Direct Line Insurance Group plc
Preliminary results for the year ended 31 December 2014

3 March 2015

Financial highlights

- Gross written premium from ongoing operations[1] 3.8% lower for 2014 compared with 2013, reflecting disciplined approach to underwriting in Motor and Home. Gross written premium trends improved during the year with gross written premium increasing 0.4% in the fourth quarter compared with 2013
- Combined operating ratio[2] from ongoing operations of 95.0% for 2014, an improvement of 0.2 percentage points on 2013 (95.2%) including stable contribution from prior-year reserve releases of £397.6 million (2013: £395.8 million)
- Stable operating profit from ongoing operations of £506.0 million for 2014 (2013: £509.9 million); while total Group statutory profit before tax for continuing operations rose 12.2% to £456.8 million (2013: £407.3 million)
- Return on tangible equity[3] of 16.8% for 2014 (2013: 16.0%)
- 4.8% increase in final[4] dividend per share to 8.8 pence per share and second special interim dividend of 4.0 pence per share. Total dividends for 2014 of 27.2 pence per share (2013: 20.6 pence per share)

Strategic and operational highlights

- All Initial Public Offering and 2014 published targets either met or exceeded: Group combined operating ratio; Commercial combined operating ratio; total cost base[5]; and return on tangible equity
- Ongoing investment in capability supporting profitability across Group with all divisions now making a material contribution
- Announced binding agreement for the sale of International division for €550 million (£430.1 million[6])
- Continued active capital management with 24.6% of Initial Public Offering price already returned to shareholders, rising to 31.9% when the final[4] and second special interim dividends are included. This excludes the expected return of capital associated with the sale of the Group's International division
- Focus on UK reaffirmed with clear strategic aim of making insurance much easier and better value for customers

Paul Geddes, CEO of Direct Line Group, commented

"At the time of our IPO in 2012 we announced four targets for 2014, and I am delighted to report that we have met or exceeded all of them. After paying the regular and special dividends for 2014, we will also have returned a total of £836 million to shareholders since we began life as a public company.

"We also announced a binding agreement for the sale of our International business for total cash sale proceeds of €550 million (£430 million), as we reaffirmed our strategic focus on the UK market. This is a good result for all our stakeholders, including providing excellent value for shareholders.

"Underlying this performance is the successful delivery of many initiatives to improve the competitiveness of our business and to improve the propositions and experience we offer our customers. We will continue to invest in our brands, our technology and our people with the mission to make insurance much easier and better value for our customers."

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Note:
See page 2 for notes

Notes:

1. Ongoing operations include Direct Line Group's ongoing divisions: Motor, Home, Rescue and other personal lines, and Commercial. It excludes the International division which is classified as discontinued operations, the Run-off segment and restructuring and other one-off costs. Continuing operations include all activities other than International.
2. Combined operating ratio ("**COR**") is the sum of the loss, commission and expense ratios. The ratio is a measure of 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 and the International division divided by the Group's average tangible shareholders' equity. Profit after tax is adjusted to exclude the Run-off segment and restructuring and other one-off costs, and is stated after charging tax (using the UK standard tax rate of 21.5%; 2013: 23.25%).
4. The Board has resolved this year to pay an interim dividend in lieu of a final dividend, see page 6, and references in this document to 'final dividend' for 2014 are to be construed as references to this interim dividend. In this document the second special dividend is referred to separately from the final dividend. This enables more appropriate comparison to the 2013 final dividend. Both the second special interim dividend and the final dividend will be paid together as one payment.
5. Operating expenses and claims handling expenses from ongoing operations and the International division. It excludes the Run-off segment and restructuring and other one-off costs.
6. Cash sale proceeds received in Euros have been converted to Pounds Sterling using the rate within the designated foreign currency hedge contract.

Forward-looking statements disclaimer

Financial summary

	H2 2014 £m	H2 2013 £m	FY 2014 £m	FY 2013 £m
Ongoing operations[1]:				
In-force policies (thousands)			16,401	16,865
Gross written premium	1,553.4	1,586.4	3,099.4	3,222.1
Net earned premium	1,482.8	1,564.4	2,987.1	3,154.1
Underwriting profit	89.4	56.8	148.1	152.6
Instalment and other operating income	74.4	83.2	147.3	172.6
Investment return	106.5	97.3	210.6	184.7
Operating profit – ongoing operations	270.3	237.3	506.0	509.9
Run-off	34.9	53.0	55.3	63.6
Restructuring and other one-off costs	(41.6)	(70.6)	(69.6)	(140.5)
Operating profit	263.6	219.7	491.7	433.0
Finance costs	(18.5)	(19.2)	(37.2)	(37.7)
Gain on disposal of subsidiaries	–	12.0	2.3	12.0
Profit before tax	245.1	212.5	456.8	407.3
Tax	(49.7)	(48.4)	(97.5)	(96.5)
Profit / (loss) from discontinued operations, net of tax	1.6	(3.1)	13.3	2.0
Profit after tax	197.0	161.0	372.6	312.8
Of which ongoing operations[2]	197.7	167.4	368.0	362.4
Key metrics – ongoing operations				
Loss ratio	58.0%	63.3%	59.6%	60.9%
Commission ratio	12.8%	10.2%	11.8%	10.6%
Expense ratio	23.2%	22.9%	23.6%	23.7%
Combined operating ratio	94.0%	96.4%	95.0%	95.2%
Adjusted earnings per share[3] – diluted (pence)			25.5	25.0
Return on tangible equity[4]			16.8%	16.0%
Key metrics				
Investment income yield – continuing operations[5]			2.4%	2.1%
Investment return – continuing operations			2.9%	2.4%
Basic earnings per share – continuing operations (pence)			24.0	20.8
Return on equity			13.3%	11.1%
Net asset value per share (pence)			188.2	186.6
Tangible net asset value per share (pence)			153.1	153.2
Dividend per share – interim (pence)			4.4	4.2
– final[6] (pence)			8.8	8.4
– regular (pence)			13.2	12.6
– first special interim (pence)			10.0	4.0
– second special interim (pence)			4.0	4.0
– total (pence)			27.2	20.6

Notes:
1. See note 1 on page 2
2. See note 1 on page 2, adjusted for finance costs, excluding gain on disposal of subsidiaries and stated after charging tax (using the standard tax rate of 21.5%; 2013: 23.25%).
3. Adjusted earnings per share – diluted, includes ongoing operations and the International division (discontinued operations) and excludes the Run-off segment, restructuring and other one-off costs, and the gain on disposal of subsidiaries (using UK standard tax rate of 21.5%; 2013: 23.25%).
4. See note 3 on page 2
5. Excludes discontinued operations
6. See note 4 on page 2

Business update

Overview

Direct Line Group (the "**Group**") achieved a good set of results and either met or exceeded its Initial Public Offering ("**IPO**") and 2014 published targets, while making progress towards its strategic priorities. Against the backdrop of a highly competitive marketplace, the Group maintained underwriting discipline, enabling it to deliver a stable operating profit from ongoing operations.

Operating profit from ongoing operations was stable at £506.0 million (2013: £509.9 million) while COR for ongoing operations improved by 0.2 percentage points to 95.0% (2013: 95.2%). Total profit before tax for continuing operations of £456.8 million (2013: £407.3 million) increased by 12.2% on the previous year.

Strategic priorities

The Group has continued to make good progress in advancing its five strategic priorities: distribution; pricing; claims; costs; and Commercial and International. During the year, the Group announced a binding agreement for the sale of its International division. As a result of this, in this document progress on the fifth strategic priority refers solely to the Commercial division.

Distribution – The Group aims to improve distribution efficiency and effectiveness by focusing on digital capability and customer value. During 2014, the Group progressed significantly in making it easier for customers to buy insurance policies through the launch of new websites for Motor. The Group has re-engineered and optimised the 'quote and buy' journey whether customers are using personal computers, smartphones or tablets. The Group further differentiated the Direct Line customer proposition in 2014 with a focus on improving claims service. This proposition was supported by a new advertising campaign. The Group has also continued building its telematics portfolio, with 38,000 in-force policies at year end. This growth has been accelerated by the launch of a self-install device during the year.

Pricing – The Group aims to leverage its substantial data to provide leading technical and market pricing. During 2014, the Group made major progress around pricing sophistication, with over 30 programmes relating to technical and market pricing delivered. These have contributed to the Group's underwriting performance. Additionally in Motor, the Group has started using telematics-generated data to inform pricing decisions for telematics customers. This gives another rich and valuable data source, allowing the Group to reward customers for better driving in ways traditional rating factors would not recognise.

Claims – The Group aims to improve its performance through efficient and effective claims management. The Group continued building on its leading claims service by using smartphone technology to improve customers' claims experience. Straightforward home claims can now be advised via photos and video taken by smartphone, helping to speed up settlement and reduce fraud. The Group has also continued improving the claims proposition through using its supply chain more effectively. Direct Line customers now benefit from faster car repair times, the offer of sourcing a replacement car in the event of a total loss, and replacements ready in eight hours for some household goods.

Costs – The Group aims to improve efficiency throughout the business to reduce costs and enable faster decision making. During the year, the Group cut costs by 5.6% and beat its target to reduce total costs to approximately £1,000 million. The Group achieved this by rigorously controlling discretionary costs during the year, reducing staff costs through a more efficient operating model, and lowering marketing spend. The Group has progressed substantially in migrating IT applications from RBS Group infrastructure and expects to complete this in 2015. As part of this programme, the Group rolled out new desktop and voice infrastructure. The Group expects this to lead to future operational efficiencies.

Commercial – The Commercial business focuses on targeting the growing number of small and medium-sized enterprises. The division continued to improve its profitability, achieving a COR of 98.8%, beating the 2014 target ratio of less than 100%. The division achieved this through a combination of factors, including a continued focus on disciplined underwriting and cost control. NIG's award-winning eTrade platform continued gaining traction as it continuously improved its products and proposition. At the same time, the division enhanced the Direct Line for Business customer websites with new digital functionality. Commercial extended price comparison website ("**PCW**") distribution to the van business through Churchill, and launched a new telematics offering.

Sale of International division

Early in the year the Group carried out a strategic review of the International division, which comprises the Italian and German operations. The Group concluded that, although these operations occupied strong positions in their respective markets, a disposal would be likely to generate the most value to shareholders. On 25 September 2014, the Group announced a binding agreement with Mapfre, S.A. for the sale of this division for €550 million (£430.1 million). Completion of the sale is conditional on receiving one outstanding regulatory approval and is currently expected to complete in the first quarter or failing which in the second quarter. The Group believes this is a good result for all of our stakeholders, providing excellent value for our shareholders, while offering our customers and colleagues stability and opportunity.

Making insurance much easier and better value for customers

The Group's operating environment is ever-changing and it must therefore ensure that its strategy is aligned to this evolution. During 2014, the Board reviewed the Group's strategy to ensure that the business is continuing to evolve and address emerging trends. This review reaffirmed the key building blocks of the strategic priorities and reinforced the UK as the core market. The Group's strategy supports its aspiration to be the leading personal and small business general insurer in the UK by making insurance much easier and better value for customers.

UK Motor and Home trading

The motor insurance market was highly competitive with further premium deflation at the start of the year. As the year progressed premium rates flattened. The Group continued making choices designed to optimise value and prioritise underwriting profit over volume growth. Furthermore, the results reflected previous actions to reduce risk and manage claims costs. These have helped manage the business successfully through a dynamic and evolving regulatory landscape and competitive marketplace. Gross written premium for the Motor division of £1,342.0 million reduced by 5.6% and in-force policies reduced by 2.4%, compared with 2013.

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

Change versus same quarter in previous year	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Change in price	1.7%	–	(2.3%)	(5.1%)
Change in risk mix	(1.0%)	(2.6%)	(2.3%)	(1.0%)

For the Group's Motor portfolio, overall prices increased marginally in the fourth quarter of 2014 compared with the same period last year, while risk mix reduced by 1.0%. Gross written premium increased by 2.5% in the fourth quarter of 2014, as the Group's prices were more competitive in a stable market, and the benefits from improvements in pricing capability continued.

The home insurance market experienced further new business premium deflation during 2014. Gross written premium of £898.6 million was 4.7% lower, as in-force policies reduced by 5.2%, compared with 2013. Reductions in gross written premium and in-force policies were greater for Partnership business reflecting changing distribution trends. The benefits from recent pricing and claims initiatives allowed the Home division to improve its competitiveness during the second half of 2014, while the retention of renewing policies continued at good levels.

Regulatory update

The regulatory landscape continues to be dynamic, especially in the UK motor insurance market. This year, the Financial Conduct Authority, the Competition and Markets Authority and the Ministry of Justice have issued further reviews and remedies.

Overall, the Group continues to support good conduct and proportionate reforms which will deliver better consumer outcomes and a level playing field across the industry.

Dividends and capital management

The Group has continued to manage its capital base actively during 2014 with a special interim dividend of 10.0 pence per share paid in September 2014. The Board has resolved to pay a second special interim dividend of 4.0 pence per share. The first and second special interim dividends have resulted from the build up of surplus capital, in part reflecting the Group's disciplined approach to underwriting over the last few years.

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.

A final[1] dividend of 8.8 pence per share, which the Board has resolved to pay this year as an interim dividend, represents 4.8% growth on 2013. Total regular dividends for 2014 of 13.2 pence per share represent 4.8% growth on 2013 and are in line with the Group's policy to aim to increase the dividend annually in real terms.

Since the IPO, the Group has paid dividends equivalent to 24.6% of its IPO price to shareholders, and this figure will rise to 31.9% when the final and second special interim dividends are included.

After deducting these dividends, the Board considers that the Group is strongly capitalised with a risk-based capital coverage ratio at the upper end of its target range. It also has an 'A' rating with stable outlook from its credit rating agencies.

The Board's view of the capital position takes into account the transition to a Solvency II environment and considers the Group's position on the standard formula, which it is expected to operate under for at least the first six months of 2016, and the internal economic capital model. In view of the transition to Solvency II, the Board is likely to next consider any return of capital alongside the full-year results for 2015. The consideration of any future return of capital that the Board may decide to make will take into account the Group's requirements on a Solvency II basis and, in line with its existing policy, will consider capital requirements over a prolonged period.

Notwithstanding the above, following the completion of the sale of the International division, and as indicated at the time of the announced sale in September 2014, the Board expects to announce a special interim dividend of substantially all of the net proceeds. This return of capital will be conditional on shareholders approving a share consolidation designed to neutralise the effect on the share price of this return of capital and to maintain comparability of per share data.

Given the proximity of the 2014 final dividend to the expected special dividend relating to the sale of the International division, as an exception to the usual process the final dividend will be accelerated and, as referred to above, the Board has resolved to pay it as an interim dividend. This should avoid potential delays in payment to shareholders, which might otherwise arise following the sale of the International business.

Outlook

The UK motor and home markets remain highly competitive with recent market conditions characterised by periods of market price deflation and of stability. Early 2015 has seen some additional, potentially seasonal, market pressure in motor and broad stability in the home market.

Against this backdrop the Group will continue to adopt a flexible, but disciplined, approach to managing the trade-off between margin and volumes. Meanwhile the Group is investing in building future capability and continues to identify opportunities to improve efficiency.

For 2015, the Group expects to achieve a combined operating ratio in the range of 94% to 96% for ongoing operations after normalising for claims from major weather events. The range reflects uncertainty surrounding claims inflation versus market pricing in Motor.

Note:

1. See note 4 on page 2

Finance review

Performance

On 25 September 2014, the Group entered into a binding agreement for the sale, subject to regulatory approval, of its International division and accordingly has treated this division as discontinued operations.

Operating profit – ongoing operations[1]

	H2 2014 £m	H2 2013 £m	FY 2014 £m	FY 2013 £m
Underwriting profit	89.4	56.8	148.1	152.6
Instalment and other operating income	74.4	83.2	147.3	172.6
Investment return	106.5	97.3	210.6	184.7
Operating profit	270.3	237.3	506.0	509.9

In 2014, operating profit from ongoing operations was stable at £506.0 million (2013: £509.9 million). The underwriting result was marginally lower by 2.9% as lower net earned premium more than offset the improvement in COR to 95.0% (2013: 95.2%). This reflected investment in pricing capability and focus on underwriting discipline. A lower cost base, reflecting an ongoing focus on operating efficiency, was partly offset by higher profit-share payments to partners. Investment return increased by 14.0% driven by higher income yield following a move towards target asset allocation and favourable unrealised gains on investment property; however, this was offset by lower instalment and other operating income.

Overall operating profit from ongoing operations for the second half of 2014 of £270.3 million represented a 13.9% increase on the second half of 2013 (£237.3 million). The increase in underwriting profit was driven by lower claims from weather events and an improved investment return partially offset by lower instalment and other operating income.

In-force policies and gross written premium

In-force policies – ongoing operations (thousands)

As at	31 Dec 2014	30 Sep 2014	30 Jun 2014 Revised	31 Mar 2014 Revised	31 Dec 2013
Own brands	3,415	3,405	3,417	3,434	3,466
Partnerships	257	262	275	283	296
Motor total	3,672	3,667	3,692	3,717	3,762
Own brands	1,693	1,692	1,707	1,732	1,749
Partnerships	1,833	1,868	1,886	1,934	1,970
Home total	3,526	3,560	3,593	3,666	3,719
Rescue	4,075	4,062	4,035	3,911	3,944
Other personal lines	4,517	4,527	4,589	4,628	4,857
Rescue and other personal lines	8,592	8,589	8,624[2]	8,539[2]	8,801
Commercial	611	606	600	592	583
Total	16,401	16,422	16,509	16,514	16,865

During 2014, in-force policies for ongoing operations decreased by 2.8% to 16.4 million. The fall primarily related to other personal lines, within the Rescue and other personal lines division, and Home. Rescue and other personal lines reduction was mainly due to fewer Travel policies connected to packaged bank accounts. However, Rescue in-force policies grew by 3.3%, driven by Green Flag's new marketing campaign and propositions.

The reduction in Motor and Home in-force policies of 2.4% and 5.2% respectively reflected the Group's focus on maintaining its underwriting discipline in a competitive marketplace. Within Home, own brand in-force policies reduced by 3.2% compared to the same period in 2013. This reflected lower new business volumes, partially offset by a high retention rate. Partnership in-force policies fell by 7.0% and now account for 52% of Home in-force policies. One of the Group's largest partners, Nationwide, is currently reviewing its Home insurance provider as the Group's contract approaches renewal.

In-force policy growth in Commercial arose mainly from Direct Line for Business with positive effects from Landlord and Tradesman products, partially offset by a reduction in Van.

Notes:

1. See note 1 on page 2
2. In-force policies at 30 June 2014 and 31 March 2014 have been revised to include an additional 470,000 and 93,000 policies, respectively, previously excluded in relation to certain packaged accounts in the Rescue and other personal lines division.

In-force policies for ongoing operations were broadly stable across the fourth quarter of 2014 at 16.4 million (30 September 2014: 16.4 million).

Gross written premium – ongoing operations

	Q4 2014 £m	Q4 2013 £m	H2 2014 £m	H2 2013 £m	FY 2014 £m	FY 2013 £m
Own brands	290.5	282.0	631.2	637.8	1,248.4	1,305.2
Partnerships	20.9	21.7	45.4	51.9	93.6	115.9
Motor total	311.4	303.7	676.6	689.7	1,342.0	1,421.1
Own brands	99.3	101.3	216.3	222.9	416.2	434.8
Partnerships	118.3	125.0	245.0	259.8	482.4	508.3
Home total	217.6	226.3	461.3	482.7	898.6	943.1
Rescue	35.2	31.6	80.2	73.2	156.9	146.9
Other personal lines	54.4	56.6	110.4	117.0	214.9	236.5
Rescue and other personal lines	89.6	88.2	190.6	190.2	371.8	383.4
Commercial	115.3	113.0	224.9	223.8	487.0	474.5
Total	733.9	731.2	1,553.4	1,586.4	3,099.4	3,222.1

Gross written premium of £3,099.4 million reduced by 3.8% compared with the prior year (2013: £3,222.1 million). This reflected the impact of competitive motor and home insurance markets, together with the Group's continued focus on maintaining its underwriting discipline.

Gross written premium for Commercial of £487.0 million increased by 2.6% (2013: £474.5 million). The division continued to benefit from previous investments and focus on Direct Line for Business and eTrade. The commercial van market, similar to the personal motor market, remained highly competitive.

In total, gross written premium for ongoing operations in the fourth quarter rose marginally by 0.4% to £733.9 million compared to the same quarter last year (fourth quarter 2013: £731.2 million).

Underwriting profit – ongoing operations

	H2 2014	H2 2013	FY 2014	FY 2013
Underwriting profit (£ million)	89.4	56.8	148.1	152.6
Loss ratio	58.0%	63.3%	59.6%	60.9%
Commission ratio	12.8%	10.2%	11.8%	10.6%
Expense ratio	23.2%	22.9%	23.6%	23.7%
Combined operating ratio	94.0%	96.4%	95.0%	95.2%

The COR for ongoing operations improved slightly in 2014 to 95.0% (2013: 95.2%) as a lower loss ratio was offset by a higher commission ratio. Adjusted for a normal level of claims from major weather events and including International, the Group's COR was approximately 96%, within the guidance range for 2014 of 95 % to 97%.

Within the overall COR improvement, there was a 1.3 percentage point reduction in the loss ratio. This arose from an improvement in the attritional loss ratio and higher prior-year reserve releases of £397.6 million as a percentage of net earned premium (2013: £395.8 million). Home claims from major weather events decreased by approximately £6 million on the previous year. In 2014, these claims totalled approximately £63 million (2013: approximately £69 million).

During the year, the commission ratio increased by 1.2 percentage points to 11.8% (2013: 10.6%). This was mainly due to profit-share payments due to partners in Motor and Home.

Reflecting the benefit of cost reduction initiatives, which more than offset the effect of lower net earned premium, the expense ratio decreased by 0.1 percentage points to 23.6%.

The COR for ongoing operations for the second half of 2014 of 94.0% represented a 2.4 percentage points improvement on the second half of 2013 (96.4%). This reflected lower claims from weather events, partially offset by a negative movement in the commission ratio.

Current-year attritional loss ratio – ongoing operations

	H2 2014 £m	H2 2013 £m	FY 2014 £m	FY 2013 £m
Reported loss ratio	58.0%	63.3%	59.6%	60.9%
Prior-year reserve releases	12.5%	11.3%	13.3%	12.6%
Major weather events – Home[1]	–	(4.4%)	(2.1%)	(2.2%)
Current-year attritional loss ratio	70.5%	70.2%	70.8%	71.3%

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 0.5 percentage points to 70.8% in 2014 (2013: 71.3%). This reflected improved performance in Home, Commercial and Rescue and other personal lines, partially offset by Motor.

Prior-year reserve releases from ongoing operations continued to be significant at £397.6 million and were a similar level to previous period (2013: £395.8 million). Prior-year reserve releases were equivalent to 13.3% of net earned premium (2013: 12.6% of net earned premium). If current claims trends continue, the Group expects further significant reserve releases to continue in 2015, albeit the overall level is expected to be lower than in 2014.

Analysis by division

	Motor	Home	Rescue and other personal lines	Commercial	Total ongoing
For the year ended 31 December 2014					
Combined operating ratio	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
For the year ended 31 December 2013					
Combined operating ratio	93.2%	93.8%	92.4%	106.8%	95.2%
Current-year attritional loss ratio	85.3%	51.1%	62.5%	74.1%	71.3%
Prior-year reserve releases (£ million)	291.9	43.3	9.0	51.6	395.8

By division, the COR improved in Home, Commercial, and Rescue and other personal lines compared with 2013, but deteriorated in Motor.

Motor

In Motor, the 3.0 percentage points deterioration in the COR principally reflects an increase in the loss and commission ratios. Reserve releases of £278.4 million in 2014 were driven primarily by continued favourable experience on bodily injury claims across recent accident years. This was partly attributable to benefits arising from the Group's claims transformation programme as well as the Legal Aid, Sentencing and Punishment of Offenders Act reforms. The Group believes that it is currently outperforming the industry in respect of small bodily claims experience. The current-year attritional loss ratio deteriorated by 3.2 percentage points to 88.5%. This was primarily a result of higher costs for large bodily injury claims in the 2014 accident year, which the Group considers to be due to the intrinsic volatility in this type of claim.

Home

The COR for the Home division improved to 92.7% in 2014 from 93.8% in the previous year. The current-year attritional loss ratio improved by 1.8 percentage points on the previous year, reflecting the benefits of a disciplined underwriting approach and favourable underlying claims experience. Reserve releases were slightly higher than prior year at £49.8 million (2013: £43.3 million). In 2014, claims from major weather events[1] totalled approximately £63 million compared with approximately £69 million in 2013. This was partially offset by a higher commission ratio reflecting increased profit-share payments due to partners.

Rescue and other personal lines

The COR for Rescue and other personal lines improved by 0.4 percentage points to 92.0% (2013: 92.4%), driven by higher prior-year reserve releases on Travel and lower claims frequency in Rescue. In November 2013, the Life business was sold. This contributed £6.4 million to operating profit in the prior year.

Note:
1. Home claims from major weather events, including inland and coastal flooding and storms.

Commercial
The Commercial COR improved to 98.8% from 106.8% in 2013, beating the target set for the division. The 8.0 percentage points improvement in the COR was mainly due to better underlying underwriting performance, and better expense and commission ratios. The current-year attritional loss ratio improved, demonstrating the positive effect of disciplined underwriting and the non-repeat of the above average level of large claims experienced in 2013. The division continued experiencing significant prior-year reserve releases, which were slightly higher than in 2013.

Total cost base

	H2 2014 £m	H2 2013 £m	FY 2014 £m	FY 2013 £m
Staff costs	125.5	146.3	247.6	297.8
Marketing	59.7	69.4	123.9	159.1
Depreciation	13.8	8.8	22.6	18.4
Amortisation and impairment of other intangible assets	35.9	19.5	66.4	33.6
Other operating expenses	108.9	114.7	244.9	237.9
Total operating expenses – ongoing	343.8	358.7	705.4	746.8
Claims handling expenses	109.7	123.0	222.3	238.2
Total cost base – ongoing	453.5	481.7	927.7	985.0
Total operating expenses – discontinued	14.2	19.2	29.0	39.6
Claims handling expenses – discontinued	10.2	6.9	17.2	7.3
Total cost base – ongoing and discontinued operations	477.9	507.8	973.9	1,031.9

The Group achieved its target total cost base of approximately £1,000 million in 2014 with a total cost base of £973.9 million including the International division which is now treated as a discontinued operation.

The total cost base for ongoing operations of £927.7 million was 5.8% lower than last year (2013: £985.0 million). The reduction was due principally to the Group's cost-savings initiatives, with a continuing focus on cost control and operating efficiency. Overall, the expense ratio reduced 0.1 percentage points to 23.6%, with the reduction in operating expenses partially offset by the impact of lower net earned premium.

Instalment and other operating income – ongoing operations

	H2 2014 £m	H2 2013 £m	FY 2014 £m	FY 2013 £m
Instalment income	50.4	54.6	100.4	111.0
Other operating income:				
Vehicle replacement referral income	8.2	7.6	15.8	15.7
Revenue from vehicle recovery and repair services[1]	9.0	16.3	18.0	31.8
Fee income from insurance intermediary services	1.1	0.8	2.1	1.7
Other income[2]	5.7	3.9	11.0	12.4
Other operating income	24.0	28.6	46.9	61.6
Total	74.4	83.2	147.3	172.6

Instalment and other operating income from ongoing operations reduced by 14.7% on 2013. This was mainly due to the sale of the Tracker business, cessation of solicitors' referral fee income from 1 April 2013 and lower instalment income.

Instalment income, which represents interest charged on insurance premiums paid by instalments, of £100.4 million reduced by £10.6 million compared with the prior year (2013: £111.0 million). This was a result of lower in-force policies and gross written premium in Motor and Home.

In February 2014, the Group sold its stolen-vehicle recovery business, Tracker. In 2014, Tracker's revenue prior to sale was £1.4 million (2013: £18.4 million), which was included in the above. Operating losses from the business were £0.4 million (2013: loss of £1.4 million).

Notes:
1. Vehicle recovery includes post-accident and pay on use recovery and vehicle tracking. Repair services constitute the provision of non-insurance related services.
2. Includes referral fees and legal income

Investment return – ongoing operations

	H2 2014 £m	H2 2013 £m	FY 2014 £m	FY 2013 £m
Investment income	86.7	83.0	171.7	157.1
Net realised and unrealised gains	19.8	14.3	38.9	27.6
Total investment return	106.5	97.3	210.6	184.7

Investment yields – continuing operations[1]

	FY 2014	FY 2013
Investment income yield[2]	2.4%	2.1%
Investment return[3]	2.9%	2.4%

The total investment return for ongoing operations increased to £210.6 million compared to £184.7 million in 2013. This was driven by both an increase in investment income and net realised and unrealised gains. Investment income was £171.7 million, a 9.3% increase from 2013, as a result of changes in asset mix, which were partially offset by both lower assets under management ("AUM") and market yields. Net realised and unrealised gains from ongoing operations of £38.9 million were higher than the previous year (2013: £27.6 million gain) due primarily to fair value increases on investment property (2014: £25.9 million; 2013: £7.6 million) with lower realised gains on fixed income debt securities (2014: £15.8 million; 2013: £20.5 million gain).

The investment income yield for continuing operations in 2014 was 2.4%, compared to 2.1% in 2013. This reflects portfolio actions which increased investments in UK commercial property, securitised credit, non-investment grade credit within the corporate debt portfolio and infrastructure debt as the Group moved towards its target asset allocation. Based on current yield curves and the current target asset allocation, the Group forecasts 2016 investment income yield of 2.7%.

Total investment holdings excluding International reduced by 8.3% in 2014, primarily reflecting a reduction in gross written premium and payment of the £150.0 million special interim dividend on 12 September 2014. Total unrealised gains, excluding the International division and net of tax, on AFS investments were £94.4 million at 31 December 2014 (31 December 2013 excluding International: £50.3 million).

Total investment return for ongoing operations in the second half of 2014 of £106.5 million was 9.5% higher than the same period in 2013. This reflected an increase in investment income of 4.5% and higher net investment gains on the same period in 2013.

Notes:

1. Includes ongoing operations and the Run-off segment, it excludes discontinued operations
2. 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.
3. 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 2014	30 Jun 2014	31 Dec 2013
Corporate debt securities[1]	**4,092.7**	4,235.1	4,248.6
Supranational	**176.2**	323.0	330.5
Local government	**120.3**	175.3	134.5
Credit	**4,389.2**	4,733.4	4,713.6
Securitised credit[1]	**419.6**	424.3	184.0
Sovereign	**993.7**	1,095.9	1,368.7
Total debt securities	**5,802.5**	6,253.6	6,266.3
Infrastructure	**76.2**	–	–
Cash and cash equivalents[2]	**865.4**	855.2	1,199.4
Investment property	**307.2**	259.7	223.4
Total excluding International	**7,051.3**	7,368.5	7,689.1
International[3]	**–**	858.4	868.5
Total Group	**7,051.3**	8,226.9	8,557.6

Total debt securities, excluding the International division's investment portfolio, are £5,802.5 million (2013: £6,266.3 million), of which 13.5% are rated as 'AAA' and a further 65.2% are rated as 'AA' or 'A'. Corporate, local government and supranational debt securities account for 75.6% of the portfolio. The average duration at 31 December 2014 of total debt securities was 2.1 years (2013: 2.3 years).

During 2014, the Group reduced its allocation in investment grade credit by four percentage points, and allocated the funds to high-yield credit rated 'BB' and 'B'. A further reallocation of funds is planned for 2015 with another four percentage points reduction in existing investment grade credit (public debt issues) and allocation to investment grade private placements.

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 Pound 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. Furthermore, Euro cash proceeds to be received from the expected sale of the International division have been hedged to Pound Sterling within the designated foreign currency hedge contract.

Operating profit – ongoing operations

	H2 2014 £m	H2 2013 £m	FY 2014 £m	FY 2013 £m
Motor	**132.8**	190.7	**297.1**	347.7
Home	**79.1**	19.5	**113.9**	106.2
Rescue and other personal lines	**22.2**	24.6	**48.0**	46.5
Commercial	**36.2**	2.5	**47.0**	9.5
Total ongoing	**270.3**	237.3	**506.0**	509.9

All divisions were profitable in 2014, with all areas except Motor improving operating profit compared to the previous year.

Notes:
1. Asset allocation at 31 December 2014 includes investment portfolio derivatives, which have been netted and have a mark-to-market liability value of £27.8 million, split £24.4 million in corporate debt securities, £0.1 million in supranationals, £0.4 million in local government, £2.8 million in securitised credit and £0.1 millions in sovereign (31 December 2013: mark-to-market asset value of £39.8 million, split £37.7 million in corporate debt securities and £2.1 million in securitised credit). This excludes non-investment derivatives that have been used to hedge subordinated debt, operational cash flows and the pending disposal of the International division.
2. Net of bank overdrafts and including term deposits with financial institutions with maturities exceeding three months.
3. The International division's investment portfolio has been transferred to a disposal group at 31 December 2014.

Reconciliation of operating profit

	H2 2014 £m	H2 2013 £m	FY 2014 £m	FY 2013 £m
Operating profit – ongoing operations	270.3	237.3	506.0	509.9
Run-off	34.9	53.0	55.3	63.6
Restructuring and other one-off costs	(41.6)	(70.6)	(69.6)	(140.5)
Operating profit	263.6	219.7	491.7	433.0
Finance costs	(18.5)	(19.2)	(37.2)	(37.7)
Gain on disposal of subsidiaries	–	12.0	2.3	12.0
Profit before tax	245.1	212.5	456.8	407.3
Tax	(49.7)	(48.4)	(97.5)	(96.5)
Profit from discontinued operations, net of tax	1.6	(3.1)	13.3	2.0
Profit after tax	197.0	161.0	372.6	312.8

Run-off

The Run-off segment generated a profit of £55.3 million in 2014 compared with £63.6 million in 2013. Improved claims experience, particularly from large bodily injury, led to a similar level of prior-year reserve releases to 2013. It is currently expected that the Run-off segment will contribute positively to operating profit in future years; however, at a lower level than in 2014.

Restructuring and other one-off costs

Restructuring and other one-off costs for 2014 of £69.6 million (2013: £140.5 million) primarily related to costs associated with migrating the Group's IT infrastructure. The reduction was mainly due to lower costs arising from the Group's cost savings initiatives.

For 2015, the Group expects to incur additional restructuring costs in the region of £50 million as it concludes the IT migration as well as costs associated with ongoing cost reduction initiatives including the exit of one location announced earlier in 2015.

Over the next three years, the Group expects cumulative restructuring costs to be substantially offset by the profit from the Run-off segment.

Finance costs

Finance costs remained stable at £37.2 million (2013: £37.7 million).

Gain on disposal of subsidiaries

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

Taxation

The effective tax rate for continuing operations in 2014 was 21.3% (2013: 23.7%), aligning closely with the standard UK corporation tax rate of 21.5% (2013: 23.25%). The difference in rate was driven primarily by disallowed expenses, the non-taxable disposal of subsidiaries and adjustments to provisions in respect of prior-year tax.

Discontinued operations

On 25 September 2014, the Group announced a binding agreement for the sale of its International division to Mapfre, S.A. for total cash proceeds of €550 million (£430.1 million[1]). The results from this division are now treated as discontinued operations.

Gross written premium for discontinued operations of £567.6 million was 6.1% lower than the previous year, mainly due to foreign currency movements. Gross written premium in local currency terms fell marginally by 1.7%, as competitive markets in Italy were partially offset by Germany's expanding share of business incepting on 1 January 2014.

The discontinued operations' COR in 2014 improved to 102.1% from 103.9% in 2013. The loss ratio improved by 3.1 percentage points reflecting a decrease in claims frequency in Italy and non-repeat of claims from severe hailstorms which affected Germany in 2013.

Overall, the operating profit for discontinued operations increased by 26.5% to £21.0 million in 2014 (2013: £16.6 million).

Further details on discontinued operations are presented in note 4 to the consolidated financial statements, see page 28.

Note:
1. See note 6 on page 2

Profit for the year and return on tangible equity

Profit for the year amounted to £372.6 million (2013: £312.8 million), an increase of 19.1% on 2013.

RoTE increased to 16.8% (2013: 16.0%). This resulted in part from a lower capital base as the Group returned surplus capital to shareholders.

Earnings per share

Basic earnings per share for continuing operations of 24.0 pence increased 15.4% (2013: 20.8 pence). This reflected a decrease in restructuring and other one-off costs, partially offset by lower operating profit in the Run-off segment and a lower effective tax rate.

Adjusted diluted earnings per share, which includes ongoing operations and the International division, increased marginally by 2.0% to 25.5 pence (2013: 25.0 pence).

Dividends

The Board has resolved this year to pay an interim dividend in lieu of a final dividend of 8.8 pence per share (2013: 8.4 pence), making total regular dividends for 2014 of 13.2 pence per share (2013: 12.6 pence). This represents an increase of 4.8% on the 2013 regular dividend and is in line with the Group's aim to grow dividends annually in real terms.

The Board has also resolved to pay a second special interim dividend of 4.0 pence per share. This is in addition to the 10.0 pence per share special dividend paid in September 2014. This return of capital is consistent with the Group's policy to distribute surplus capital. The ex dividend date for both the final and second special dividends is 12 March 2015 and the record date is 13 March 2015. The dividends' payment date is 17 April 2015.

Moreover, the Board currently expects to propose, following completion of the sale of the Group's International division, a further special interim dividend of substantially all the net proceeds. This return of capital will be conditional on shareholders approving a share consolidation designed to neutralise the effect on the share price of this return of capital and to maintain comparability of per share data.

Net asset value

As at	31 Dec 2014 £m	30 Jun 2014 £m	31 Dec 2013 £m
Net assets	**2,810.5**	2,795.4	2,790.0
Goodwill and other intangible assets[1]	**(523.1)**	(499.7)	(500.1)
Tangible net assets	**2,287.4**	2,295.7	2,289.9
Net asset value per share (pence)	**188.2**	187.0	186.6
Tangible net asset value per share (pence)	**153.1**	153.5	153.2

The net asset value at 31 December 2014 was £2,810.5 million (31 December 2013: £2,790.0 million) with tangible net asset value of £2,287.4 million (31 December 2013: £2,289.9 million). This equates to 188.2 pence and 153.1 pence per share respectively at 31 December 2014 (31 December 2013: 186.6 pence and 153.2 pence, respectively).

The marginal increase in net asset value principally reflects profit for the period and increase in unrealised gains on AFS investments offset by dividend payments.

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 recent prior-year reserve releases has arisen primarily from improvements in the actuarial best estimate, while the percentage margin above actuarial best estimate has increased over the same period. Looking forward, the Group will continue to set its initial management best estimate for future accident years conservatively, but provided that the risk outlook remains stable, it does not expect to need to increase further the overall margin. 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 2014.

Note:
1. Includes the International division

Claims reserves net of reinsurance

As at	31 Dec 2014 £m	30 Jun 2014 £m	31 Dec 2013 £m
Motor	2,355.1	2,460.0	2,606.3
Home	335.2	374.1	398.1
Rescue and other personal lines	77.0	78.9	77.4
Commercial	607.5	637.5	637.9
Total ongoing	3,374.8	3,550.5	3,719.7
Run-off	523.8	605.4	682.2
International	393.6	421.4	438.2
Total Group	4,292.2	4,577.3	4,840.1

Capital management

Capital position and leverage

As at	31 Dec 2014 £m	30 Jun 2014 £m	31 Dec 2013 £m
Consolidated statutory solvency capital			
Shareholders' equity	2,810.5	2,795.4	2,790.0
Goodwill and other intangible assets[1]	(523.1)	(499.7)	(500.1)
Regulatory adjustments	(28.1)	(31.3)	6.2
Total tier 1 capital	2,259.3	2,264.4	2,296.1
Lower tier 2 capital[2]	496.1	496.8	496.9
Regulatory adjustments	(54.6)	(29.7)	(28.9)
Total regulatory capital	2,700.8	2,731.5	2,764.1
Less: final and special interim dividends	(192.0)	(216.5)	(186.0)
Adjusted regulatory capital	2,508.8	2,515.3	2,578.1

The Group is well capitalised with key capital metrics within the Group's risk appetite and significantly above regulatory minima. The regulatory numbers are estimated, based on preliminary regulatory returns for 31 December 2014.

As at	31 Dec 2014 £m	30 Jun 2014 £m	31 Dec 2013 £m
Insurance Group Directive ("IGD") coverage ratio	347.4%	311.8%	291.6%
Risk-based capital-coverage ratio	158.9%	165.4%	158.7%
Risk-based capital-coverage ratio (adjusted for final and second special interim dividends)	148.2%	148.8%	148.7%

At 31 December 2014, the Group had an estimated risk-based capital-coverage ratio of 158.9% (31 December 2013: 158.7%). This reduces to 148.2% after deducting the declared final and second special interim dividends (31 December 2013: 148.7%). On an IGD basis, the coverage is 347.4% (31 December 2013: 291.6%).

The table sets out the Group's financial leverage ratio:

As at	31 Dec 2014 £m	30 Jun 2014 £m	31 Dec 2013 £m
Shareholders' equity	2,810.5	2,795.4	2,790.0
Financial debt – subordinated dated notes	526.3	494.8	486.6
Total capital employed	3,336.8	3,290.2	3,276.6
Financial leverage ratio[3]	15.8%	15.0%	14.9%

The Group's leverage ratio remains conservative with a financial leverage of 15.8% at 31 December 2014 (31 December 2013: 14.9%).

Notes:
1. Includes the International division
2. Includes that element of the subordinated dated notes applicable for regulatory capital purposes
3. Total financial debt as a percentage of total capital employed

Credit ratings

Standard & Poor's and Moody's Investors Service provide insurance financial-strength ratings for U K Insurance Limited, the Group's principal UK general insurance underwriter. U K Insurance Limited is currently rated 'A' (strong) with a stable outlook by Standard & Poor's and 'A2' (good) with a stable outlook by Moody's.

Solvency II

With effect from 1 January 2016 the basis on which the Group will assess its regulatory capital position will move from ICA to Solvency II. As part of this transition, the Group will consider any changes it should make to its risk-based capital metrics to align these more closely to Solvency II. This will include reviewing the Group's risk appetite and, if necessary recalibrating it.

Principal risks and uncertainties

Risks are always present in the Group. It is important to ensure that the Group identifies, measures, monitors and reports these risks throughout the business on an ongoing basis. The Group also monitors changes in these risks over time. The Group believes these risks are broadly unchanged over the last year.

Principal risks	Owner	Management and mitigation examples
Insurance risk: Underwriting and pricing The Group faces the risk that future claims and expenses are not as predicted. This includes catastrophe risks arising from losses due to unpredictable natural and man-made events.	Managing Directors of Personal Lines and Commercial	• The Group has set underwriting guidelines for all business transacted • The Group refines pricing through analysis of comprehensive data • The Group purchases Catastrophe and Motor excess of loss reinsurance, limiting our exposure to large losses • The Group invests in enhanced external data to analyse and mitigate exposures
Insurance risk: Reserving We face the risk that the run-off of reserves is not as predicted driven by our large Motor portfolio and periodic payment orders because of their long-term nature.	Chief Financial Officer	• The Group estimates the technical reserves using a range of actuarial and statistical techniques • The Group ensures that management's best estimate of reserves is not less than the actuarial best estimate • The Group's reserves estimates are subject to third-party reviews
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.	Chief Executive Officer	• The Group has agreed strategic targets which are monitored and managed • The Group runs an annual strategy process which considers Group performance, competitor positioning and strategic opportunities • The Group identifies and manages emerging risks using an established governance process and forums
Operational risk We face the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events.	Specific members of the Executive	• The Group has strong operational processes and systems, including fraudulent claims detection systems • The Group maintains a robust internal control environment • The Group has developed a bespoke risk capture, management and reporting system
Market risk We are exposed to fluctuations in the value of, or the income from, our investment portfolio.	Chief Financial Officer	• The Group manages and controls its investment portfolio through: – investment strategy and guidelines approved by the Board; and – diversity in the types of assets held • The Group uses risk-reduction techniques such as hedging foreign currency exposures with forwards, and hedging US Dollar interest rates with swaps
Counterparty risk We partner with many suppliers, in particular for reinsurance. The failure of any of these partners could result in a financial loss.	Chief Financial Officer	• The Group sets credit limits for each counterparty • The Group only purchases reinsurance from reinsurers with a minimum 'A-' rating • The Group actively monitors broker credit exposures
Regulatory risk Risk arises from changes in law and regulations (including changes of interpretation) not identified, interpreted or adopted correctly, including Solvency II.	Chief Risk Officer	• The Group has a constructive and open relationship with our regulators • The Group uses specific risk management tools and resources, such as its upstream risk team, to help manage exposure to regulatory risk • The Group exercises risk-based monitoring to ensure it uses resources to the greatest impact
Conduct risk Failure to treat our customers appropriately or failure by our people to behave with integrity.	Chief Executive Officer	• The Group's organisational culture prioritises a consistent approach to customers. The Group's customers' interests are at the heart of how it operates • The Group has developed a robust customer conduct risk management framework, to minimise its exposure to conduct risk
Brand and reputational risk We depend on the strength of our brands and our reputation with customers and distributors.	Specific members of the Executive	• The Group regularly reviews its brand and reputational risk through its governance framework • The Group undertakes substantial marketing activities to protect and build its brands, and measure their effectiveness regularly

Emerging risks

The Group's definition of emerging risk is consistent with the Solvency II definition in that it focuses on newly developing or changing risks that are difficult to quantify but may have a major or material impact on the business. The Group has further defined emerging risks as fulfilling some of the following criteria:

- They are risks which are external to the Group
- They are new or changing risks
- They are subject to a high degree of uncertainty
- There is scope for mitigation either now or in the future

The Group records emerging risks within an Emerging Risk Register which aligns to the risk taxonomy underpinning the Material Risk Register. These emerging risks link into the Own Risk and Solvency Assessment reporting cycle. They are also part of the risk-reporting framework to the Executive Risk Management Committee and the Board Risk Committee for review, challenge and approval, and feed into the Board's strategic planning process.

During 2014, the Group enhanced its emerging risks processes. Supported by stress and scenario testing, the processes aim to:

- Achieve 'first mover advantage' through early recognition of risks and associated opportunities
- Reduce the uncertainty and volatility of business results
- Take a proactive approach to managing emerging risks
- Identify, manage and monitor a broader range of potential emerging risks
- Mitigate the potential impact on the Group's profit and loss account and balance sheet

On 1 April 2014, the FCA took over the regulation of Consumer Credit from the Office of Fair Trading. Firms within the Group currently have interim permission for consumer credit activities and will be applying for full permissions during 2015.

The Group considers its main emerging risks to be:

- 'Big data', including cybercrime, data regulation and information security
- Climate change
- New car technology, for example, driverless cars
- Major new market entrants
- New insurance distribution models
- Changing approach to conduct regulation
- Change in UK legislative environment
- Pandemics

Consolidated income statement

For the year ended 31 December 2014

	Notes	2014 £m	2013 £m
Continuing operations			
Gross earned premium	5	3,144.2	3,317.0
Reinsurance premium ceded	5	(157.5)	(160.2)
Net earned premium	5	2,986.7	3,156.8
Investment return	6	215.1	197.7
Instalment income		100.4	111.0
Other operating income	7	46.9	61.6
Total income		3,349.1	3,527.1
Insurance claims	8	(1,778.6)	(1,881.8)
Insurance claims recoverable from reinsurers	8	51.2	10.9
Net insurance claims	8	(1,727.4)	(1,870.9)
Commission expenses	9	(354.0)	(334.5)
Operating expenses	10	(776.0)	(888.7)
Total expenses		(1,130.0)	(1,223.2)
Operating profit		491.7	433.0
Finance costs	11	(37.2)	(37.7)
Gain on disposal of subsidiaries		2.3	12.0
Profit before tax		456.8	407.3
Tax charge		(97.5)	(96.5)
Profit from continuing operations, net of tax		359.3	310.8
Profit from discontinued operations, net of tax	4	13.3	2.0
Profit for the year attributable to owners of the Company		372.6	312.8
Earnings per share:			
Continuing operations:			
Basic (pence)	12	24.0	20.8
Diluted (pence)	12	23.8	20.7
Continuing and discontinued operations:			
Basic (pence)	12	24.9	20.9
Diluted (pence)	12	24.7	20.8

Consolidated statement of comprehensive income
For the year ended 31 December 2014

	2014 £m	2013 £m
Profit for the year	372.6	312.8
Other comprehensive income / (loss)		
Items that will not be reclassified subsequently to income statement:		
Actuarial gain / (loss) on defined benefit pension scheme	2.8	(6.9)
Tax relating to items that will not be reclassified	(0.6)	1.5
	2.2	(5.4)
Items that may be reclassified subsequently to income statement:		
Exchange differences on translation of foreign operations	(14.5)	(4.9)
Cash flow hedges	1.3	–
Fair value gain / (loss) on available-for-sale investments	97.2	(108.2)
Less: realised net gains on available-for-sale investments included in income statement	(22.8)	(25.7)
Tax relating to items that may be reclassified	(17.6)	33.9
	43.6	(104.9)
Other comprehensive income / (loss) for the year net of tax	45.8	(110.3)
Total comprehensive income for the year attributable to owners of the Company	418.4	202.5

Consolidated balance sheet
As at 31 December 2014

	Notes	2014 £m	2013 £m
Assets			
Goodwill and other intangible assets		517.5	500.1
Property, plant and equipment		181.3	102.3
Investment property		307.2	223.4
Reinsurance assets		862.5	1,011.0
Deferred tax assets		–	19.3
Current tax assets		0.1	1.3
Deferred acquisition costs		208.4	321.5
Insurance and other receivables		959.9	1,122.0
Prepayments, accrued income and other assets		107.9	95.7
Derivative financial instruments		27.3	40.7
Retirement benefit asset		3.5	–
Financial investments	13	5,961.2	7,441.2
Cash and cash equivalents	14	880.4	908.3
Assets held for sale	4	1,208.4	1.0
Total assets		11,225.6	11,787.8
Equity		2,810.5	2,790.0
Liabilities			
Subordinated liabilities		526.3	486.6
Insurance liabilities	15	4,674.1	5,757.4
Unearned premium reserve	15	1,434.2	1,818.7
Retirement benefit obligations		–	2.0
Borrowings	14	69.8	55.1
Derivative financial instruments		29.4	19.3
Trade and other payables including insurance payables		660.6	818.3
Deferred tax liabilities		20.6	19.3
Current tax liabilities		35.7	21.1
Liabilities held for sale	4	964.4	–
Total liabilities		8,415.1	8,997.8
Total equity and liabilities		11,225.6	11,787.8

Consolidated statement of changes in equity

For the year ended 31 December 2014

	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 2013	150.0	(5.0)	1,450.0	158.8	63.2	5.0	1,009.6	2,831.6
Profit for the year	–	–	–	–	–	–	312.8	312.8
Other comprehensive loss	–	–	–	(100.0)	–	(4.9)	(5.4)	(110.3)
Dividends	–	–	–	–	–	–	(242.7)	(242.7)
Transfer to non-distributable reserve	–	–	–	–	29.6	–	(29.6)	–
Shares acquired by employee trusts	–	(5.7)	–	–	–	–	–	(5.7)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	4.1	4.1
Shares distributed by employee trusts	–	0.5	–	–	–	–	(0.5)	–
Deferred tax on share-based payments	–	–	–	–	–	–	0.2	0.2
Balance at 31 December 2013	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)	–
Deferred 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

Consolidated cash flow statement
For the year ended 31 December 2014

	Note	2014 £m	2013 £m
Net cash used by operating activities before investment of insurance assets		(410.6)	(307.0)
Cash generated from investment of insurance assets		1,121.1	433.0
Net cash generated from operating activities		710.5	126.0
Cash flows from investing activities			
Purchases of property, plant and equipment		(86.7)	(39.1)
Purchases of intangible assets		(92.8)	(115.5)
Purchases of asset held for sale		(12.6)	–
Proceeds on disposals of asset held for sale		0.8	–
Net cash flows from acquisition / disposal of subsidiaries		(24.7)	18.8
Cash flows from net investment hedges		–	(9.5)
Net cash used by investing activities		(216.0)	(145.3)
Cash flows from financing activities			
Dividends paid		(401.1)	(242.7)
Repayment of subordinated liabilities		–	(258.5)
Finance costs		(37.9)	(37.8)
Purchase of employee trust shares		(4.4)	(5.7)
Net cash used by financing activities		(443.4)	(544.7)
Net increase / (decrease) in cash and cash equivalents		51.1	(564.0)
Cash and cash equivalents at the beginning of the year		853.2	1,417.5
Effect of foreign exchange rate changes		(6.1)	(0.3)
Cash and cash equivalents at the end of the year	14	898.2	853.2

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 2014. 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 2 March 2015 and are expected to be published in March 2015 and delivered to the Registrar of Companies following the Annual General Meeting to be held on 13 May 2014. The independent auditor's report on the Group accounts for the year ended 31 December 2014 was signed on 2 March 2015, 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 has 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 standards and amendments have been adopted in the year and have not had a material impact on the Group's financial statements:

IAS 19 (amended). 'Employee Benefits' introduced a narrow-scope 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 32 (amended), 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities'. These amendments address previous inconsistencies when applying the offsetting criteria in IAS 32.

IAS 36 (amended), 'Impairment of assets – Recoverable amount disclosures for non-financial assets'. These amendments clarify the scope of certain disclosures around the recoverable amount of impaired assets.

IAS 39 (amended), Financial instruments: recognition and measurement' the amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

IFRS 10, IFRS 12 and IAS 27 (amended), 'Investment Entities'. The amendments define an exception to consolidating particular subsidiaries for investment entities.

IFRIC 21, 'Levies'. Clarifies how an entity should account for liabilities to pay levies imposed by governments.

2. Critical accounting estimates and judgements

Pages 120 to 123 of the Annual Report & Accounts 2013 provide full details of critical accounting estimates and judgements used in applying the Group's accounting policies. There have been no significant changes to the principles or assumptions of these critical accounting estimates and judgements during the year ended 31December 2014.

3. Segmental analysis

The table below is an analysis of the Group's revenue and results for continuing operations by reportable segment in 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 that have been incurred in respect of business activities that 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 is an analysis of the Group's revenue and results for continuing operations by reportable segment in the year ended 31 December 2013:

	Motor[1] £m	Home £m	Rescue and other personal lines[2] £m	Commercial £m	Total ongoing £m	Run-off[2] £m	Continuing operations[3] £m
Gross written premium	1,421.1	943.1	383.4	474.5	3,222.1	7.9	3,230.0
Gross earned premium	1,498.4	958.9	383.1	468.7	3,309.1	7.9	3,317.0
Reinsurance premium ceded	(53.6)	(50.0)	(17.3)	(34.1)	(155.0)	(5.2)	(160.2)
Net earned premium	1,444.8	908.9	365.8	434.6	3,154.1	2.7	3,156.8
Investment return	122.8	24.1	8.2	29.6	184.7	13.0	197.7
Instalment income	78.3	25.2	1.3	6.2	111.0	–	111.0
Other operating income	48.5	0.7	9.1	3.3	61.6	–	61.6
Total income	1,694.4	958.9	384.4	473.7	3,511.4	15.7	3,527.1
Insurance claims	(978.3)	(476.7)	(240.0)	(274.8)	(1,969.8)	88.0	(1,881.8)
Insurance claims recoverable from reinsurers	38.1	(13.7)	20.2	4.2	48.8	(37.9)	10.9
Net insurance claims	(940.2)	(490.4)	(219.8)	(270.6)	(1,921.0)	50.1	(1,870.9)
Commission expenses	(36.3)	(177.9)	(27.3)	(92.2)	(333.7)	(0.8)	(334.5)
Operating expenses	(370.2)	(184.4)	(90.8)	(101.4)	(746.8)	(1.4)	(748.2)
Total expenses	(406.5)	(362.3)	(118.1)	(193.6)	(1,080.5)	(2.2)	(1,082.7)
Operating profit before restructuring and other one-off costs	347.7	106.2	46.5	9.5	509.9	63.6	573.5
Restructuring and other one-off costs[4]							(140.5)
Operating profit							433.0
Finance costs							(37.7)
Gain on disposal of subsidiary							12.0
Profit before tax							407.3
Underwriting profit / (loss)	98.1	56.2	27.9	(29.6)	152.6		
Loss ratio	65.1%	53.9%	60.1%	62.3%	60.9%		
Commission ratio	2.5%	19.6%	7.5%	21.2%	10.6%		
Expense ratio	25.6%	20.3%	24.8%	23.3%	23.7%		
Combined operating ratio	93.2%	93.8%	92.4%	106.8%	95.2%		

Notes:

1. The Group's revenue and results for the year ended 2013 relating to the Tracker business, which was disposed of on 5 February 2014, were recorded in the Motor segment (other operating income: £18.4 million and operating loss: £1.4 million).
2. The Group's revenue and results for the year ended 2013 relating to the Life business, which was disposed of on 28 November 2013, were recorded in two segments: Rescue and other personal lines (net earned premium: £11.8 million, net insurance claims: £1.8 million and operating profit: £6.4 million) and Run-off (net earned premium: £2.8 million, net insurance claims: £0.7 million and operating profit: £1.2 million).
3. The segmental results set out above have been represented from those presented in the Annual Report & Accounts 2013 as a consequence of the transfer of the International segment to discontinued operations (note 4).
4. Restructuring costs are costs that have been incurred in respect of business activities that 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, 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 SA, 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.

A) Discontinued operations

The following table analyses performance relating to the discontinued operations.

	2014 £m	2013 £m
Gross written premium	567.6	604.5
Gross earned premium	555.8	579.3
Reinsurance premium ceded	(226.0)	(212.8)
Net earned premium	329.8	366.5
Investment return	22.1	23.4
Instalment income	4.8	6.8
Other operating income	1.0	0.8
Total income	357.7	397.5
Insurance claims	(404.2)	(453.0)
Insurance claims recoverable from reinsurers	159.5	169.6
Net insurance claims	(244.7)	(283.4)
Commission expenses	(63.0)	(57.9)
Operating expenses	(29.0)	(39.6)
Total expenses	(92.0)	(97.5)
Profit before tax from discontinued operations	21.0	16.6
Tax charge	(7.7)	(14.6)
Profit after tax from discontinued operations	13.3	2.0
Underwriting loss	(6.9)	(14.4)
Loss ratio	74.2%	77.3%
Commission ratio	19.1%	15.8%
Expense ratio	8.8%	10.8%
Combined operating ratio	102.1%	103.9%

The following table analyses the other comprehensive loss relating to discontinued operations, included in the consolidated statement of comprehensive income.

	2014 £m	2013 £m
Items that may be reclassified subsequently to income statement:		
Exchange differences on the translation of foreign operations	(15.5)	4.2
Fair value gain / (loss) on available-for-sale investments	26.1	(3.8)
Less: realised net gains on available-for-sale investments included in income statement	(6.6)	(5.0)
Tax relating to items that may be reclassified	(6.9)	2.4
Other comprehensive loss for the year net of tax	(2.9)	(2.2)

The following table analyses the cash flows relating to the discontinued operations included in the consolidated cash flow statement.

	2014 £m	2013 £m
Net cash generated from operating activities	12.6	23.7
Net cash used by investing activities	(8.4)	(3.9)
Net cash generated from financing activities	–	8.4
Effect of foreign exchange rate changes	(6.1)	(0.3)
Net (decrease) / increase in cash and cash equivalents	(1.9)	27.9

B) Disposal group

The following table analyses the assets and liabilities of the disposal group at 31 December 2014 (2013: nil). For comparison purposes the relevant assets and liabilities of the entities comprising the disposal group have been included in the table.

	2014 £m	For comparison purposes only 2013 £m
Assets		
Intangible assets	5.6	4.6
Property, plant and equipment	5.9	4.7
Reinsurance assets	183.0	202.9
Deferred tax assets	9.2	16.9
Current tax assets	1.4	1.3
Deferred acquisition costs	111.1	98.2
Insurance and other receivables	91.1	92.4
Prepayments and accrued income	3.6	1.3
Financial investments	706.9	779.0
Cash and cash equivalents	87.6	89.5
Total assets	1,205.4	1,290.8
Liabilities		
Insurance liabilities	553.4	609.4
Unearned premium reserve	326.2	339.3
Trade and other payables including insurance payables	82.0	109.7
Deferred tax liabilities	0.8	2.3
Current tax liabilities	2.0	–
Total liabilities	964.4	1,060.7

In addition to the above assets and liabilities of the disposal group held for sale, the Group has a property asset held for sale at 31 December 2014 of £3.0 million (2013: £1.0 million).

5. Net earned premium

Continuing operations	2014 £m	2013 £m
Gross earned premium:		
Gross written premium	3,099.0	3,230.0
Movement in unearned premium reserve	45.2	87.0
	3,144.2	3,317.0
Reinsurance premium ceded:		
Premium payable	(182.5)	(159.5)
Movement in reinsurance unearned premium reserve	25.0	(0.7)
	(157.5)	(160.2)
Total	2,986.7	3,156.8

6. Investment return

Continuing operations	2014 £m	2013 £m
Investment income:		
Interest income from AFS debt securities	154.0	151.9
Cash and cash equivalent interest income	5.2	6.9
Rental income from investment property	16.2	11.4
Interest income from infrastructure debt	0.1	–
	175.5	170.2
Net realised (losses) / gains:		
AFS debt securities	16.2	20.7
Derivatives	(86.2)	21.5
Investment property	2.3	–
	(67.7)	42.2
Net unrealised gains / (losses):		
Impairments of AFS debt securities[1]	1.3	–
Derivatives	79.6	(22.2)
Investment property	26.4	7.5
	107.3	(14.7)
Total	215.1	197.7

Note:
1. The impairment reversal relates to an AFS debt security originally impaired in 2011.

The table below analyses the realised and unrealised gain / (losses) on derivative instruments included in investment return.

	2014		2013	
Continuing operations	Realised £m	Unrealised £m	Realised £m	Unrealised £m
Derivative (losses) / gains				
Foreign exchange forward contracts	(59.3)	(46.4)	21.2	12.0
Associated foreign exchange risk	(7.4)	115.9	2.0	(33.3)
Net (losses) / gains on foreign exchange forward contracts	(66.7)	69.5	23.2	(21.3)
Interest rate derivatives	(20.4)	(22.1)	(0.8)	19.6
Associated interest rate risk	0.9	32.2	(0.9)	(20.5)
Net (losses) / gains on interest rate derivatives	(19.5)	10.1	(1.7)	(0.9)
Total	(86.2)	79.6	21.5	(22.2)

7. Other operating income

Continuing operations	2014 £m	2013 £m
Vehicle replacement referral income	15.8	15.7
Revenue from vehicle recovery and repair services[1]	18.0	31.8
Fee income from insurance intermediary services	2.1	1.7
Other income	11.0	12.4
Total	46.9	61.6

Note:
1. This includes £1.4 million (2013: £18.4 million) in relation to the Tracker business disposed of on 5 February 2014.

8. Net insurance claims

	2014			2013		
Continuing operations	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Current accident year claims paid	1,086.4	–	1,086.4	1,079.0	(17.4)	1,061.6
Prior accident year claims paid	1,165.8	(21.8)	1,144.0	1,383.3	(22.6)	1,360.7
Movement in insurance liabilities	(473.6)	(29.4)	(503.0)	(580.5)	29.1	(551.4)
Total	1,778.6	(51.2)	1,727.4	1,881.8	(10.9)	1,870.9

Claims handling expenses for the year ended 31 December 2014 of £226.3 million (2013: £239.5 million) have been included in the claims figures.

9. Commission expenses

Continuing operations	2014 £m	2013 £m
Commission expenses	263.3	275.4
Expenses incurred under profit participations	90.7	59.1
Total	354.0	334.5

10. Operating expenses

Continuing operations	2014 £m	2013 £m
Staff costs	263.6	356.4
Marketing	123.9	159.2
Depreciation	22.6	18.5
Amortisation and impairment of other intangible assets	66.4	33.7
Other operating expenses	299.5	320.9
Total	776.0	888.7

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.

	2014 £m	2013 £m
Staff costs[1]	15.5	57.9
Other operating expenses	54.1	82.6
Total	69.6	140.5

Note:

1. Staff costs in 2013 include redundancy costs of £40.9 million.

The table below analyses the average monthly number of persons employed by the Group's operations.

Continuing operations	2014	2013
Operations	9,959	10,892
Support	1,278	1,773
Total	11,237	12,665

The Group's discontinued operations employed an average monthly number of 1,275 people in 2014 (2013: 1,295).

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

Continuing operations	2014 £m	2013 £m
Wages and salaries	348.7	395.0
Social security costs	37.7	43.7
Pension costs	19.2	24.3
Share-based payments	6.6	4.1
Total	412.2	467.1

The aggregate remuneration of those employed by the Group's discontinued operations was £32.9 million in 2014 (2013: £33.9 million).

11. Finance costs

Continuing operations	2014 £m	2013 £m
Interest expense on subordinated dated notes[1]	37.2	37.7

Note:

1. On 27 April 2012 the Group issued subordinated 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 subordinated dated notes for a floating rate of three-month LIBOR plus a spread of 706 bps which increased to 707 bps with effect from 29 July 2013.

12. Earnings and net assets per share, return on equity

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.

Basic

Basic earnings per share is calculated by dividing the earnings attributable to the owners of the Company and 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.

	2014 £m	2013 £m
Earnings attributable to owners of the Company arising from:		
Continuing operations	359.3	310.8
Discontinued operations	13.3	2.0
Continuing and discontinued operations	372.6	312.8
Weighted average number of Ordinary Shares for the purpose of basic earnings per share (millions)	1,495.0	1,495.4
Basic earnings per share (pence):		
Continuing operations	24.0	20.8
Discontinued operations	0.9	0.1
Continuing and discontinued operations	24.9	20.9

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.

	2014 £m	2013 £m
Earnings attributable to owners of the Company arising from:		
Continuing operations	359.3	310.8
Discontinued operations	13.3	2.0
Continuing and discontinued operations	372.6	312.8
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	1,495.0	1,495.4
Effect of dilutive potential of share options and contingently issuable shares (millions)	12.9	5.8
Weighted average number of Ordinary Shares for diluted earnings per share (millions)	1,507.9	1,501.2
Diluted earnings per share (pence):		
Continuing operations	23.8	20.7
Discontinued operations	0.9	0.1
Continuing and discontinued operations	24.7	20.8

Net asset value and tangible net asset value per share

Net asset value per share is calculated as total shareholders' equity divided by the number of Ordinary Shares at the end of the period. Ordinary Shares exclude 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.

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

At 31 December	2014 £m	2013 £m
Net assets	2,810.5	2,790.0
Goodwill and other intangible assets	(517.5)	(500.1)
Disposal group – intangible assets (note 4B)	(5.6)	–
Tangible net assets	2,287.4	2,289.9
Number of Ordinary Shares (millions)	1,500.0	1,500.0
Shares held by employee share trusts (millions)	(6.4)	(5.2)
Closing number of Ordinary Shares (millions)	1,493.6	1,494.8
Net asset value per share (pence)	188.2	186.6
Tangible net asset value per share (pence)	153.1	153.2

Return on equity

The table below details the calculation of return on equity.

	2014 £m	2013 £m
Earnings attributable to owners of the Company	372.6	312.8
Opening shareholders' equity	2,790.0	2,831.6
Closing shareholders' equity	2,810.5	2,790.0
Average shareholders' equity	2,800.2	2,810.8
Return on equity	13.3%	11.1%

13. Financial investments

	2014 £m	2013 £m
AFS debt securities		
Corporate	4,117.1	4,878.1
Supranational	176.3	365.7
Local government	120.7	134.5
Sovereign	993.8	1,399.5
Securitised credit	422.4	227.7
Total	5,830.3	7,005.5
AFS debt securities		
Fixed interest rate	5,147.3	6,468.4
Floating interest rate	683.0	537.1
Total	5,830.3	7,005.5
Loans and receivables		
Deposits with credit institutions with maturities in excess of three months	54.7	435.7
Infrastructure debt	76.2	–
Total[1]	5,961.2	7,441.2

Note:

1. Included in the disposal group (note 4B) is £706.9 million which has been transferred from financial investments at 31 December 2014.

14. Cash and cash equivalents and borrowings

	2014 £m	2013 £m
Cash at bank and in hand	151.3	307.5
Short-term deposits with credit institutions	729.1	600.8
Total	880.4	908.3

The effective interest rate on short-term deposits with credit institutions for the year ended 31 December 2014 was 0.61% (2013: 0.41%) and average maturity was 10 days (2013: 14 days).

The table below details cash and bank overdrafts for the purposes of the cash flow statement.

	2014 £m	2013 £m
Cash and cash equivalents	880.4	908.3
Bank overdrafts[1]	(69.8)	(55.1)
Cash and cash equivalents in assets held for sale (note 4B)	87.6	–
Total	898.2	853.2

Note:

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

15. Insurance liabilities, unearned premium reserve and reinsurance assets

	2014 £m	2013 £m
Insurance liabilities	4,674.1	5,757.4
Gross insurance liabilities(including unearned premium reserve)		
Gross insurance liabilities	4,674.1	5,757.4
Unearned premium reserve	1,434.2	1,818.7
Total	6,108.3	7,576.1
Reinsurers' share of insurance liabilities (including reinsurance unearned premium reserve)		
Reinsurers' share of insurance liabilities	(775.5)	(917.3)
Unearned premium reserve	(87.0)	(93.7)
Total	(862.5)	(1,011.0)
Net insurance liabilities (including unearned premium reserve)		
Net insurance liabilities	3,898.6	4,840.1
Unearned premium reserve	1,347.2	1,725.0
Total	5,245.8	6,565.1

Gross insurance liabilities

Accident year	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	Total £m
Estimate of ultimate claims costs:											
At end of accident year	4,007.5	4,091.6	4,390.5	3,878.1	4,148.0	4,261.9	3,080.5	2,797.3	2,652.5	2,498.0	
One year later	(175.8)	(266.1)	(62.0)	23.2	120.0	(98.1)	(80.3)	(168.7)	(128.5)	–	
Two years later	(141.7)	(42.0)	(1.1)	43.9	(42.5)	(115.3)	(99.5)	(121.3)	–	–	
Three years later	(57.9)	(17.6)	49.4	(38.3)	(24.2)	(55.1)	(93.4)	–	–	–	
Four years later	(59.5)	10.1	(7.0)	(22.0)	(101.8)	(105.3)	–	–	–	–	
Five years later	15.3	(21.6)	(17.8)	(57.9)	(40.7)	–	–	–	–	–	
Six years later	7.8	(9.1)	(26.3)	(45.3)	–	–	–	–	–	–	
Seven years later	5.4	(13.4)	(20.1)	–	–	–	–	–	–	–	
Eight years later	(34.4)	2.3	–	–	–	–	–	–	–	–	
Nine years later	0.3	–	–	–	–	–	–	–	–	–	
Current estimate of cumulative claims	3,567.0	3,734.2	4,305.6	3,781.7	4,058.8	3,888.1	2,807.3	2,507.3	2,524.0	2,498.0	
Cumulative payments to date	(3,456.4)	(3,533.9)	(4,056.5)	(3,570.9)	(3,679.4)	(3,462.0)	(2,340.6)	(2,029.9)	(1,734.0)	(1,150.0)	
Transfer to liabilities held for sale	(4.9)	(18.6)	(11.4)	(20.0)	(16.5)	(22.9)	(45.1)	(61.5)	(97.2)	(208.6)	
Liability recognised in balance sheet	105.7	181.7	237.7	190.8	362.9	403.2	421.6	415.9	692.8	1,139.4	4,151.7
2004 and prior[1]											417.6
Claims handling provision[1]											104.8
Total											4,674.1

Note:

1. Included in the disposal group in 2014 liabilities (note 4B) held for sale is £46.7 million (£28.5 million relating to 2004 and prior and £18.2 million relating to claims handling provision) which has been transferred from insurance liabilities.

Net insurance liabilities

Accident year	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	Total £m
Estimate of ultimate claims costs:											
At end of accident year	3,869.6	4,030.8	4,341.3	3,816.0	4,113.0	4,219.3	2,946.1	2,570.1	2,401.5	2,209.7	
One year later	(159.3)	(249.7)	(81.7)	24.1	70.0	(109.7)	(119.3)	(157.8)	(128.3)	–	
Two years later	(159.4)	(52.7)	(23.3)	8.2	(23.0)	(136.4)	(88.1)	(109.5)	–	–	
Three years later	(62.0)	(28.2)	17.7	(24.5)	(64.2)	(48.5)	(78.3)	–	–	–	
Four years later	(61.6)	9.9	(10.4)	(51.2)	(67.5)	(92.8)	–	–	–	–	
Five years later	7.2	(43.5)	(22.4)	(51.2)	(30.8)	–	–	–	–	–	
Six years later	(0.4)	(21.0)	(21.2)	(31.1)	–	–	–	–	–	–	
Seven years later	(12.2)	(14.2)	(16.7)	–	–	–	–	–	–	–	
Eight years later	(27.1)	3.8	–	–	–	–	–	–	–	–	
Nine years later	2.4	–	–	–	–	–	–	–	–	–	
Current estimate of cumulative claims	3,397.2	3,635.2	4,183.3	3,690.3	3,997.5	3,831.9	2,660.4	2,302.8	2,273.2	2,209.7	
Cumulative payments to date	(3,325.9)	(3,485.1)	(3,990.3)	(3,531.1)	(3,646.1)	(3,444.0)	(2,244.3)	(1,905.4)	(1,611.4)	(1,053.4)	
Transfer to liabilities / assets held for sale	(4.9)	(12.6)	(11.5)	(17.7)	(16.5)	(22.7)	(31.9)	(41.3)	(61.5)	(140.4)	
Liability recognised in balance sheet	66.4	137.5	181.5	141.5	334.9	365.2	384.2	356.1	600.3	1,015.9	3,583.5
2004 and prior[1]											210.3
Claims handling provision[1]											104.8
Total											3,898.6

Note:

1. Included in the disposal group (note 4B) in 2014 liabilities held for sale is £46.7 million (£28.5 million relating to 2004 and prior and £18.2 million relating to claims handling provision) and assets held for sale of £14.1 million (relating to 2004 and prior reinsurance) which have been transferred from insurance liabilities and reinsurance assets respectively

Movements in insurance liabilities and reinsurance assets

	Gross £m	Reinsurance £m	Net £m
Claims reported	3,969.3	(397.8)	3,571.5
Incurred but not reported	2,153.9	(511.6)	1,642.3
Claims handling provision	163.8	–	163.8
Liability adequacy provision	4.3	–	4.3
At 1 January 2013	6,291.3	(909.4)	5,381.9
Cash paid for claims settled in the year	(2,852.1)	149.1	(2,703.0)
Increase / (decrease) in liabilities:			
Arising from current-year claims	2,894.2	(250.9)	2,643.3
Arising from prior-year claims	(583.9)	96.7	(487.2)
Effect of foreign currency exchange adjustment	12.2	(2.8)	9.4
Decrease in liability adequacy provision	(4.3)	–	(4.3)
At 31 December 2013	5,757.4	(917.3)	4,840.1
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 31 December 2013	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	(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 (note 4B)	(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

Movement in prior-year net claims liabilities by operating segment

	2014 £m	2013 £m
Motor	(278.4)	(291.9)
Home	(49.8)	(43.3)
Rescue and other personal lines	(15.7)	(9.0)
Commercial	(53.7)	(51.6)
Total ongoing	(397.6)	(395.8)
Run-off	(53.2)	(52.1)
Discontinued – International	(10.1)	(39.3)
Total	(460.9)	(487.2)

Movement in unearned premium reserve

	Gross £m	Reinsurance £m	Net £m
At 1 January 2013	1,872.9	(97.9)	1,775.0
Net movement in the year	(61.8)	5.0	(56.8)
Effect of foreign currency exchange adjustment	7.6	(0.8)	6.8
At 31 December 2013	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 (note 4B)	(326.2)	23.2	(303.0)
At 31 December 2014	1,434.2	(87.0)	1,347.2

16. Related parties

On 27 February 2014, RBS Group announced the completion of the sale of its remaining interest of 423.2 million Ordinary Shares in the Company.

RBS Group has now sold all its Ordinary Shares in the Company except for shares held to satisfy long-term incentive plan awards granted by RBS Group to Direct Line Group management.

Transactions with RBS Group in the year ended 31 December 2014 were similar in nature to those for the year ended 31 December 2013. However, following the sale announced in February 2014 transactions with RBS Group are no longer related party transactions, as the related party relationship as an associate ceased from that sale.

Full details of the Group's related party transactions for the year ended 31 December 2013 are included on pages 166 to 167 of the Annual Report & Accounts 2013.

17. Post balance sheet events

On 13 January 2015, the Group announced its intention to close its sites at Pudsey and vacate the premises, with all roles being transferred to the Group's Leeds offices. These sites which are owned by the Group have been impaired in 2015 by approximately £22.0 million. Marketing of these sites will begin shortly.

Corporate information

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

Statutory accounts information

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

Additional information

We confirm that to the best of our knowledge:

1. the financial statements within the full Annual Report & Accounts, from which the financial information within this preliminary announcement has 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 this preliminary announcement 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
2 March 2015

John Reizenstein
Chief Financial Officer
2 March 2015