2022 restatements under IFRS 17 and IFRS 9 (unaudited)

The material contained in this pack is not considered to be price sensitive

Disclaimer

Forward-looking statements disclaimer

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The Group's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this document, for example directly or indirectly as a result of, but not limited to:

- United Kingdom ("**UK**") domestic and global economic business conditions;
- the direct and indirect impacts and implications of the coronavirus Covid-19 pandemic on the economy, nationally and internationally, on the Group, its operations and prospects, and on the Group's customers and their behaviours and expectations;
- the Trade and Cooperation Agreement between the UK and the European Union ("**EU**") regarding the terms of the trading relationships between the UK and the EU and its implementation, and any subsequent trading and other relationship arrangements between the UK and the EU and their implementation;
- the terms of trading and other relationships between the UK and other countries following Brexit;
- the impact of the FCA's PPR regulations and Consumer Duty regulations and of responses by insurers, customers and other third parties and of interpretations of such rules by any relevant regulatory authority;
- market-related risks such as fluctuations in interest rates, exchange rates and credit spreads, including those created or exacerbated by the war in Ukraine following the Russian invasion;
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Key messages

1. IFRS 17 does not change the economics of the business
2. Accounting policy choices bring IFRS 17 earnings recognition closer to Solvency II capital generation
3. Moving to net insurance margin (NIM) as a key performance indicator, replacing combined operating ratio, as it more closely resembles how we run the business
4. Presentational changes are aimed at aiding comparability between insurers

Purpose of this pack

- Set out the income statement and balance sheet under IFRS 17 and IFRS 9
- Provide bridges between IFRS 4 and IFRS 17 for key line items
- Explain discounting and the impact on claims
- Set out KPIs including a bridge for the NIM

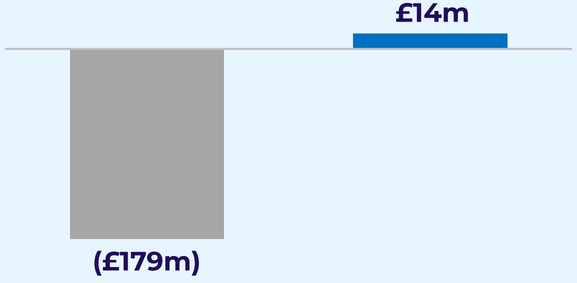
Key accounting policy choices improve comparability with SII

Topic	IFRS 4 & IAS 39 policy	IFRS 17 & 9 policy	Alignment with Solvency II
Premiums	• Unearned premium reserve was held on the balance sheet with premiums earned on a straight-line basis	• Premiums continue to be earned on a straight-line basis and qualify for the **Premium Allocation Approach** (PAA)	• **Partial alignment:** Similar premium recognition and earning but different underlying principles with respect to profit recognition of unearned business
Acquisition costs	• Required the deferral of acquisition costs over the coverage period with DAC asset held on the balance sheet	• Acquisition **costs are expensed as incurred**, not capitalised in the balance sheet	✓ **Full alignment:** Deferral of acquisition costs is not admissible
Discounting of claims	• Only PPO reserves were discounted • The unwind of the discount was recognised as a prior year claims expense	• **All claims are discounted** using PRA risk free yield curve plus an illiquidity premium • The unwind of the discount and any change in the discount rate is recognised within finance income / expense	• **Close alignment:** All claims are discounted using the PRA risk free yield curve with / without volatility adjustment depending on the line of business
Debt securities	• Unrealised gains and losses were recognised in other comprehensive income	• Unrealised gains and losses are **recognised in the income statement**	✓ **Full alignment:** Debt securities continue to be measured at fair value with unrealised gains and losses impacting own funds

FY 2022 summary: Operating profit improves as realised investment losses move outside of result, along with net benefit from non-PPO discounting

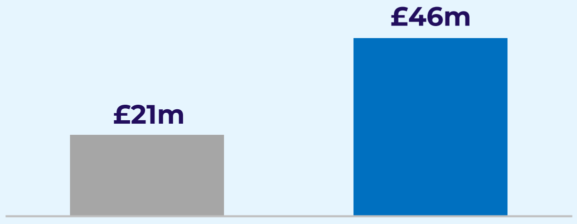
Insurance service result[1]

Improvement largely due to inclusion of instalment and other income and the discounting of all claims



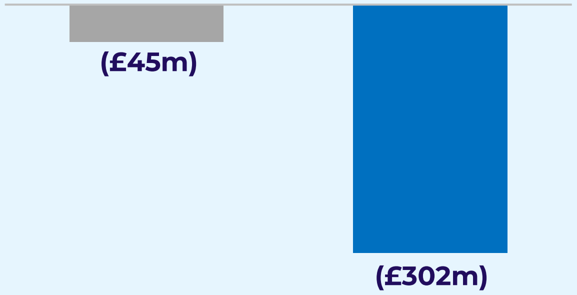
Operating profit

Benefits from realised investment losses and fair value adjustments on investment property moving outside of operating profit together with the net impact of discounting all claims



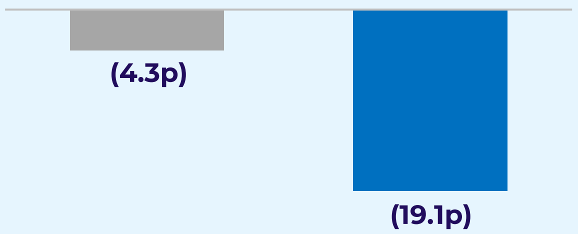
Loss before tax

Improvement in operating profit offset by recognition of unrealised losses from debt securities within the income statement



Basic loss per share

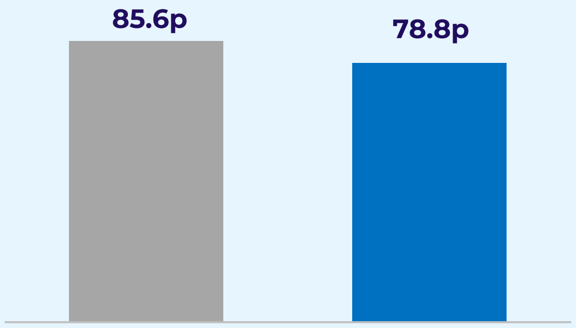
Reduction driven by the increase in loss before tax



Key: IFRS 4 | IFRS 17 / 9

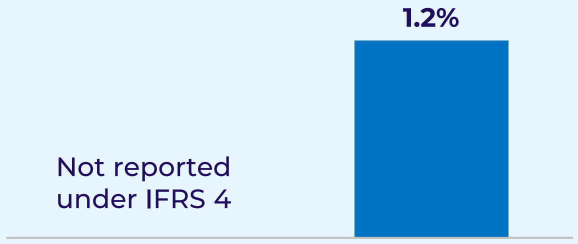
Tangible net asset value per share

Reduction due the removal of deferred acquisition costs on transition



Operating return on tangible equity[2]

Replaces return on tangible equity (RoTE) as a key metric



1. Previously underwriting result under IFRS 4
2. See slide 27

FY 2022: Income statement changes largely presentational

IFRS 4 management view (£m)

	Adjusted gross written premium	**3,098**
A	Gross earned premium	3,132
B	Reinsurance premium	(166)
	Net earned premium	**2,967**
C	Insurance claims	(2,218)
D	Insurance claims payable to reinsurers	(17)
	Net insurance claims	**(2,235)**
	Of which prior-year reserve releases	*163*
E	Commission expenses	(211)
F	Operating expenses before restructuring and one-off costs	(700)
	Total expenses	**(911)**
	Underwriting loss	**(179)**
G	Investment return	52
H	Instalment income	92
I	Other operating income	55
	Operating profit	**21**
J	Restructuring and one-off costs	(45)
K	Finance costs	(20)
	Loss before tax	**(45)**

Instalment income

Income relating to claims

Marketing expenses

Insurance expenses

Investment fees

Non-insurance income

Non-insurance expenses

IFRS 17 & IFRS 9 management view (£m)

	Gross written premium and associated fees	**3,098**
A + H	**Insurance revenue** 1	**3,229**
B	Expenses from reinsurance contracts held	(166)
	Net insurance revenue	**3,063**
C + I + L + M	Incurred claims	(2,275)
D + L + M	Insurance claims recoverable from reinsurers	96
	Net insurance claims 2	**(2.178)**
	Of which prior-year reserves development	*98*
E + F	Acquisition costs	(298)
F	Operating expenses	(574)
	Other directly attributable expenses 3	**(871)**
	Insurance service result	**14**
G + F	Net investment income 4	115
N + O	Unwind of discounting of claims	(60)
F + I	Other operating income and expenses 5	(24)
	Operating profit	**46**
G + P	Fair value gains / (losses) 6	(343)
Q	Effect of change in yield curve	61
J	Restructuring and one-off costs	(45)
K	Other finance costs	(20)
	Loss before tax	**(302)**

Key changes

1. Insurance revenue benefits from inclusion of instalment and other income
2. Net insurance claims reduce due to the effect of discounting all claims and benefits from inclusion of other claims-related income[1,2]
3. Expensed as incurred (including acquisition costs) and includes only directly attributable expenses
4. Unrealised fair value gains, losses and impairments move outside of operating profit. Includes investment fees previously reported within operating expenses
5. Includes income from non-insurance activities, such as intermediary services, and expenses not attributable to the fulfilment of insurance contracts
6. Includes realised / unrealised gains and losses, previously reported within other comprehensive income, moving to the income statement

Key: new IFRS 17 and IFRS 9 elements

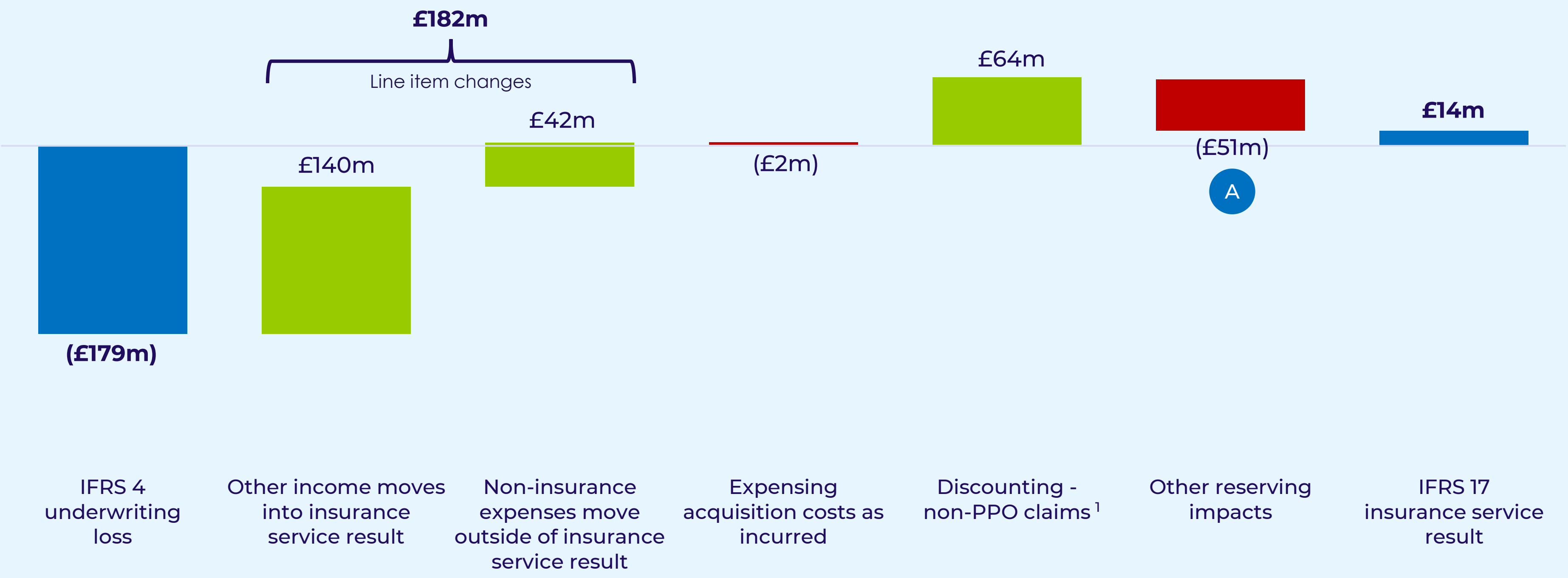
- L Loss component (onerous contracts)
- M Removal of management margin and inclusion of ENIDs and risk adjustment
- N Unwind of discounting on gross claims
- O Unwind of discounting on reinsurance recoveries
- P Unrealised gains and losses previously within OCI
- Q Effect of change in yield curve and the impact of changes in the ASHE index

Items covered in more detail on subsequent slides

1. Under IFRS 17, all insurance claims are discounted, whereas under IFRS 4 only PPO-related claims were discounted. The unwind of discounting is reported outside of the insurance service result
2. Other claims-related income includes vehicle replacement referral income, salvage income and legal services income

Insurance service result: Improvement driven by line item changes and discounting of non-PPO claims

FY 2022: Underwriting loss to insurance service result bridge



Key changes

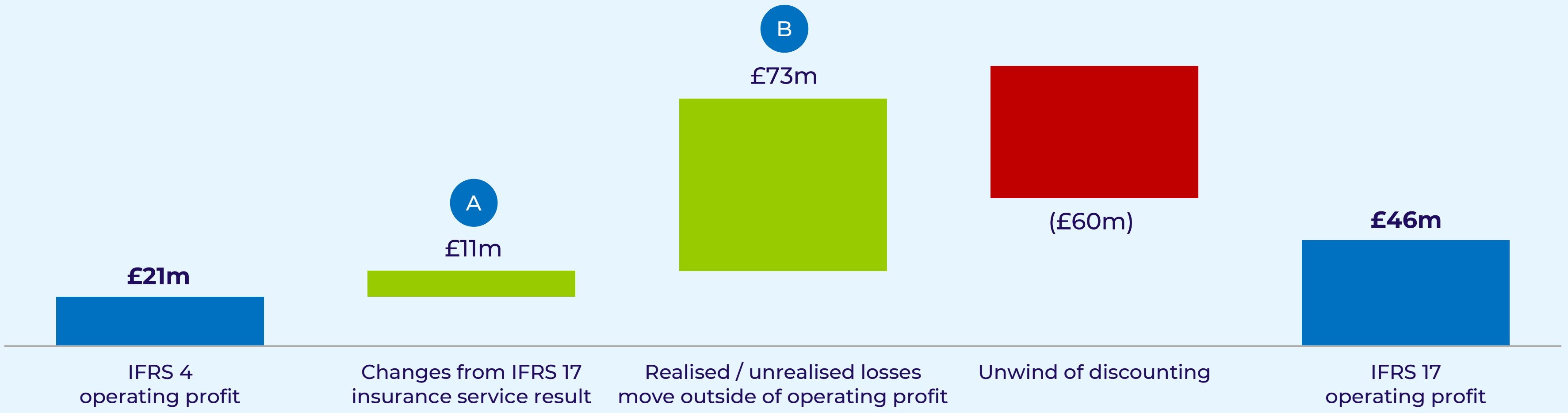
A Includes:

- The difference between IFRS 17 and IFRS 4 discounted PPO reserves and changes in reserving basis[2]
- The impact relating to the removal of the management margin and inclusion of risk adjustment and events not in data (ENIDs)

1. Excludes discounting of the risk adjustment
2. Changes in reserving basis for PPO claims, impacting gross reserves, reinsurance recoveries, reinsurance bad debt and discounting

Operating profit: Improvement as realised / unrealised losses move outside of result, partly offset by the unwind of discounting all claims

FY 2022: Operating profit bridge



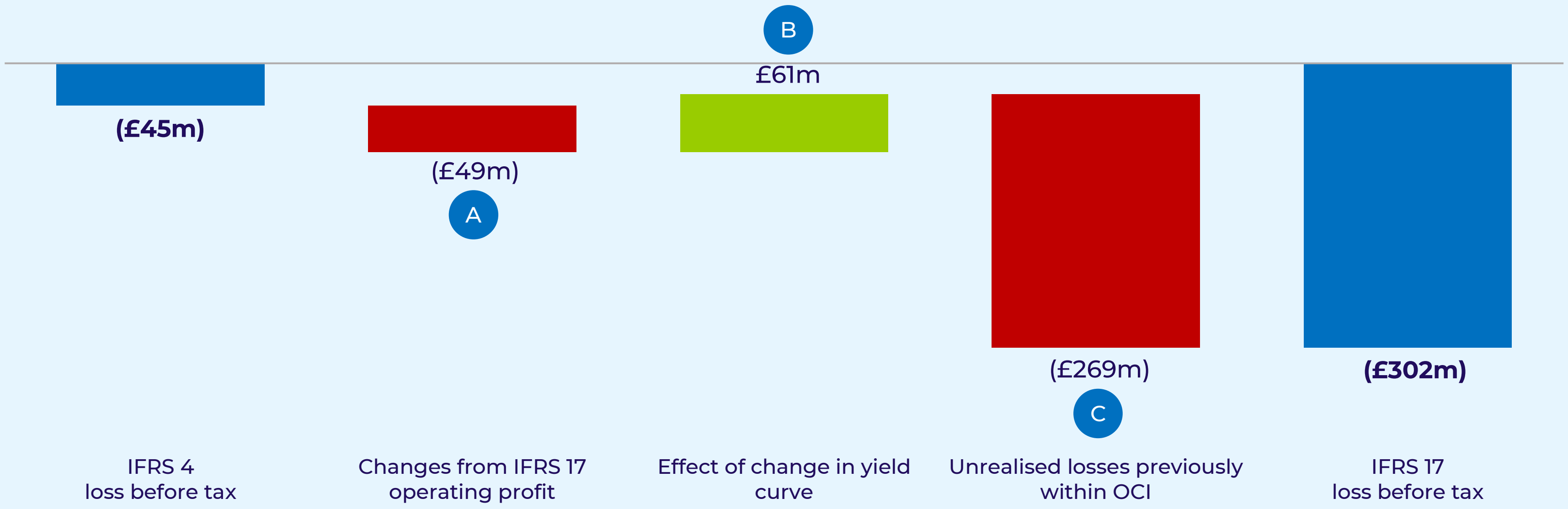
Key changes

A Excludes £182m line item changes in insurance service result as these were previously reported within operating profit under IFRS 4

B Uplift primarily due to realised losses from the disposal of longer duration USD credit holdings. and unrealised losses from fair value adjustments of commercial property, moving outside operating profit

Loss before tax: Inclusion of unrealised losses in the income statement increases loss before tax

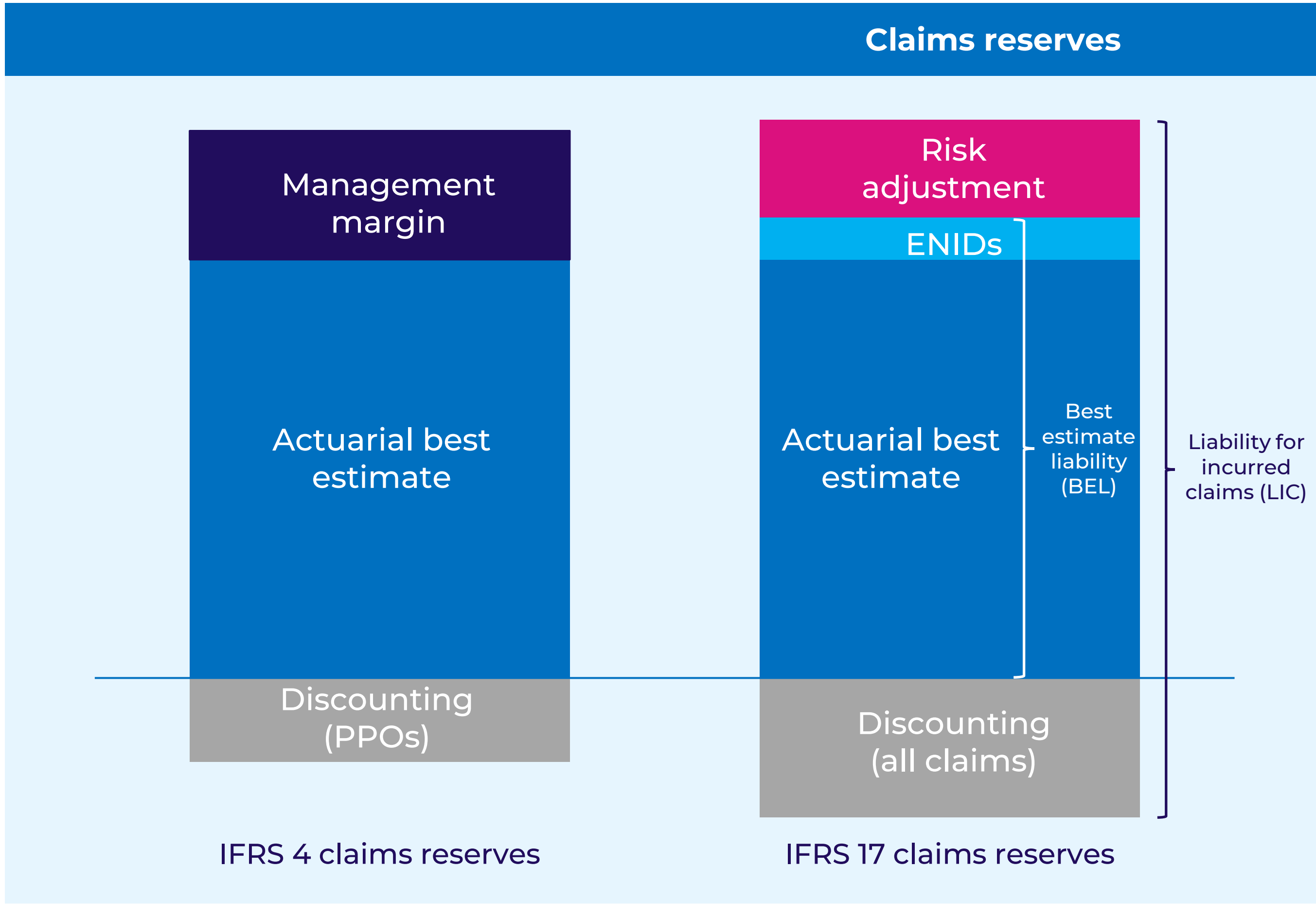
FY 2022: Loss before tax bridge



Key changes

- **A** Excludes £73m benefit of removing realised / unrealised losses from operating profit as this was previously reported within loss before tax under IFRS 4
- **B** Impact of changes in the yield curve relating to brought forward liability for incurred claims (LIC) and changes to the ASHE index
- **C** Impact due to recognition of unrealised losses in the income statement, which were previously reported in other comprehensive income, following adoption of IFRS 9

Balance sheet: Similar level of reserve confidence as management margin is removed and ENIDs and risk adjustment are added



Management margin is removed and events not in data (ENIDs) and risk adjustment are added

A risk adjustment (RA) is applied at the c. 75% confidence level and all claims liabilities are discounted

Discounting principles: All claims discounted using PRA risk free yield curve

	Principles	Claims reserves as at 31 Dec 2022[1]	
Balance sheet	• All claims discounted using PRA risk free yield curve, plus an illiquidity premium • Average duration of group claims reserves[1]; non-PPOs: 1.5 years, PPOs: 19.1 years	**Undiscounted** • Non-PPOs: £2,408m • PPOs: £767m	**Discounted** • Non-PPOs: £2,256m • PPOs: £257m

P&L	Principles	Line item[2]	Modelling
Claims estimates	• Current year claims discounted on initial recognition • Discounting from changes to assumptions for prior-year claims e.g. quantum and timing	• Net insurance claims • **Within the insurance service result**	• Discounting benefit increases in a rising interest rate environment
Unwind of discount	• Reflects reduction in discounting benefit as cashflows are one period closer • Discount unwind calculated every quarter on opening reserves	• Unwind of discounting of claims • **Within operating profit, outside the insurance service result**	• Unwind is linked to the quantum of discount benefit in the opening balance sheet
Changes to the discount rate	• Reflects changes in discounting from movements in interest rates on claims previously recognised • Includes changes arising from movements in ASHE on claims previously recognised	• Effect of change in yield curve • **Within profit before tax, outside operating profit**	• Subject to changes in the yield curve and ASHE index

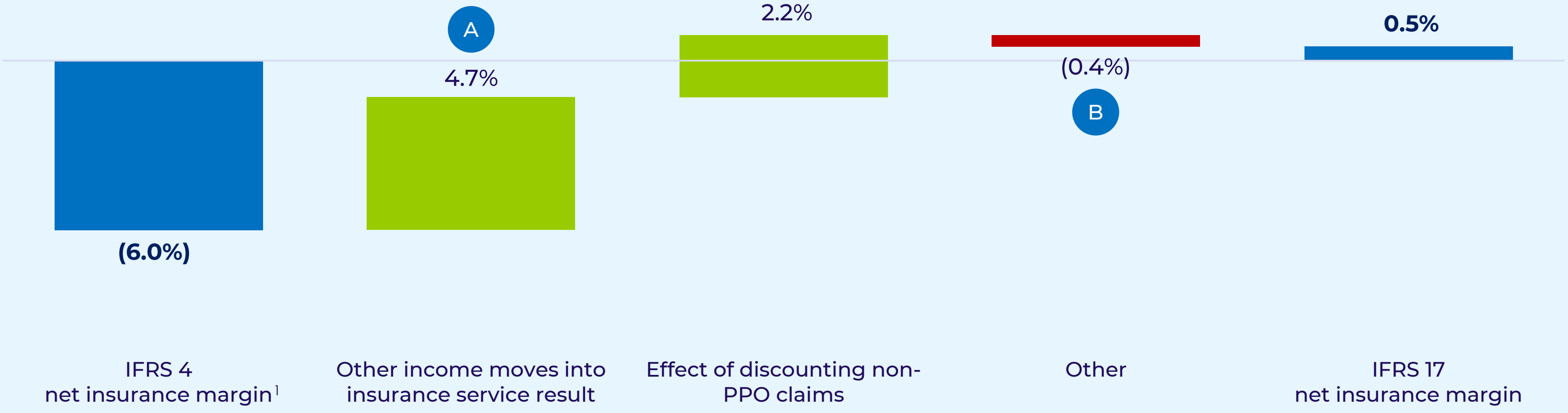
1. Net of reinsurance
2. Management view

Net insurance margin (NIM): Improvement due to reclassification of other income and discounting on non-PPO claims

FY 2022: Net insurance margin bridge

Net insurance margin =

$$\frac{\text{Insurance service result}}{\text{Net insurance revenue}}$$



Key changes

NIM becomes our key ratio (replacing combined operating ratio) as it more closely resembles how we run the business

- A — Benefit from inclusion of other income within insurance revenue and other claims-related income within incurred claims
- B — Includes the impact from changes in reserving methodology and moving non-insurance expenses outside of the insurance service result

Ambition over time to generate a NIM of above 10%, normalised for weather

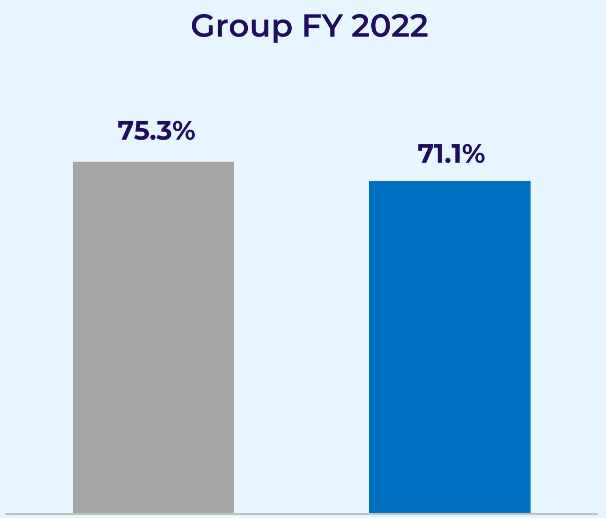
1. IFRS 4 NIM of minus 6.0% presented for illustration purposes and is based on the previously reported IFRS 4 Group combined operating ratio of 106.0% at FY 2022, implying a minus 6.0% net insurance margin.

Key ratios: Net insurance claims ratio and expense ratio improve, net acquisition costs ratio increases due to inclusion of marketing expenses

Net insurance claims ratio

IFRS 4 — **Loss ratio**
Net insurance claims / Net earned premium

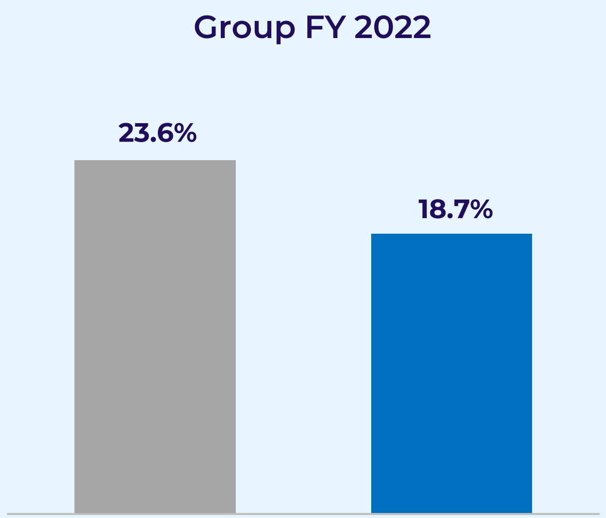
IFRS 17 — **Net insurance claims ratio**
Net insurance claims / Net insurance revenue



Net expense ratio

IFRS 4 — **Expense ratio**
Operating expenses / Net earned premium

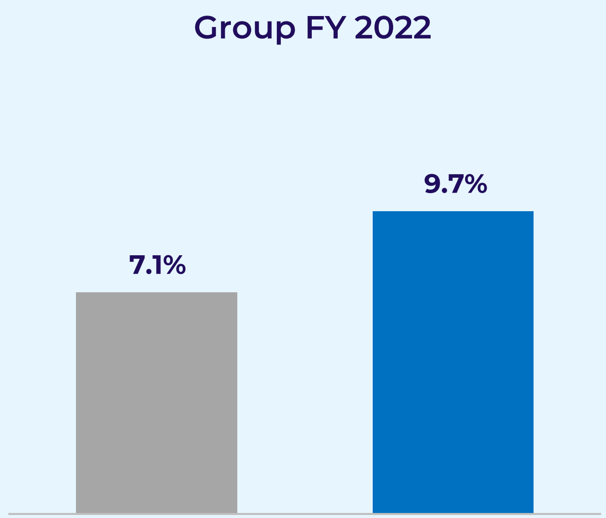
IFRS 17 — **Net expense ratio**
Operating expenses / Net insurance revenue



Net acquisition costs ratio

IFRS 4 — **Commission ratio**
Commission expenses / Net earned premium

IFRS 17 — **Net acquisition costs ratio**
Acquisition costs / Net insurance revenue



Key: IFRS 4 | IFRS 17 / 9

Investments: Unrealised gains and losses move into the income statement from other comprehensive income under IFRS 9

IAS 39

Other than property, unrealised gains and losses were recognised in other comprehensive income

Disclosure under IAS 39	HY 22 £m	FY 22 £m
Assets under management	**5,128**	**4,917**
Investment income	59	125
Hedging to a sterling floating rate	(4)	(6)
Net investment income	**55**	**119**
Net realised and unrealised gains / (losses)	18	(67)
Total investment return	**73**	**52**
Movement in AFS reserve – gross	(238)	(271)
Net investment income yield	2.0%[1]	2.2%
Net investment return yield	2.6%[1]	1.0%

IFRS 9

Unrealised gains and losses recognised in the income statement within fair value gains / (losses)[2]

Disclosure under IFRS 9		HY 22 £m	FY 22 £m
Assets under management	A	**5,125**	**4,915**
Investment income		**59**	**125**
Investment fees		(5)	(10)
Net investment income	B	**54**	**115**
Net fair value losses		(244)	(303)
Net FV gains / (losses) on investment property		19	(39)
Net credit impairment losses		0	(1)
FV gains / (losses)	C	**(225)**	**(343)**
Net investment return		**(171)**	**(227)**
Investment income yield	D	2.0%[1]	2.1%

Key changes

- A AUM reduces for expected credit losses on assets measured under amortised cost under IFRS 9
- B Net investment income is broadly equivalent to IAS 39 less investment fees
- C Includes all realised and unrealised movements and is **reported outside operating profit**
- D Investment income yield is net of fees

1. Annualised
2. Management view

Balance sheet: Closing equity reduces by 4% as deferred acquisition costs are de-recognised, partly offset by a reduction in non-PPO claims reserves due to discounting

31 December 2022: Total equity bridge

Key changes

- A Deferred acquisition cost asset is removed
- B Largely due to discounting of non PPOs
- C Includes recognition of expected credit losses under IFRS 9 and deferred tax adjustment

Key messages

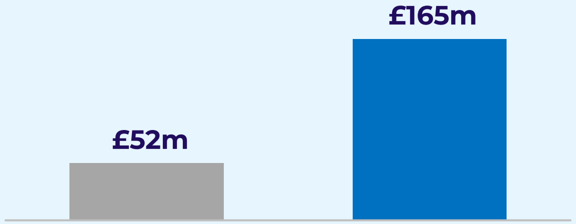
1. IFRS 17 does not change the economics of the business
2. Accounting policy choices bring IFRS 17 earnings recognition closer to Solvency II capital generation
3. Moving to net insurance margin (NIM) as a key performance indicator, replacing combined operating ratio, as it more closely resembles how we run the business
4. Presentational changes are aimed at aiding comparability between insurers

Appendix

HY 2022 summary

Insurance service result [1]

Improvement largely due to inclusion of instalment and other income and the discounting of all claims



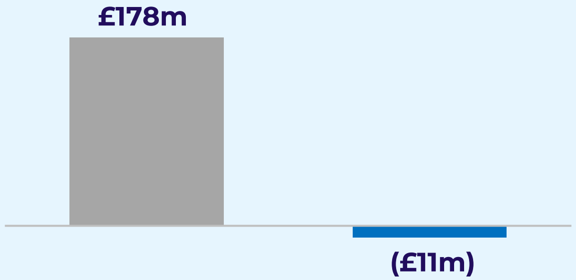
Key: IFRS 4 | IFRS 17 / 9

Operating profit

Benefits from the net impact of discounting all claims, offset by realised investment gains moving outside of operating profit

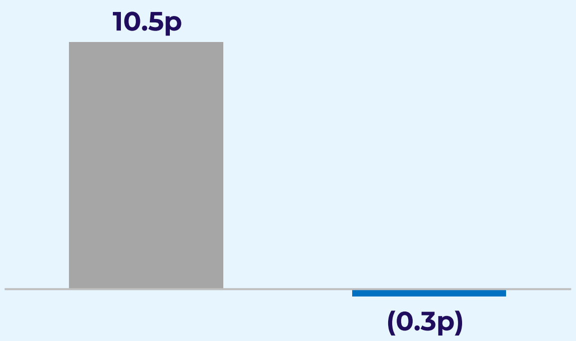
Profit / (loss) before tax

Reduction due to recognition of unrealised losses from debt securities within the income statement



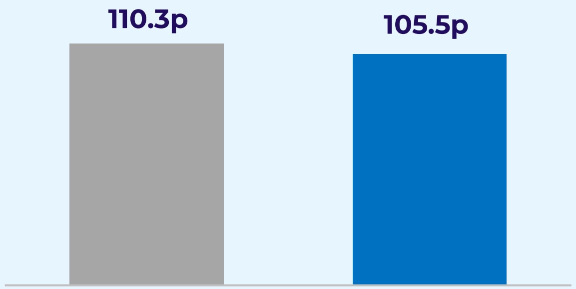
Basic earnings / (loss) per share

Reduction driven by a loss before tax



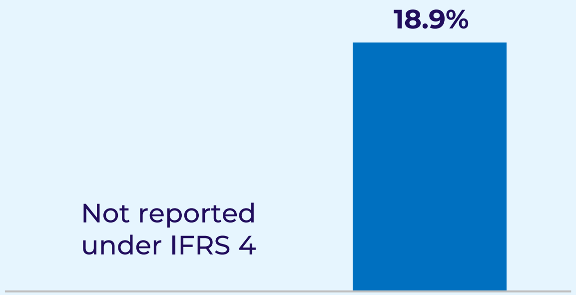
Tangible net asset value per share

Reduction due the removal of deferred acquisition costs on transition



Operating return on tangible equity[2,3]

Replaces return on tangible equity (RoTE) as a key metric



1. Previously underwriting result under IFRS 4
2. Annualised
3. See slide 27

HY 2022 income statement

	IFRS 4 management view (£m)	
	Adjusted gross written premium	**1,523**
A	Gross earned premium	1,561
B	Reinsurance premium	(89)
	Net earned premium	**1,472**
C	Insurance claims	(1,009)
D	Insurance claims recoverable from reinsurers	51
	Net insurance claims	**(958)**
	Of which prior-year reserve releases	*148*
E	Commission expenses	(105)
F	Operating expenses before restructuring and one-off costs	(358)
	Total expenses	**(463)**
	Underwriting profit	**52**
G	Investment return	73
H	Instalment income	41
I	Other operating income	31
	Operating profit	**196**
J	Restructuring and one-off costs	(4)
K	Finance costs	(13)
	Profit before tax	**178**

Instalment income
Income relating to claims
Marketing expenses
Insurance expenses
Investment fees
Non-insurance income
Non-insurance expenses

	IFRS 17 & IFRS 9 management view (£m)	
	Gross written premium and associated fees	**1,523**
A + H	**Insurance revenue** 1	**1,610**
B	Expenses from reinsurance contracts held	(89)
	Net insurance revenue	**1,521**
C + I + L + M	Incurred claims	(949)
D + L + M	Insurance claims recoverable from reinsurers	39
	Net insurance claims 2	**(910)**
	Of which prior-year reserves development	*141*
E + F	Acquisition costs	(148)
F	Operating expenses	(298)
	Other directly attributable expenses 3	**(446)**
	Insurance service result	**165**
G + F	Net investment income 4	54
N + O	Unwind of discounting of claims	(15)
F + I	Other operating income and expenses 5	(9)
	Operating profit	**195**
G + P	Fair value gains / (losses) 6	(225)
Q	Effect of change in yield curve	36
J	Restructuring and one-off costs	(4)
K	Other finance costs	(13)
	Loss before tax	**(11)**

Key changes

1. Insurance revenue benefits from inclusion of instalment and other income
2. Net insurance claims reduce due to the effect of discounting all claims and benefits from inclusion of other claims-related income[1,2]
3. Expensed as incurred (including acquisition costs) and includes only directly attributable expenses
4. Unrealised fair value gains, losses and impairments move outside of operating profit. Includes investment fees previously reported within operating expenses
5. Includes income from non-insurance activities, such as intermediary services, and expenses not attributable to the fulfilment of insurance contracts
6. Includes realised / unrealised gains and losses, previously reported within other comprehensive income, moving to the income statement

Key: new IFRS 17 and IFRS 9 elements

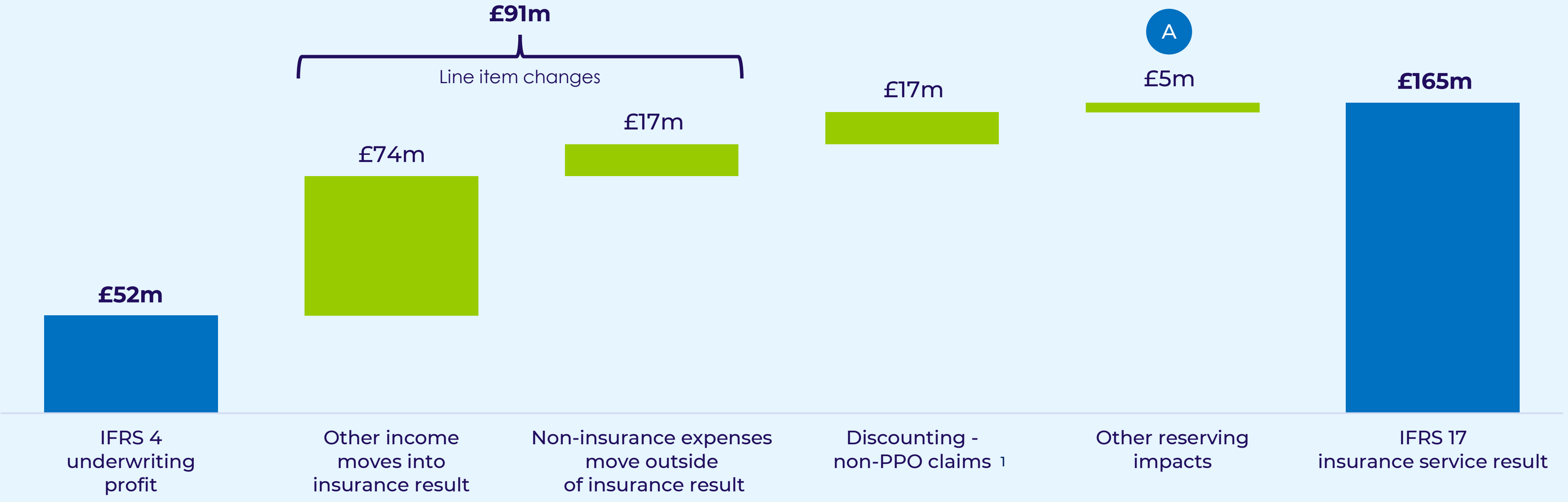
- L Loss component (onerous contracts)
- M Removal of management margin and inclusion of ENIDs and risk adjustment
- N Unwind of discounting on gross claims
- O Unwind of discounting on reinsurance recoveries
- P Unrealised gains and losses previously within OCI
- Q Effect of change in yield curve and the impact of changes in the ASHE index

Items covered in more detail on subsequent slides

1. Under IFRS 17, all insurance claims are discounted, whereas under IFRS 4 only PPO-related claims were discounted. The unwind of discounting is reported outside of the insurance service result
2. Other claims-related income includes vehicle replacement referral income, salvage income and legal services income

Insurance service result

HY 2022: Underwriting loss to insurance service result bridge



Key changes

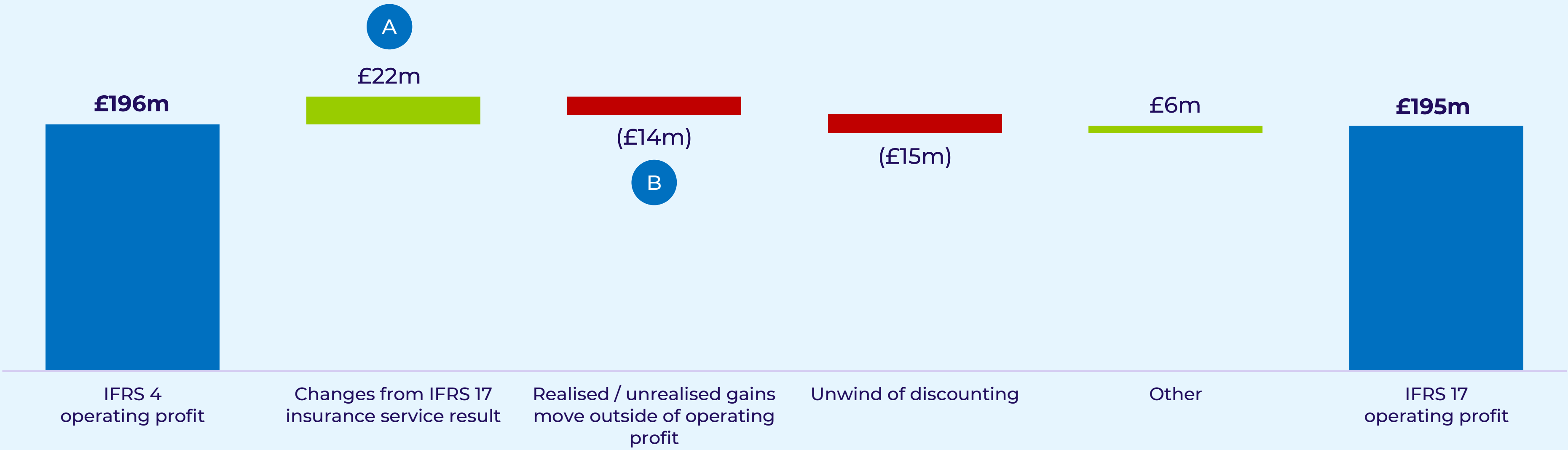
A Includes:

- The difference between IFRS 17 and IFRS 4 discounted PPO reserves and changes in reserving basis[2]
- The impact relating to the removal of the management margin and inclusion of risk adjustment and events not in data (ENIDs)

1. Excludes discounting of the risk adjustment
2. Changes in reserving basis for PPO claims, impacting gross reserves, reinsurance recoveries, reinsurance bad debt and discounting

Operating profit

HY 2022: Operating profit bridge

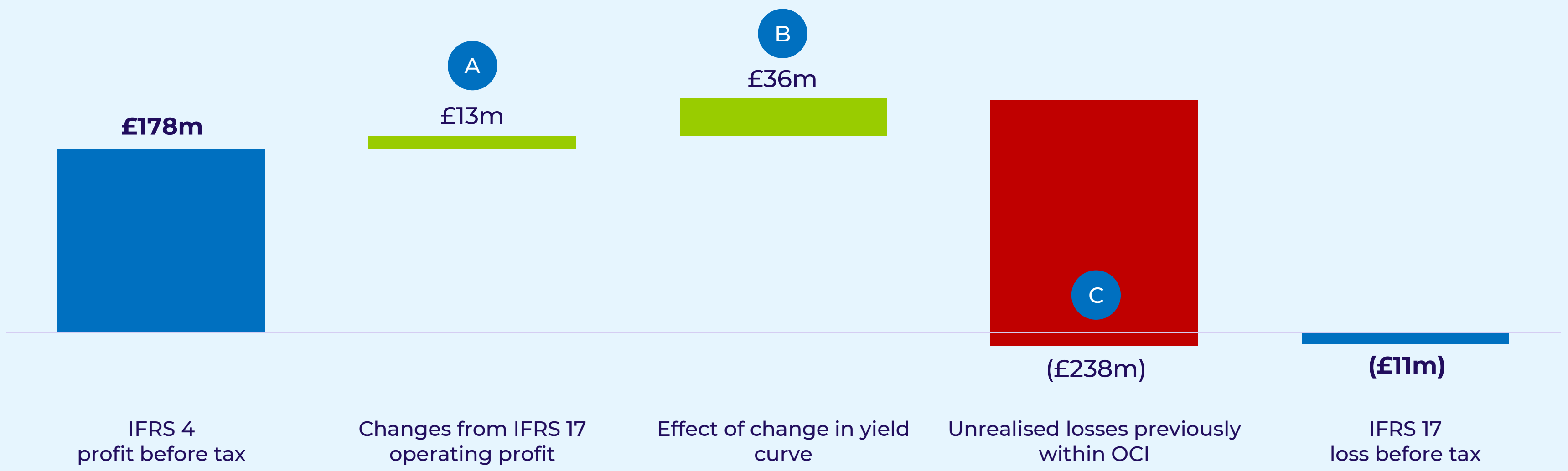


Key changes

- A Excludes £91m line item changes in insurance service result as these were previously reported within operating profit under IFRS 4
- B Reduction as realised / unrealised gains move outside of operating profit

Profit / (loss) before tax

HY 2022: Profit / (loss) before bridge



Key changes

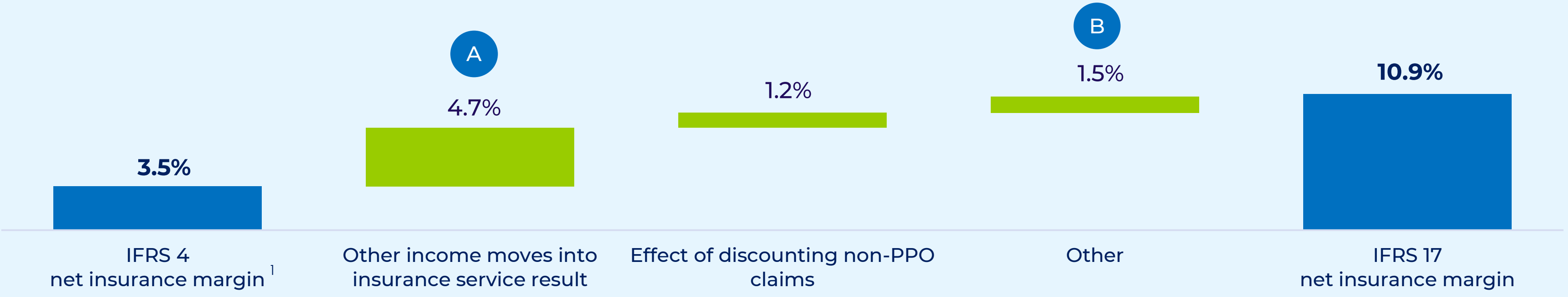
- A — Excludes £14m reduction from removing realised / unrealised gains from operating profit as this was previously reported within profit before tax under IFRS 4
- B — Impact of changes in yield curve relating to brought forward LIC and changes to the ASHE index
- C — Impact due to recognition of unrealised losses in the income statement, which were previously reported in other comprehensive income, following adoption of IFRS 9

Net insurance margin (NIM)

HY 2022: Net insurance margin bridge

Net insurance margin =

$$\frac{\text{Insurance service result}}{\text{Net insurance revenue}}$$



Key changes

NIM becomes our key ratio (replacing combined operating ratio) as it more closely resembles how we run the business

- A Benefit from inclusion of other income within insurance revenue and other claims-related income within incurred claims
- B Includes the impact from changes in reserving methodology and moving non-insurance expenses outside of the insurance service result

Ambition over time to generate a NIM of above 10%, normalised for weather

1. IFRS 4 NIM of 3.5% presented for illustration purposes and is based on the previously reported IFRS 4 Group combined operating ratio of 96.5% at HY 2022, implying a 3.5% net insurance margin.

Key ratios

Net insurance claims ratio

IFRS 4 — **Loss ratio**
Net insurance claims / Net earned premium

IFRS 17 — **Net insurance claims ratio**
Net insurance claims / Net insurance revenue

Net expense ratio

IFRS 4 — **Expense ratio**
Operating expenses / Net earned premium

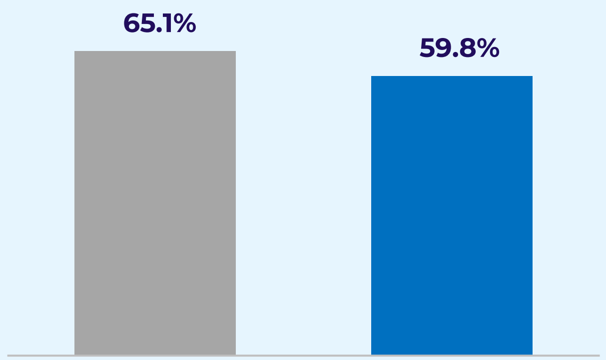
IFRS 17 — **Net expense ratio**
Operating expenses / Net insurance revenue

Net acquisition costs ratio

IFRS 4 — **Commission ratio**
Commission expenses / Net earned premium

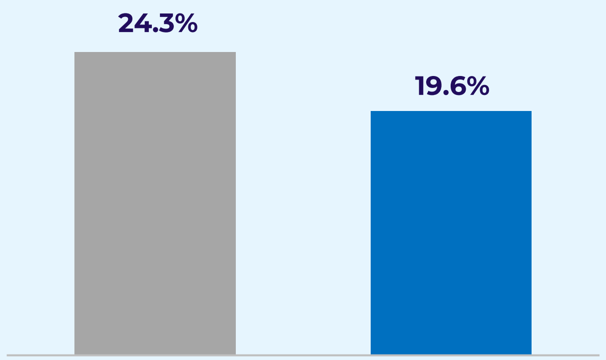
IFRS 17 — **Net acquisition costs ratio**
Acquisition costs / Net insurance revenue

Group HY 2022

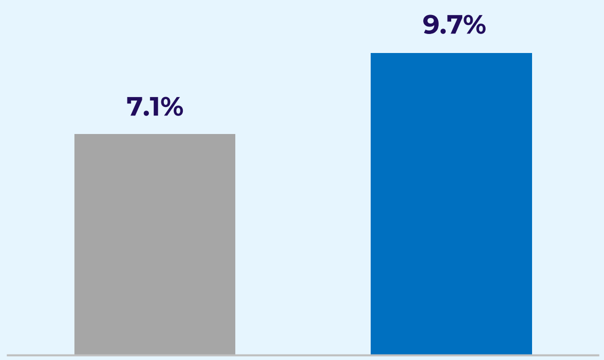


Key: IFRS 4 IFRS 17 / 9

Group HY 2022



Group HY 2022



Consolidated balance sheet: 31 December 2022

Direct Line Group

IFRS 4 (£m)	
Goodwill and other intangible assets	822
Property, plant and equipment	84
Right-of-use assets	73
Investment property	279
Reinsurance assets	1,102
Deferred tax assets	62
Current tax assets	72
Deferred acquisition costs	188
Insurance and other receivables	792
Prepayments, accrued income and other assets	106
Derivative financial instruments	31
Retirement benefit asset	2
Financial investments	3,699
Cash and cash equivalents	1,004
Assets held for sale	41
Total assets	**8,355**
Shareholders' equity	1,934
Tier 1 notes	347
Total equity	**2,281**
Subordinated liabilities	259
Insurance liabilities	3,654
Unearned premium reserve	1,463
Borrowings	65
Derivative financial instruments	30
Provisions	64
Trade and other payables, including insurance payables	458
Lease liabilities	82
Total liabilities	**6,074**
Total equity and liabilities	**8,355**

IFRS 17 and IFRS 9 (£m)	
Goodwill and other intangible assets	822
Property, plant and equipment	84
Right-of-use assets	73
Investment property	279
Insurance contract assets	-
Reinsurance contract assets	1,050
Deferred tax assets	89
Current tax assets	72
Other receivables	170
Prepayments, accrued income and other assets	105
Derivative financial instruments	31
Retirement benefit asset	2
Financial investments	3,696
Cash and cash equivalents	1,004
Assets held for sale	41
Total assets	**7,517**
Shareholders' equity	1,845
Tier 1 notes	347
Total equity	**2,192**
Subordinated liabilities	259
Insurance contract liabilities	4,676
Reinsurance contract liabilities	1
Borrowings	65
Derivative financial instruments	30
Provisions	64
Trade and other payables	149
Lease liabilities	82
Total liabilities	**5,325**
Total equity and liabilities	**7,517**

Key changes

- Deferred acquisition cost asset is removed
- Closer alignment to SII balance sheet (IFRS 17 policy choices / assumptions more consistent with SII requirements)

Key: Deleted or amended lines | New line items | Amended line items

Operating RoTE, basic loss per share and TNAV calculations

Operating RoTE	HY 2022 £m	FY 2022 £m
Operating profit – ongoing operations	197.0	56.5
Other finance costs	(13.4)	(20.4)
Coupon payments in respect of Tier 1 notes	(8.3)	(16.6)
Adjusted operating profit before tax – ongoing operations	**175.3**	**19.5**
Tax charge (using 2022 and 2021 UK standard tax rate of 19%)	(33.3)	(3.7)
Adjusted operating profit after tax – ongoing operations	**142.0**	**15.8**
Opening shareholders tangible equity	1,628.1	1,628.1
Closing shareholders' tangible equity	1,371.1	1,023.1
Average shareholders' tangible equity	**1,499.6**	**1,325.6**
Operating RoTE	**18.9%[1]**	**1.2%**

Basic loss per share	HY 2022 £m	FY 2022 £m
Profit / (loss) after tax	4.7	(231.9)
Coupon payments in respect of Tier 1 notes	(8.3)	(16.6)
Loss for the calculation of basic loss per share	**(3.6)**	**(248.5)**
Weighted average number of shares (millions)	1,310.5	1,304.3
Basic loss per share (pence)	**(0.3)**	**(19.1)**

Tangible net asset value per share (TNAV)	HY 2022 £m	FY 2022 £m
Net assets	2,203.4	1,845.3
Goodwill and other intangibles	(832.4)	(822.2)
Tangible net assets	**1,371.0**	**1,023.1**
Closing number of ordinary shares (millions)	1,299.2	1,298.2
TNAV per share (pence)	**105.5**	**78.8**

1. Annualised