 2014 and the first half of 2015, but remains elevated versus 2013. In addition, the Group has experienced a modest increase in accident frequency during the second half of 2015.

Home

In Home, the COR improved to 92.2% despite higher than normal claims costs from major weather events. The weather impact in 2015 was higher than expected with claims costs from major weather events of approximately £90 million (2014: £63 million). The Group normally expects in the region of £80 million of annual claims from major weather events. Prior-year reserve releases were lower than last year at £41.9 million (2014: £49.8 million).

The current-year attritional loss ratio, excluding claims costs from major weather events, improved by 3.5 percentage points on 2014. This reflected the strength of the Group's pricing approach and retention performance. Home claims trends remained benign with 2015 underlying inflation, excluding major weather events, lower than the long-term average. In particular, claims from accidental damage and theft remained low.

Rescue and other personal lines

The COR for Rescue and other personal lines was stable at 91.2% (2014: 92.0%). The Rescue COR was 82.3% (2014: 81.5%) with a higher loss ratio reflecting changes in the partner channel following favourable experience in the prior year being broadly offset by an improvement to the commission ratio.

Commercial

The Commercial COR of 104.5% was 5.7 percentage points higher than 2014 and affected by above average claims from weather events, including those in December which cost approximately £40 million. Overall, weather related claims and other large claims were approximately £25 million more than expected. Adjusting for this, the COR would have been 99% as underlying claims and the loss ratio have remained broadly stable in comparison to the previous year. Prior-year reserve releases of £56.6 million increased on the previous year (2014: £53.7 million).

Total costs

	H2 2015 £m	H2 2014 £m	**FY 2015 £m**	FY 2014 £m
Staff costs	**129.2**	125.5	**254.2**	247.6
Other operating expenses	**108.7**	108.9	**219.0**	244.9
Marketing	**59.2**	59.7	**117.8**	123.9
Amortisation and impairment of other intangible assets	**36.5**	35.9	**67.4**	66.4
Depreciation	**15.8**	13.8	**30.7**	22.6
Total operating expenses	**349.4**	343.8	**689.1**	705.4
Claims handling expenses	**97.0**	109.7	**195.6**	222.3
Total costs	**446.4**	453.5	**884.7**	927.7

The total costs for ongoing operations of £884.7 million were 4.6% lower than the previous year (2014: £927.7 million). The Group's expense ratio was stable at 23.6%, with the effect of the reduction in operating expenses offset by the impact of lower net earned premium. Reductions in underlying costs have been achieved in a number of areas including marketing, technology and property. The reduction in claims handling expenses was primarily as a result of improved efficiencies in a number of areas, including head office functions that support claims operations. Costs in the second half of 2015 were lower than the prior year, but higher than in the first half. This was mainly due to write offs on redundant software, property, plant and equipment.

Instalment and other operating income – ongoing operations

	H2 2015 £m	H2 2014 £m	FY 2015 £m	FY 2014 £m
Instalment income	51.7	50.4	100.1	100.4
Other operating income:				
Vehicle replacement referral income	6.7	8.2	12.5	15.8
Revenue from vehicle recovery and repair services[1]	7.9	9.0	15.5	18.0
Other income	11.7	6.8	22.7	13.1
Other operating income	26.3	24.0	50.7	46.9
Total	78.0	74.4	150.8	147.3

Instalment and other operating income from ongoing operations of £150.8 million increased 2.4% on the prior year (2014: £147.3 million). Other operating income increased, while instalment income was stable. The increase in other income was due primarily to the inclusion of a full year of legal services income in 2015.

Investment return – ongoing operations

	H2 2015 £m	H2 2014 £m	FY 2015 £m	FY 2014 £m
Investment income	82.6	86.7	165.6	171.7
Net realised and unrealised gains	2.3	19.8	29.1	38.9
Total investment return	84.9	106.5	194.7	210.6

The total investment return for ongoing operations decreased to £194.7 million compared to £210.6 million in 2014. This was driven by a decrease in net realised and unrealised gains and a small reduction in investment income. Investment income was £165.6 million, a 3.6% decrease from 2014, primarily as a result of lower average AUM (31 December 2015: £6,818.7 million; 31 December 2014: £7,051.3 million).

Net realised and unrealised gains for ongoing operations of £29.1 million were lower than the comparative period (2014: £38.9 million) due primarily to lower realised gains on disposals of fixed income debt securities and a small decrease in unrealised property gains, which were £24.2 million for the year (2014: £25.9 million). Net realised and unrealised gains in the second half of 2015 were lower, with losses on certain debt security holdings offset by investment property gains.

Investment yields – continuing operations[2]

	FY 2015	FY 2014
Investment income yield[3]	2.4%	2.4%
Investment return[4]	2.9%	2.9%

The investment income yield for continuing operations in 2015 was 2.4%, in line with the yield achieved in 2014. Portfolio actions to diversify the portfolio in 2015 and prior years, including infrastructure debt, commercial property and high yield debt instruments, have helped offset yield pressure from the continuing low interest rate environment. The Group will continue to diversify its investment portfolio appropriately and based on current yield curves, which reflect delays in market expectations for a base rate rise, the Group currently forecasts an investment income yield of 2.5% for 2016 and 2.6% for 2017.

Notes:

1. Vehicle recovery includes post-accident and pay on use recovery. Repair services constitute the provision of non-insurance related services.
2. Continuing operations include ongoing operations and the Run-off segment.
3. Investment income yield excludes net gains and is calculated on income divided by calculating the average AUM based on opening and closing balance for total Group – continuing operations.
4. Investment return includes net gains and is calculated on income divided by calculating the average AUM based on opening and closing balance for total Group – continuing operations.

Investment holdings and yields – total Group

As at	31 Dec 2015 £m	30 Jun 2015 Adjusted[1,2] £m	31 Dec 2014[1] £m
Corporate[3]	**4,155.9**	4,070.0	4,092.7
Supranational[3]	**140.1**	136.9	176.2
Local government[3]	**104.9**	124.6	120.3
Credit	**4,400.9**	4,331.5	4,389.2
Securitised credit[3]	**350.8**	398.6	419.6
Sovereign[3]	**442.7**	672.4	993.7
Total debt securities	**5,194.4**	5,402.5	5,802.5
Infrastructure debt	**329.6**	221.4	76.2
Cash and cash equivalents[4]	**947.3**	916.4	865.4
Investment property	**347.4**	322.0	307.2
Total Group	**6,818.7**	6,862.3	7,051.3

At 31 December 2015, total investment holdings of £6,818.7 million were 3.3% lower than a year before reflecting operating cash flows and dividends paid. Total debt securities were £5,194.4 million (31 December 2014: £5,802.5 million), of which 14.6% were rated as 'AAA' and a further 59.4% were rated as 'AA' or 'A'. Corporate, supranational and local government debt securities account for 64.5% of the portfolio. The average duration at 31 December 2015 of total debt securities was 2.3 years (31 December 2014: 2.1 years).

At 31 December 2015, total unrealised gains, net of tax, on available-for-sale ("**AFS**") investments were £5.4 million (31 December 2014: £94.4 million). Due to the reduction in unrealised gains, net realised gains from the fixed income debt securities portfolio for 2016 are expected to be lower than in 2015.

During 2015, the Group reviewed its investment strategy resulting in approval to implement mandates in commercial real estate loans, subordinated financial debt and global credit. The subordinated debt mandate replaces holdings of similar securities previously contained in the Group's general investment grade mandates. All new mandates will be investment grade. In addition, a further 2% allocation to the existing high-yield mandate was approved, increasing this to a maximum of 6%. The mandates are funded primarily from reductions in government debt securities and existing holdings in investment grade securities. In 2015, the primary addition to the investment portfolio was the £253.4 million further investment in infrastructure debt. Planned additional investment in commercial property during 2015 was limited to one property acquisition given market pricing.

Derivatives are permitted only for risk mitigation and efficient portfolio management within the investment portfolio. Derivatives used include interest rate swaps, for example to hedge exposure to US Dollar interest rate movements, and forward currency contracts to hedge assets denominated in US Dollars back to Sterling. Separately, interest rate swaps have also been used to change the interest rate liability on the Group's debt issuance to a floating rate basis.

Operating profit – ongoing operations

	H2 2015 £m	H2 2014 £m	FY 2015 £m	FY 2014 £m
Motor	**157.0**	132.8	**338.0**	297.1
Home	**5.5**	79.1	**109.9**	113.9
Rescue and other personal lines	**25.6**	22.2	**52.0**	48.0
Commercial	**(3.2)**	36.2	**20.8**	47.0
Total ongoing	**184.9**	270.3	**520.7**	506.0

All divisions were profitable in 2015, with Motor and Rescue and other personal lines improving operating profit on 2014. Home operating profit was broadly stable, while Commercial reduced compared to the previous year, primarily due to the storms in December. Within Rescue and other personal lines, Rescue operating profit improved to £42.2 million (2014: £41.5 million).

Notes:
1. Continuing operations
2. Cash and cash equivalents adjusts for the payment of the special interim dividend on 24 July 2015, in relation to the sale of the Group's International division
3. Asset allocation at 31 December 2015 includes investment portfolio derivatives, which have been netted and have a mark-to-market liability value of £45.7 million of which £40.0 million is in corporate debt securities, £0.4 million in local government and £5.3 million in securitised credit (31 December 2014: mark-to-market liability value of £27.8 million of which £24.4 million is in corporate debt securities, £0.1 million in supranationals, £0.4 million in local government, £2.8 million in securitised credit and £0.1 million in sovereign). This excludes non-investment derivatives that have been used to hedge subordinated debt, operational cash flows and the disposal of the International division.
4. Net of bank overdrafts and including term deposits with financial institutions with maturities exceeding three months.

Reconciliation of operating profit

	H2 2015 £m	H2 2014 £m	FY 2015 £m	FY 2014 £m
Operating profit – ongoing operations	184.9	270.3	520.7	506.0
Run-off	34.8	34.9	73.1	55.3
Restructuring and other one-off costs	(8.3)	(41.6)	(48.7)	(69.6)
Operating profit	211.4	263.6	545.1	491.7
Finance costs	(18.9)	(18.5)	(37.6)	(37.2)
Gain on disposal of subsidiary	–	–	–	2.3
Profit before tax	192.5	245.1	507.5	456.8
Tax	(39.9)	(49.7)	(108.3)	(97.5)
Profit from discontinued operations, net of tax	–	1.6	181.2	13.3
Profit after tax	152.6	197.0	580.4	372.6

Run-off

The Run-off segment generated a profit of £73.1 million in 2015 compared with £55.3 million in 2014. Improved experience from large bodily injury claims led to higher prior-year reserve releases in comparison to the previous year. It is expected that the Run-off segment will continue to contribute positively to operating profit in future years, albeit at a lower level than in 2015.

Restructuring and other one-off costs

Restructuring and other one-off costs for 2015 of £48.7 million (2014: £69.6 million) primarily reflected the costs associated with the exit of one location announced at the beginning of the year and IT migration. Over the three year period 2015 to 2017, the Group expects cumulative restructuring and other one-off costs to continue to be substantially offset by the operating profit from the Run-off segment.

Finance costs

Finance costs remained stable at £37.6 million (2014: £37.2 million).

Gain on disposal of subsidiaries

The gain on disposal of £2.3 million in 2014 relates to the sale of the Group's stolen vehicle recovery business, Tracker.

Taxation

The effective tax rate for continuing operations in 2015 was 21.3% (2014: 21.3%), which was higher than the standard UK corporation tax rate of 20.25% (2014: 21.5%), primarily due to disallowable expenses.

Discontinued operations

On 29 May 2015, the Group completed the sale of its International division, which comprised its Italian and German operations, to Mapfre, S.A. Accordingly, this division is treated as discontinued operations. The gain on disposal of £167.1 million is included in profit after tax from discontinued operations of £181.2 million. Operating profit includes £29.9 million of realised net gains on divisional AFS investments reclassified through the income statement on disposal. Further details on discontinued operations are presented in note 4 to the consolidated financial statements, see page 27.

Profit for the year and return on tangible equity

Profit for the year amounted to £580.4 million (2014: £372.6 million), a significant increase on the previous year following the gain on the disposal of the Group's International division.

RoTE increased to 18.5% (2014: 16.8%) due to a lower equity base, from the sale of the Group's International division, and higher profit from ongoing operations.

Earnings per share

Basic earnings per share for continuing operations of 27.9 pence increased by 16.3% (2014: 24.0 pence). This reflected the reduction in restructuring and other one-off costs and the improved operating profits from the Run-off segment and ongoing operations.

Adjusted diluted earnings per share, from ongoing operations, increased by 4.3% to 26.6 pence (2014: 25.5 pence) reflecting the increase in operating profit.

Dividends

The Board is proposing a final dividend of 9.2 pence per share making a total regular dividend for 2015 of 13.8 pence per share. This represents 4.5% growth over the 2014 regular dividend and is in line with the Group's aim to grow the regular dividend annually in real terms.

In addition, the Board has resolved to pay a further special interim dividend of 8.8 pence per share. This takes the total special interim dividends for 2015 to 36.3 pence per share and includes the 27.5 pence per share dividend in relation to the sale of the International division.

Net asset value

As at	31 Dec 2015 £m	30 Jun 2015 £m	31 Dec 2014 £m
Net assets	**2,630.0**	2,993.7	2,810.5
Goodwill and other intangible assets[1]	**(524.8)**	(506.6)	(523.1)
Tangible net assets	**2,105.2**	2,487.1	2,287.4
Special interim dividend[2]	**–**	(411.5)	–
Adjusted tangible net assets	**2,105.2**	2,075.6	2,287.4
Net asset value per share (pence)	**192.2**	218.4	188.2
Tangible net asset value per share (pence)	**153.8**	151.4[3]	153.1

The net asset value at 31 December 2015 was £2,630.0 million (31 December 2014: £2,810.5 million) with a tangible net asset value of £2,105.2 million (31 December 2014: £2,287.4 million). The decrease since the beginning of the year reflected the payment of dividends and reduction of the AFS investments reserve, partially offset by profit in 2015.

Financial management

Reserving

The Group seeks to adopt a conservative approach to assessing liabilities as evidenced by the favourable development of historical claims reserves. Reserves are based on management's best estimate which incorporates a prudent margin in excess of the internal actuarial best estimate. This margin is made in reference to a range of actuarial scenario assessments and percentiles and also considers other short and long-term risks not reflected in the actuarial inputs.

The significant level of prior-year reserve releases in recent years (2015: £378.9 million; 2014: £397.6 million) has arisen primarily from reductions in the actuarial best estimate. Over these time periods, the percentage margin above actuarial best estimate has been broadly maintained or increased. Looking forward, the Group will continue to set its initial management best estimate for future accident years conservatively, and provided that the risk outlook remains stable it does not expect to need to increase the overall margin further. Over time, the share of the Group's underwriting profit attributable to current year is expected to increase. Assuming current claims trends continue, the contribution from prior-year reserve releases is expected to remain significant, albeit lower than in 2015.

Claims reserves net of reinsurance

As at	31 Dec 2015 £m	31 Dec 2014 £m
Motor	**2,125.9**	2,355.1
Home	**387.7**	335.2
Rescue and other personal lines	**79.3**	77.0
Commercial	**627.3**	607.5
Total ongoing	**3,220.2**	3,374.8
Run-off	**382.4**	523.8
Discontinued operations	**–**	393.6
Total Group	**3,602.6**	4,292.2

Notes:

1. Includes the International division's intangible assets at 31 December 2014 of £5.6 million included in assets held for sale.
2. The trustees of the employee share trusts waived their entitlement to dividends on shares which are held to meet Long Term Incentive Plan, Deferred Annual Incentive Plan and Restricted Share Plan awards.
3. Tangible net assets per share have been adjusted at 30 June 2015 to aid comparability. This adjustment has been made to take into account the timing difference between the share consolidation on 30 June 2015 and the payment of the special interim dividend on 24 July 2015, in relation to the sale of the Group's International division.

Capital management

Capital management policy

The Group seeks to manage its capital efficiently, maintaining an appropriate level of capitalisation and solvency, while aiming to grow its dividend annually in real terms.

In determining the appropriate level of capitalisation and solvency, the Group considers capital across a number of metrics. These include economic capital, regulatory capital and rating agency capital. The Group targets holding capital sufficient to maintain a credit rating in the 'A' range.

Where the Board believes the Group has capital that is surplus to requirements, it looks to return it to shareholders.

Solvency II

Solvency II is the new solvency framework of the capital adequacy regime for the European insurance industry. It establishes a revised set of EU-wide capital requirements and risk management standards with the aim of increasing protection for policyholders. Solvency II was implemented on 1 January 2016 and the Group is presenting pro forma[1] information at 31 December 2015 for the first time on this basis.

The Group is regulated by the PRA on both a Group basis and, for the Group's principal underwriter, UKI, on a solo basis.

Initially, the Group (including UKI) will assess its capital requirements using the standard formula. UKI has applied for its internal economic capital model to be approved as its internal model and approval is expected from the PRA in mid-2016. From that point, UKI will calculate its capital requirement using the internal model which will form part of a Group-wide partial internal model.

Capital position

At 31 December 2015, the Group held a capital surplus of £794.6 million above its pro forma[1] regulatory capital requirements on a Solvency II standard formula basis. This was equivalent to a pro forma capital coverage ratio of 147.4%. Comparative figures are on a risk-based capital basis.

As at	Solvency II[2] 31 Dec 2015	Risk-based capital 31 Dec 2014
Pro forma[1] solvency capital requirement (£ million)	1,676.2	n/a
Capital surplus above pro forma SCR (£ million)	794.6	n/a
Pro forma capital coverage ratio	147.4%	n/a
Risk-based capital coverage ratio (adjusted for final and second special interim dividends)	n/a	148.2%

The following table splits the Group's own funds by tier on a Solvency II basis.

As at	31 Dec[2] 2015 £m
Tier 1 capital before foreseeable dividends	2,045.2
Foreseeable dividends	(247.5)
Tier 1 capital	1,797.7
Tier 2 capital	614.9
Tier 3 capital	58.2
Own funds	2,470.8

Tier 1 capital after foreseeable dividends represents 72.8% of own funds and 107.2% of pro forma solvency capital requirement ("**SCR**"). Tier 2 capital relates solely to the Group's £500 million subordinated debt issue in 2012.

Notes:
1. See note 5 on page 3.
2. Figures are estimated and based on preliminary regulatory returns for 31 December 2015.

Reconciliation of IFRS shareholders' equity to Solvency II own funds

As at	31 Dec[2] 2015 £m
Shareholders' equity	2,630.0
Goodwill and intangible assets	(524.8)
Change in valuation of technical provisions	202.9
Other asset and liability adjustments	(262.9)
Foreseeable dividends	(247.5)
Tier 1 capital	1,797.7
Tier 2 capital: subordinated debt	614.9
Tier 3 capital: deferred tax asset	58.2
Own funds	2,470.8

Leverage

The Group's financial leverage continues to be conservative. During 2015, the leverage increased from 15.8% to 16.5% due mainly to the sale of the Group's International operations and subsequent special dividend which reduced shareholders' equity.

As at	31 Dec 2015 £m	30 Jun 2015 £m	31 Dec 2014 £m
Shareholders' equity	2,630.0	2,993.7	2,810.5
Financial debt – subordinated guaranteed dated notes	521.1	516.8	526.3
Total capital employed	3,151.1	3,510.5	3,336.8
Financial-leverage ratio[1]	16.5%	14.7%	15.8%

Credit ratings

Standard & Poor's and Moody's Investors Service provide insurance financial-strength ratings for UKI. UKI is currently rated 'A' (strong) with a stable outlook by Standard & Poor's and 'A2' (good) with a stable outlook by Moody's.

Note:
1. Total financial debt as a percentage of total capital employed.
2. See note 2 on page 15.

Principal risks and uncertainties

The Group robustly assesses its principal risks, including those that could threaten the business model, future performance, solvency and liquidity. Principal risks are defined as having a residual risk impact of £40 million or more on profit before tax or net asset value on a one-in-200 years basis. The risk profile remains broadly unchanged over the last year.

Principal risks	Owner	Management and mitigation examples
Insurance risk The risk of loss due to fluctuations in the timings, amount, frequency and severity of an insured event relative to the expectations at the time of underwriting. Insurance risk includes reserve, underwriting, distribution, pricing and reinsurance risks.	Chief Financial Officer, Managing Directors of Personal Lines and Commercial	• The Group estimates the technical reserves using various actuarial and statistical techniques. Management's best estimate of reserves is set at not less than the actuarial best estimate • Third parties review the Group's reserves • Underwriting guidelines are set for all transacted business and pricing refined by analysing comprehensive data • Catastrophe and motor excess of loss reinsurance limits the Group's exposure to events and large losses • The Group invests in enhanced external data to analyse and mitigate exposures
Market risk The risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. Market risk includes spread, interest rate and property risks.	Chief Financial Officer	• The Group manages and controls the risks in its investment portfolio through: – investment strategy approved by the Board – diversification of the types of assets, limits on the amount of illiquid investments, and tight control of individual credit exposures – risk-reduction techniques are used, such as hedging foreign currency exposures with forward contracts and hedging exposure to US interest rates with swap contracts
Credit risk The risk of loss resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which the Group is exposed. Credit risk includes counterparty default and concentration risks.	Chief Financial Officer	• Credit limits are set for each counterparty and credit exposures are actively monitored • The Group only purchases reinsurance from reinsurers with at least an 'A-' rating
Operational risk The risk of loss due to inadequate or failed internal processes, people, systems or from external events. Operational risk includes information security, IT and business continuity, partnership contractual obligations, change, financial reporting, model and outsourcing risks.	Specific members of the Executive	• The Group has appropriate operational processes and systems, including detection systems for fraudulent claims • The Group is working to improve the performance of its IT systems across the board, while focusing on the development of future systems capability. With significant change underway, the Group is monitoring risks associated with IT systems' stability, cyber security and the internal control environment • The Group's risk management system is designed to enable the capture of risk information in a robust and consistent way • The Group monitors performance of outsourced activities
Regulatory and conduct risk The risks leading to reputational damage, regulatory or legal censure, fines or prosecutions and other types of non-budgeted operational risk losses associated with the Group's conduct and activities. Regulatory and conduct risk includes compliance risk.	Chief Financial Officer, Chief Risk Officer and Managing Director of Personal Lines	• The Group maintains a constructive and open relationship with regulators • Specific risk management tools and resources are used to help manage exposure to regulatory risk • Risk-based monitoring is designed to ensure effective use of resources • The Group has a strong culture of considering customers' perspectives, and delivering the right outcomes for customers is central to how it operates • Robust customer conduct risk management is intended to minimise the Group's exposure
Strategic risk The risk of direct or indirect adverse impact on the earnings, capital, or value of the business as a result of the strategies not being optimally chosen, implemented or adapted to changing conditions. Strategic risk includes strategy formulation and implementation risks.	Chief Executive Officer	• The Group has agreed strategic targets which are monitored and managed • An annual strategy process is run which considers Group performance, competitor positioning and strategic opportunities • Emerging risks are identified and managed using an established governance process and forums

Brand and reputational risk is now considered within the drivers of other risk types such as regulatory and conduct, operational and strategic risks.

Emerging risks

The Group's definition of emerging risk is newly developing or changing risks that are often difficult to quantify, but may materially affect the business. Emerging risks are further defined as highly uncertain risks that are external to the business.

The Group records emerging risks within an Emerging Risk Register. These are reported to the Risk Management Committee and Board Risk Committee for review, challenge, approval, and feed into the Board's strategic planning process. The Group's emerging risks processes aim to:

- Achieve 'first mover advantage' by recognising risks and associated opportunities early
- Reduce the uncertainty and volatility of the Group's results
- Manage emerging risks proactively

The Group considers its main emerging risks to be:

Technological change in driving habits reduce consumer need for motor insurance

New car technologies, such as crash-prevention technologies and driverless cars, could significantly affect the size and nature of the insurance market, and the role of insurers.

Changes to traditional insurance business models

New market entrants and changes in consumer expectations could result in significant changes to the structure of the general insurance market and require us to update our business model.

New methods of gathering and using customer data

Using 'big data' as part of the Group's strategy could create new data management risks and issues; for example, complying with regulations relating to third-party access to telematics data.

Consolidated income statement

For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Continuing operations			
Gross earned premium	5	3,110.1	3,144.2
Reinsurance premium ceded	5	(189.2)	(157.5)
Net earned premium	5	2,920.9	2,986.7
Investment return	6	198.1	215.1
Instalment income		100.1	100.4
Other operating income	7	50.7	46.9
Total income		3,269.8	3,349.1
Insurance claims	8	(1,829.3)	(1,778.6)
Insurance claims recoverable from reinsurers	8	162.4	51.2
Net insurance claims	8	(1,666.9)	(1,727.4)
Commission expenses	9	(319.3)	(354.0)
Operating expenses	10	(738.5)	(776.0)
Total expenses		(1,057.8)	(1,130.0)
Operating profit		545.1	491.7
Finance costs	11	(37.6)	(37.2)
Gain on disposal of subsidiary		–	2.3
Profit before tax		507.5	456.8
Tax charge		(108.3)	(97.5)
Profit from continuing operations, net of tax		399.2	359.3
Profit from discontinued operations, net of tax	4A	181.2	13.3
Profit for the year attributable to owners of the Company		580.4	372.6
Earnings per share:			
Continuing operations:			
Basic (pence)	12	27.9	24.0
Diluted (pence)	12	27.6	23.8
Continuing and discontinued operations:			
Basic (pence)	12	40.6	24.9
Diluted (pence)	12	40.1	24.7

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	2015 £m	2014 £m
Profit for the year	580.4	372.6
Other comprehensive (loss) / income		
Items that will not be reclassified subsequently to the income statement:		
Actuarial gain on defined benefit pension scheme	6.7	2.8
Tax relating to items that will not be reclassified	(1.6)	(0.6)
	5.1	2.2
Items that may be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	14.4	(14.5)
Cash flow hedges	(1.4)	1.3
Fair value (loss) / gain on AFS investments	(100.5)	97.2
Less: realised net gains on AFS investments included in income statement	(44.3)	(22.8)
Tax relating to items that may be reclassified	34.6	(17.6)
	(97.2)	43.6
Other comprehensive (loss) / income for the year net of tax	(92.1)	45.8
Total comprehensive income for the year attributable to owners of the Company	488.3	418.4

Consolidated balance sheet

As at 31 December 2015

	Notes	2015 £m	2014 £m
Assets			
Goodwill and other intangible assets		524.8	517.5
Property, plant and equipment		186.3	181.3
Investment property		347.4	307.2
Reinsurance assets		1,011.4	862.5
Current tax assets		0.1	0.1
Deferred acquisition costs		203.8	208.4
Insurance and other receivables		955.8	959.9
Prepayments, accrued income and other assets		110.9	107.9
Derivative financial instruments		19.6	27.3
Retirement benefit asset		13.1	3.5
Financial investments	14	5,614.6	5,961.2
Cash and cash equivalents	15	963.7	880.4
Assets held for sale		5.1	1,208.4
Total assets		9,956.6	11,225.6
Equity		2,630.0	2,810.5
Liabilities			
Subordinated liabilities		521.1	526.3
Insurance liabilities	17	4,524.5	4,674.1
Unearned premium reserve	18	1,476.6	1,434.2
Borrowings	15	61.3	69.8
Derivative financial instruments		46.4	29.4
Trade and other payables including insurance payables		656.5	660.6
Deferred tax liabilities		29.9	20.6
Current tax liabilities		10.3	35.7
Liabilities held for sale		–	964.4
Total liabilities		7,326.6	8,415.1
Total equity and liabilities		9,956.6	11,225.6

Consolidated statement of changes in equity

For the year ended 31 December 2015

	Share capital £m	Employee trust shares £m	Capital reserves £m	Revaluation reserve £m	Non-distributable reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Total shareholders equity £m
Balance at 1 January 2014	150.0	(10.2)	1,450.0	58.8	92.8	0.1	1,048.5	2,790.0
Profit for the year	–	–	–	–	–	–	372.6	372.6
Other comprehensive income	–	–	–	56.8	–	(13.2)	2.2	45.8
Dividends	–	–	–	–	–	–	(401.1)	(401.1)
Transfer to non-distributable reserve	–	–	–	–	32.1	–	(32.1)	–
Shares acquired by employee trusts	–	(4.4)	–	–	–	–	–	(4.4)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	6.6	6.6
Shares distributed by employee trusts	–	1.0	–	–	–	–	(1.0)	–
Tax on share-based payments	–	–	–	–	–	–	1.0	1.0
Balance at 31 December 2014	150.0	(13.6)	1,450.0	115.6	124.9	(13.1)	996.7	2,810.5
Profit for the year	–	–	–	–	–	–	580.4	580.4
Other comprehensive loss	–	–	–	(110.2)	–	13.0	5.1	(92.1)
Dividends	–	–	–	–	–	–	(666.0)	(666.0)
Transfer to non-distributable reserve	–	–	–	–	28.0	–	(28.0)	–
Shares acquired by employee trusts	–	(17.8)	–	–	–	–	–	(17.8)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	12.1	12.1
Shares distributed by employee trusts	–	11.0	–	–	–	–	(11.0)	–
Tax on share-based payments	–	–	–	–	–	–	2.9	2.9
Balance at 31 December 2015	150.0	(20.4)	1,450.0	5.4	152.9	(0.1)	892.2	2,630.0

Consolidated cash flow statement

For the year ended 31 December 2015

	Note	2015 £m	2014 £m
Net cash generated from / (used by) operating activities before investment of insurance assets		42.1	(410.6)
Cash generated from investment of insurance assets		503.1	1,121.1
Net cash generated from operating activities		545.2	710.5
Cash flows from investing activities			
Purchases of property, plant and equipment		(67.9)	(86.7)
Purchases of intangible assets		(75.5)	(92.8)
Purchases of assets held for sale		–	(12.6)
Proceeds on disposals of assets held for sale		7.1	0.8
Net cash flows from disposal / (acquisition) of subsidiaries		327.1	(24.7)
Net cash generated from / (used by) investing activities		190.8	(216.0)
Cash flows from financing activities			
Dividends paid		(666.0)	(401.1)
Finance costs		(38.2)	(37.9)
Purchase of employee trust shares		(17.8)	(4.4)
Net cash used by financing activities		(722.0)	(443.4)
Net increase in cash and cash equivalents		14.0	51.1
Cash and cash equivalents at the beginning of the year		898.2	853.2
Effect of foreign exchange rate changes		(9.8)	(6.1)
Cash and cash equivalents at the end of the year	15	902.4	898.2

Notes to the consolidated financial statements

1. Accounting policies

Basis of preparation

The financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS"). However, this announcement does not itself contain sufficient information to comply with IFRS.

The financial information set out in this preliminary results announcement does not constitute the statutory accounts for the year ended 31 December 2015. The financial information is derived from the statutory accounts, which comply with IFRS, within the Group's Annual Report & Accounts. These accounts were signed on 29 February 2016 and are expected to be published in March 2016 and delivered to the Registrar of Companies following the Annual General Meeting to be held on 12 May 2016. The independent auditor's report on the Group accounts for the year ended 31 December 2015 was signed on 29 February 2016, is unqualified, does not draw attention to any matters by way of emphasis and does not include a statement under S498(2) or (3) of the Companies Act 2006.

Going concern

The directors are satisfied that the Group had sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

Adoption of new and revised standards

The following amendments have been adopted in the year and have not had a material impact on the Group's financial statements:

IFRS 2 (amended), 'Share-Based Payment' – The amendment defines "performance condition" and "service condition".

IFRS 3 (amended), 'Business Combinations' – The first amendment deals with the accounting for contingent consideration in a business combination and the second amendment clarifies that joint arrangements, not just joint ventures, are outside the scope of IFRS 3.

IFRS 8 (amended), 'Operating Segments' – The first amendment clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria and the second amendment clarifies when a reconciliation of segment assets to total assets is required to be disclosed.

IFRS 13 (amended), 'Fair Value Measurement' – The amendment clarifies that the portfolio exception in IFRS 13 can also be applied to other contracts within the scope of IFRS 9 or IAS 39.

IAS 16 (amended), 'Property, Plant and Equipment' and IAS 38 (amended), 'Intangible Assets' – These amendments clarify that an asset may be revalued by reference to observable data either by adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, they also clarify that accumulated depreciation and amortisation is the difference between gross and carrying amounts of the asset.

IAS 19 (amended), 'Employee Benefits' – Introduced an amendment to simplify the accounting for employee contributions in respect of defined benefit plans that are independent of the number of years of service.

IAS 24 (amended), 'Related Party Disclosures' – The amendment provides additional clarification as to when an entity which provides managerial services is a related party.

IAS 40 (amended), 'Investment Property' – The amendment clarifies that IFRS 3 should be used to assess whether a transaction is the purchase of an asset or a business combination.

2. Critical accounting estimates and judgements

Full details of critical accounting estimates and judgements used in applying the Group's accounting policies are outlined on pages 115 to 118 of the Annual Reports & Accounts 2014. There have been no significant changes to the principles or assumptions of these critical accounting estimates and judgements during the year ended 31 December 2015.

3. Segmental analysis

The table below analyses the Group's revenue and results for continuing operations by reportable segment for the year ended 31 December 2015.

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	**Total ongoing £m**	Run-off £m	**Continuing operations £m**
Gross written premium	1,406.7	866.3	394.1	485.3	**3,152.4**	0.1	**3,152.5**
Gross earned premium	1,358.7	880.3	388.0	483.0	**3,110.0**	0.1	**3,110.1**
Reinsurance premium ceded	(109.4)	(35.3)	(1.6)	(42.9)	**(189.2)**	–	**(189.2)**
Net earned premium	1,249.3	845.0	386.4	440.1	**2,920.8**	0.1	**2,920.9**
Investment return	138.9	20.5	3.8	31.5	**194.7**	3.4	**198.1**
Instalment income	69.7	23.3	1.7	5.4	**100.1**	–	**100.1**
Other operating income	33.9	0.5	12.6	3.7	**50.7**	–	**50.7**
Total income	1,491.8	889.3	404.5	480.7	**3,266.3**	3.5	**3,269.8**
Insurance claims	(956.7)	(434.8)	(231.6)	(304.5)	**(1,927.6)**	98.3	**(1,829.3)**
Insurance claims recoverable from reinsurers	161.9	(0.3)	–	28.7	**190.3**	(27.9)	**162.4**
Net insurance claims	(794.8)	(435.1)	(231.6)	(275.8)	**(1,737.3)**	70.4	**(1,666.9)**
Commission expenses	(31.9)	(176.7)	(24.5)	(86.1)	**(319.2)**	(0.1)	**(319.3)**
Operating expenses	(327.1)	(167.6)	(96.4)	(98.0)	**(689.1)**	(0.7)	**(689.8)**
Total expenses	(359.0)	(344.3)	(120.9)	(184.1)	**(1,008.3)**	(0.8)	**(1,009.1)**
Operating profit before restructuring and other one-off costs	338.0	109.9	52.0	20.8	520.7	73.1	593.8
Restructuring and other one-off costs[1]							(48.7)
Operating profit							545.1
Finance costs							(37.6)
Profit before tax							507.5
Underwriting profit / (loss)	95.5	65.6	33.9	(19.8)	175.2		
Loss ratio	63.6%	51.5%	59.9%	62.7%	**59.5%**		
Commission ratio	2.6%	20.9%	6.4%	19.6%	**10.9%**		
Expense ratio	26.2%	19.8%	24.9%	22.2%	**23.6%**		
Combined operating ratio	92.4%	92.2%	91.2%	104.5%	94.0%		

Note:

1. Restructuring costs are costs which have been incurred in respect of the business activities which have a material effect on the nature and focus of the Group's operations. One-off costs are costs that are non-recurring in nature.

The table below analyses the Group's revenue and results for continuing operations by reportable segment for the year ended 31 December 2014.

	Motor[1] £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total ongoing £m	Run-off £m	Continuing operations £m
Gross written premium	1,342.0	898.6	371.8	487.0	3,099.4	(0.4)	3,099.0
Gross earned premium	1,372.6	920.4	370.5	481.1	3,144.6	(0.4)	3,144.2
Reinsurance premium ceded	(76.7)	(45.1)	(1.4)	(34.3)	(157.5)	–	(157.5)
Net earned premium	1,295.9	875.3	369.1	446.8	2,987.1	(0.4)	2,986.7
Investment return	144.8	25.7	6.1	34.0	210.6	4.5	215.1
Instalment income	69.6	24.0	1.5	5.3	100.4	–	100.4
Other operating income	32.9	0.7	10.8	2.5	46.9	–	46.9
Total income	1,543.2	925.7	387.5	488.6	3,345.0	4.1	3,349.1
Insurance claims	(931.5)	(445.1)	(211.9)	(261.7)	(1,850.2)	71.6	(1,778.6)
Insurance claims recoverable from reinsurers	63.4	0.8	–	6.4	70.6	(19.4)	51.2
Net insurance claims	(868.1)	(444.3)	(211.9)	(255.3)	(1,779.6)	52.2	(1,727.4)
Commission expenses	(41.4)	(190.3)	(34.5)	(87.8)	(354.0)	–	(354.0)
Operating expenses	(336.6)	(177.2)	(93.1)	(98.5)	(705.4)	(1.0)	(706.4)
Total expenses	(378.0)	(367.5)	(127.6)	(186.3)	(1,059.4)	(1.0)	(1,060.4)
Operating profit before restructuring and other one-off costs	297.1	113.9	48.0	47.0	506.0	55.3	561.3
Restructuring and other one-off costs[2]							(69.6)
Operating profit							491.7
Finance costs							(37.2)
Gain on disposal of subsidiary							2.3
Profit before tax							456.8
Underwriting profit	49.8	63.5	29.6	5.2	148.1		
Loss ratio	67.0%	50.8%	57.4%	57.1%	59.6%		
Commission ratio	3.2%	21.7%	9.4%	19.7%	11.8%		
Expense ratio	26.0%	20.2%	25.2%	22.0%	23.6%		
Combined operating ratio	96.2%	92.7%	92.0%	98.8%	95.0%		

Notes:

1. The Group's revenue and results for the year ended 31 December 2014 relating to the Tracker business, which was disposed of on 5 February 2014, were recorded in the Motor segment (other operating income: £1.4 million and operating loss: £0.4 million).
2. Restructuring costs are costs which have been incurred in respect of the business activities which have a material effect on the nature and focus of the Group's operations. One-off costs are costs that are non-recurring in nature.

4. Discontinued operations and disposal group

Following a strategic review of the International segment during 2014, the Board concluded that, although the operations in Italy (represented by Direct Line Insurance S.p.A) and Germany (represented by Direct Line Versicherung AG) occupied strong positions, a disposal would be likely to generate the most value to shareholders. On 25 September 2014, the Group entered into a binding agreement with Mapfre International S.A., a wholly-owned subsidiary of Mapfre, S.A., for the sale of International. Accordingly, the Group has treated this segment as discontinued operations and a disposal group.

The Group completed the disposal of its Italian and German subsidiaries on 29 May 2015 generating a gain on disposal of £167.1 million.

A) Discontinued operations

The following table analyses performance relating to the discontinued operations for the period from 1 January to disposal on 29 May 2015 and the year ended 31 December 2014.

	2015 £m	2014 £m
Gross written premium	261.1	567.6
Gross earned premium	207.2	555.8
Reinsurance premium ceded	(78.8)	(226.0)
Net earned premium	128.4	329.8
Investment return[1]	37.1	22.1
Instalment income	1.4	4.8
Other operating income	0.1	1.0
Total income	167.0	357.7
Insurance claims	(156.2)	(404.2)
Insurance claims recoverable from reinsurers	60.9	159.5
Net insurance claims	(95.3)	(244.7)
Commission expenses	(28.0)	(63.0)
Operating expenses	(10.2)	(29.0)
Total expenses	(38.2)	(92.0)
Operating profit from discontinued operations	33.5	21.0
Gain on disposal of discontinued operations	167.1	–
Profit before tax from discontinued operations	200.6	21.0
Tax charge	(19.4)	(7.7)
Profit after tax from discontinued operations	181.2	13.3
Underwriting loss	(5.1)	(6.9)
Loss ratio	74.2%	74.2%
Commission ratio	21.8%	19.1%
Expense ratio	8.0%	8.8%
Combined operating ratio	104.0%	102.1%

Note:

1. Realised net gains on AFS investments included £29.9 million of gains reclassified through the income statement, on disposal of International.

The following table analyses the other comprehensive loss relating to discontinued operations, included in the consolidated statement of comprehensive income for the period from 1 January to disposal on 29 May 2015 and the year ended 31 December 2014.

	2015 £m	2014 £m
Items that may be reclassified subsequently to income statement:		
Exchange differences on the translation of foreign operations	14.4	(15.5)
Cash flow hedge	(1.2)	–
Fair value gain on AFS investments	0.6	26.1
Less: realised net gains on AFS investments included in income statement	(31.8)	(6.6)
Tax relating to items that may be reclassified	10.1	(6.9)
Other comprehensive loss for the year net of tax	(7.9)	(2.9)

The following table analyses the cash flows relating to the discontinued operations included in the consolidated cash flow statement for the period 1 January to disposal on 29 May 2015 and the year ended 31 December 2014.

	2015 £m	2014 £m
Net cash generated from operating activities	19.1	12.6
Net cash used by investing activities	(1.5)	(8.4)
Net cash generated from the disposal of discontinued operations[1]	327.1	–
Effect of foreign exchange rate changes	(9.8)	(6.1)
Net increase / (decrease) in cash and cash equivalents	334.9	(1.9)

Note:

1. The net cash generated from the disposal of discontinued operations comprises the net cash consideration of £422.5 million less the cash held by the German and Italian subsidiaries at the point of sale of £95.4 million.

B) Disposal group

The following table analyses the gain on disposal of discontinued operations during the year including the assets and liabilities held for sale in the disposal group immediately prior to the disposal on 29 May 2015.

	29 May 2015 £m	31 December 2014 £m
Assets		
Intangible assets	5.4	5.6
Property, plant and equipment	5.2	5.9
Reinsurance assets	171.0	183.0
Deferred tax assets	41.9	9.2
Current tax assets	–	1.4
Deferred acquisition costs	105.5	111.1
Insurance and other receivables	152.3	91.1
Prepayments and accrued income	3.1	3.6
Financial investments	665.5	706.9
Cash and cash equivalents	95.4	87.6
Total assets	1,245.3	1,205.4
Liabilities		
Insurance liabilities	504.5	553.4
Unearned premium reserve	355.0	326.2
Trade and other payables including insurance payables	125.3	82.0
Deferred tax liabilities	32.0	0.8
Current tax liabilities	4.0	2.0
Total liabilities	1,020.8	964.4
Net assets	224.5	
Cash consideration received[1]	438.1	
Transaction costs	(15.6)	
Net cash consideration	422.5	
Net assets disposed	(224.5)	
Currency translation reserve reclassified to the income statement	(30.9)	
Gain on disposal of discontinued operations	167.1	

Note:

1. The Group entered into a foreign currency hedge converting Euro into Sterling in September 2014 for the disposal proceeds. The foreign currency hedge gain of £34.0 million and other sale-related consideration are included in cash consideration received.

5. Net earned premium

Continuing operations	2015 £m	2014 £m
Gross earned premium:		
Gross written premium	3,152.5	3,099.0
Movement in unearned premium reserve	(42.4)	45.2
	3,110.1	3,144.2
Reinsurance premium:		
Premium payable	(191.7)	(182.5)
Movement in reinsurance unearned premium reserve	2.5	25.0
	(189.2)	(157.5)
Total	2,920.9	2,986.7

6. Investment return

Continuing operations	2015 £m	2014 £m
Investment income:		
Interest income from debt securities	140.1	154.0
Cash and cash equivalent interest income	6.7	5.2
Rental income from investment property	17.9	16.2
Interest income from infrastructure debt	4.4	0.1
	169.1	175.5
Net realised gains / (losses):		
AFS debt securities	12.4	16.2
Derivatives	(56.5)	(86.2)
Investment property	–	2.3
	(44.1)	(67.7)
Net unrealised gains:		
Impairments of AFS debt securities	–	1.3
Derivatives	48.9	79.6
Investment property	24.2	26.4
	73.1	107.3
Total	198.1	215.1

The table below analyses the realised and unrealised gains and losses on derivative instruments included in investment return.

Continuing operations	Realised 2015 £m	Unrealised 2015 £m	Realised 2014 £m	Unrealised 2014 £m
Derivative (losses) / gains				
Foreign exchange forward contracts	(82.4)	(19.1)	(59.3)	(46.4)
Associated foreign exchange risk	44.9	61.9	(7.4)	115.9
Net (losses) / gains on foreign exchange forward contracts	(37.5)	42.8	(66.7)	69.5
Interest rate derivatives	(28.7)	1.2	(20.4)	(22.1)
Associated interest rate risk	9.7	4.9	0.9	32.2
Net (losses) / gains on interest rate derivatives	(19.0)	6.1	(19.5)	10.1
Total	(56.5)	48.9	(86.2)	79.6

7. Other operating income

Continuing operations	2015 £m	2014 £m
Vehicle replacement referral income	12.5	15.8
Revenue from vehicle recovery and repair services	15.5	18.0
Fee income from insurance intermediary services	2.4	2.1
Other income	20.3	11.0
Total	50.7	46.9

8. Net insurance claims

Continuing operations	Gross 2015 £m	Reinsurance 2015 £m	Net 2015 £m	Gross 2014 £m	Reinsurance 2014 £m	Net 2014 £m
Current accident year claims paid	1,037.0	–	1,037.0	1,086.4	–	1,086.4
Prior accident year claims paid	941.9	(15.9)	926.0	1,165.8	(21.8)	1,144.0
Decrease in insurance liabilities	(149.6)	(146.5)	(296.1)	(473.6)	(29.4)	(503.0)
Total	1,829.3	(162.4)	1,666.9	1,778.6	(51.2)	1,727.4

Claims handling expenses for the year ended 31 December 2015 of £200.4 million (2014: £226.3 million) have been included in the claims figures above. Claims handling expenses can be further analysed for the year ended 31 December 2015 between ongoing operations of £195.6 million (2014: £222.3 million) and run-off of £4.8 million (2014: £4.0 million).

9. Commission expenses

Continuing operations	2015 £m	2014 £m
Commission expenses	253.2	263.3
Expenses incurred under profit participations	66.1	90.7
Total	319.3	354.0

10. Operating expenses

Continuing operations	2015 £m	2014 £m
Staff costs	273.3	263.6
Other operating expenses	249.2	299.5
Marketing	117.9	123.9
Amortisation and impairment of other intangible assets	67.4	66.4
Depreciation	30.7	22.6
Total	738.5	776.0

Staff costs attributable to claims handling activities are allocated to the cost of insurance claims.

The table below analyses restructuring and other one-off costs included in operating expenses.

	2015 £m	2014 £m
Other operating expenses	30.0	54.1
Staff costs	18.7	15.5
Total	48.7	69.6

The table below analyses the number of people employed by the Group's operations.

	At 31 December		Average for the year	
Continuing operations	2015	2014	2015	2014
Operations	9,531	9,618	9,564	9,959
Support	1,190	1,271	1,257	1,278
Total	10,721	10,889	10,821	11,237

The Group's discontinued operations employed no employees at 31 December 2015 (2014: 1,267) and an average monthly number of 1,279 people for the period until disposal on 29 May 2015 (2014: 1,275).

The aggregate remuneration of those employed by the Group's operations comprised:

Continuing operations	2015 £m	2014 £m
Wages and salaries	335.4	344.0
Social security costs	37.8	37.7
Pension costs	23.4	23.9
Share-based payments	12.1	6.6
Total	408.7	412.2

The aggregate remuneration of those employed by the Group's discontinued operations (note 5A) was £12.6 million in 2015 (2014: £32.9 million).

11. Finance costs

Continuing operations	2015 £m	2014 £m
Interest expense on subordinated liabilities[1]	37.6	37.2

Note:

1. On 27 April 2012 the Group issued subordinated guaranteed dated notes with a nominal value of £500 million at a fixed rate of 9.25%. On the same date, the Group also entered into a 10-year hedge to exchange the fixed rate of interest on the notes for a floating rate of three-month LIBOR plus a spread of 706 basis points which increased to 707 basis points with effect from 29 July 2013.

12. Earnings per share

Earnings per share is calculated by dividing earnings attributable to the owners of the Company by the weighted average number of Ordinary Shares during the period.

On 30 June 2015, the Group completed an 11 for 12 share consolidation which had the effect of reducing the number of shares in issue from 1,500 million Ordinary Shares of 10 pence each to 1,375 million Ordinary Shares of 10 $^{10}/_{11}$ pence each. The weighted average number of Ordinary Shares used in calculating basic and diluted earnings per share reflects this share consolidation.

Basic

Basic earnings per share is calculated by dividing the earnings attributable to the owners of the Company by the weighted average of Ordinary Shares for the purposes of basic earnings per share during the period, excluding Ordinary Shares held as employee trust shares.

	2015 £m	2014 £m
Earnings attributable to owners of the Company arising from:		
Continuing operations	399.2	359.3
Discontinued operations	181.2	13.3
Continuing and discontinued operations	580.4	372.6
Weighted average number of Ordinary Shares (millions)	1,431.2	1,495.0
Basic earnings per share (pence):		
Continuing operations	27.9	24.0
Discontinued operations	12.7	0.9
Continuing and discontinued operations	40.6	24.9

Diluted

Diluted earnings per share is calculated by dividing the earnings attributable to the owners of the Company by the weighted average of Ordinary Shares for the purposes of diluted earnings per share during the period adjusted for the dilutive potential Ordinary Shares. The Company has share options and contingently issuable shares as categories of dilutive potential Ordinary Shares.

	2015 £m	2014 £m
Earnings attributable to owners of the Company arising from:		
Continuing operations	399.2	359.3
Discontinued operations	181.2	13.3
Continuing and discontinued operations	580.4	372.6
Weighted average number of Ordinary Shares (millions)	1,431.2	1,495.0
Effect of dilutive potential of share options and contingently issuable shares (millions)	17.8	12.9
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	1,449.0	1,507.9
Diluted earnings per share (pence):		
Continuing operations	27.6	23.8
Discontinued operations	12.5	0.9
Continuing and discontinued operations	40.1	24.7

13. Net assets per share and return on equity

Net asset value per share is calculated as total shareholders' equity divided by the number of Ordinary Shares at the end of the period excluding shares held by employee share trusts.

Tangible net asset value per share is calculated as total shareholders' equity less goodwill and other intangible assets divided by the number of Ordinary Shares at the end of the period excluding shares held by employee share trusts.

The table below analyses net asset and tangible net asset value per share.

At 31 December	2015 £m	2014 £m
Net assets	2,630.0	2,810.5
Goodwill and other intangible assets	(524.8)	(517.5)
Disposal group – intangible assets	–	(5.6)
Tangible net assets	2,105.2	2,287.4
Number of Ordinary Shares (millions)	1,375.0	1,500.0
Shares held by employee share trusts (millions)	(6.3)	(6.4)
Closing number of Ordinary Shares (millions)	1,368.7	1,493.6
Net asset value per share (pence)	192.2	188.2
Tangible net asset value per share (pence)	153.8	153.1

Return on equity

The table below details the calculation of return on equity.

	2015 £m	2014 £m
Earnings attributable to owners of the Company arising from:		
Continuing operations	399.2	359.3
Discontinued operations	181.2	13.3
Continuing and discontinued operations	580.4	372.6
Opening shareholders' equity	2,810.5	2,790.0
Closing shareholders' equity	2,630.0	2,810.5
Average shareholders' equity	2,720.2	2,800.2
Return on equity	21.3%	13.3%

14. Financial investments

	2015 £m	2014 £m
AFS debt securities		
Corporate	4,182.4	4,117.1
Supranational	140.1	176.3
Local government	105.3	120.7
Sovereign	442.7	993.8
Securitised credit	356.1	422.4
Total	5,226.6	5,830.3
HTM debt securities		
Corporate	13.5	–
Total debt securities	5,240.1	5,830.3
Total debt securities		
Fixed interest rate	4,801.6	5,147.3
Floating interest rate	438.5	683.0
Total	5,240.1	5,830.3
Loans and receivables		
Deposits with credit institutions with maturities in excess of three months	44.9	54.7
Infrastructure debt	329.6	76.2
Total	5,614.6	5,961.2

15. Cash and cash equivalents and borrowings

	2015 £m	2014 £m
Cash at bank and in hand	131.8	151.3
Short-term deposits with credit institutions with maturities less than 3 months	831.9	729.1
Cash and cash equivalents	963.7	880.4
Bank overdrafts[1]	(61.3)	(69.8)
Cash and cash equivalents in assets held for sale (note 5B)	–	87.6
Cash and cash equivalents including bank overdrafts	902.4	898.2

Note:

1. Bank overdrafts represent short-term timing differences between transactions posted in the records of the Group and transactions flowing through the accounts at the bank.

The effective interest rate on short-term deposits with credit institutions for the year ended 31 December 2015 was 0.56% (2014: 0.61%) and average maturity was 10 days (2014: 10 days).

16. Share capital

	2015 Number Millions	2014 Number Millions	2015 £m	2014 £m
Issued and fully paid: Equity Shares				
Ordinary Shares of 10 pence each	–	1,500	–	150.0
Ordinary Shares of 10 $^{10}/_{11}$ pence each	1,375	–	150.0	–

At a General Meeting on 29 June 2015, shareholders approved a share consolidation which completed on 30 June 2015. As a result of the share consolidation, shareholders held 11 new Ordinary Shares of 10 $^{10}/_{11}$ pence each issued by the Company in exchange for every 12 Ordinary Shares of 10 pence each held immediately prior to the share consolidation, which were cancelled by the Company.

17. Insurance liabilities

	2015 £m	2014 £m
Insurance liabilities	4,524.5	4,674.1

Gross insurance liabilities

Accident year	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	Total £m
Estimate of ultimate gross claims costs[1]:											
At end of accident year	3,789.2	4,014.7	3,393.4	3,823.3	3,941.7	2,698.1	2,372.7	2,184.0	2,094.5	2,118.1	
One year later	(256.0)	(44.7)	50.8	121.6	(117.1)	(99.3)	(163.3)	(117.6)	20.7	–	
Two years later	(32.6)	7.8	51.7	(37.0)	(99.1)	(94.6)	(118.9)	(153.0)	–	–	
Three years later	(10.7)	64.8	(36.7)	(14.0)	(50.3)	(89.3)	(49.3)	–	–	–	
Four years later	18.3	(5.4)	(16.7)	(101.5)	(105.5)	(60.9)	–	–	–	–	
Five years later	(18.2)	(12.1)	(55.5)	(38.8)	(57.7)	–	–	–	–	–	
Six years later	(11.0)	(24.4)	(45.7)	(80.8)	–	–	–	–	–	–	
Seven years later	(13.5)	(18.8)	(29.9)	–	–	–	–	–	–	–	
Eight years later	2.2	(14.4)	–	–	–	–	–	–	–	–	
Nine years later	(33.2)	–	–	–	–	–	–	–	–	–	
Current estimate of cumulative claims[1]	3,434.5	3,967.5	3,311.4	3,672.8	3,512.0	2,354.0	2,041.2	1,913.4	2,115.2	2,118.1	
Cumulative payments to date[1]	(3,291.0)	(3,761.5)	(3,170.8)	(3,441.9)	(3,246.0)	(2,082.9)	(1,751.3)	(1,475.5)	(1,350.1)	(912.4)	
Gross liability recognised in balance sheet	143.5	206.0	140.6	230.9	266.0	271.1	289.9	437.9	765.1	1,205.7	3,956.7
2005 and prior											473.4
Claims handling provision											94.4
Total											4,524.5

Note:

1. The claims development and cumulative payments to date by accident year in the above table have been re-presented to exclude the claims and payments in respect of the International business sold on 29 May 2015.

Net insurance liabilities

Accident year	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	Total £m
Estimate of ultimate net claims costs[1]:											
At end of accident year	3,743.4	3,970.3	3,334.7	3,790.6	3,902.0	2,644.4	2,271.8	2,093.9	1,971.0	1,926.7	
One year later	(239.7)	(64.3)	52.0	70.0	(125.2)	(131.5)	(146.7)	(123.6)	(29.7)	–	
Two years later	(43.5)	(14.5)	15.9	(17.4)	(120.4)	(82.1)	(107.8)	(134.4)	–	–	
Three years later	(21.4)	32.9	(22.8)	(54.1)	(44.0)	(76.5)	(35.6)	–	–	–	
Four years later	18.2	(8.9)	(45.8)	(67.0)	(93.6)	(48.7)	–	–	–	–	
Five years later	(40.3)	(17.6)	(48.7)	(29.6)	(52.3)	–	–	–	–	–	
Six years later	(19.6)	(19.6)	(30.9)	(74.6)	–	–	–	–	–	–	
Seven years later	(13.1)	(16.0)	(24.5)	–	–	–	–	–	–	–	
Eight years later	3.6	(12.5)	–	–	–	–	–	–	–	–	
Nine years later	(25.3)	–	–	–	–	–	–	–	–	–	
Current estimate of cumulative claims[1]	3,362.3	3,849.8	3,229.9	3,617.9	3,466.5	2,305.6	1,981.7	1,835.9	1,941.3	1,926.7	
Cumulative payments to date[1]	(3,253.7)	(3,696.4)	(3,131.6)	(3,408.6)	(3,232.0)	(2,059.6)	(1,739.4)	(1,466.7)	(1,350.1)	(912.4)	
Net liability recognised in balance sheet	108.6	153.4	98.3	209.3	234.5	246.0	242.3	369.2	591.2	1,014.3	3,267.1
2005 and prior											241.1
Claims handling provision											94.4
Total											3,602.6

Note:

1. The claims development and cumulative payments to date by accident year in the above table have been re-presented to exclude the claims and payments in respect of the International business sold on 29 May 2015.

17. Insurance liabilities continued

Movements in gross and net insurance liabilities

	Gross £m	Reinsurance £m	Net £m
Claims reported	3,636.4	(467.5)	3,168.9
Incurred but not reported	1,992.7	(449.8)	1,542.9
Claims handling provision	128.3	–	128.3
At 1 January 2014	5,757.4	(917.3)	4,840.1
Cash paid for claims settled in the year	(2,671.6)	181.2	(2,490.4)
Increase / (decrease) in liabilities:			
Arising from current-year claims	2,721.3	(288.3)	2,433.0
Arising from prior-year claims[1]	(538.5)	77.6	(460.9)
Effect of foreign currency exchange adjustment	(41.1)	11.5	(29.6)
Transfer to (liabilities) / assets held for sale	(553.4)	159.8	(393.6)
At 31 December 2014	4,674.1	(775.5)	3,898.6
Claims reported	2,791.1	(315.3)	2,475.8
Incurred but not reported	1,778.2	(460.2)	1,318.0
Claims handling provision	104.8	–	104.8
At 31 December 2014	4,674.1	(775.5)	3,898.6
Cash paid for claims settled in the year	(1,978.9)	16.0	(1,962.9)
Increase / (decrease) in liabilities:			
Arising from current-year claims	2,307.6	(191.4)	2,116.2
Arising from prior-year claims	(478.3)	29.0	(449.3)
At 31 December 2015	4,524.5	(921.9)	3,602.6
Claims reported	2,732.2	(375.0)	2,357.2
Incurred but not reported	1,697.9	(546.9)	1,151.0
Claims handling provision	94.4	–	94.4
At 31 December 2015	4,524.5	(921.9)	3,602.6

Note:

1. Decrease in net liabilities arising from prior-year claims in 2014 includes a £10.1 million reserve release for the discontinued International business.

Movement in prior-year net claims liabilities by operating segment

	2015 £m	2014 £m
Motor	(266.8)	(278.4)
Home	(41.9)	(49.8)
Rescue and other personal lines	(13.6)	(15.7)
Commercial	(56.6)	(53.7)
Total ongoing	(378.9)	(397.6)
Run-off	(70.4)	(53.2)
Total	(449.3)	(450.8)

18. Unearned premium reserve

Movement in unearned premium reserve

	Gross £m	Reinsurance £m	Net £m
At 1 January 2014	1,818.7	(93.7)	1,725.0
Net movement in the year	(33.4)	(18.6)	(52.0)
Effect of foreign currency exchange adjustment	(24.9)	2.1	(22.8)
Transfer to (liabilities) / assets held for sale	(326.2)	23.2	(303.0)
At 31 December 2014	1,434.2	(87.0)	1,347.2
Net movement in the year	42.4	(2.5)	39.9
At 31 December 2015	1,476.6	(89.5)	1,387.1

19. Related parties

Transactions between the Group's subsidiary undertakings, which are related parties, have been eliminated on consolidation and accordingly are not disclosed.

RBS Group was formerly a related party of the Group, as a result of its ownership of Ordinary Shares, up until the point of selling its remaining shares on 27 February 2014. The RBS Group transactions and balances included below are for historical transactions, prior to the date of sale when the related party relationship ceased.

Full details of the Group's related party transactions for the year ended 31 December 2014 are included on page 160 of the Annual Report & Accounts 2014.

Corporate information

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

Statutory accounts information

The Annual Report & Accounts 2014 were signed on 2 March 2015 and were delivered to the Registrar of Companies following the Annual General Meeting held on 13 May 2015. The Annual Report & Accounts 2014 is available at: ara2014.directlinegroup.com .

Additional information

We confirm that to the best of our knowledge:

1. the financial statements within the Annual Report & Accounts, from which the financial information within these Preliminary Results have been extracted, are prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and

2. the management report within these Preliminary Results includes a fair review of the development and performance of the business and the position of the Group, and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties faced by the Group.

Signed on behalf of the Board

Paul Geddes

Chief Executive Officer

29 February 2016

John Reizenstein

Chief Financial Officer

29 February 2016