



Focused for the future



**Annual
Report and
Accounts
2023**



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Our vision is to create a world where insurance is personal, inclusive and a force for good. Our purpose is to help people carry on with their lives, giving them peace of mind now and in the future.

Our mission is to be brilliant for customers every day.

This year the Group has taken decisive action to restore our capital resilience, to improve Motor performance and to maintain the performance of our non-Motor businesses. Following the challenging trading environment in 2022, these actions have been designed to put the Group back on a more stable footing.

Looking ahead, we believe that our customer focus, strong brands and claims expertise can drive long-term value for customers and shareholders.

To read more about our strategy, see pages 22 to 23.

Focused on performance

Direct Line Group is one of the UK's leading insurance companies.

Through our well-known brands including Direct Line, Churchill, Privilege, Darwin, and Green Flag we offer a wide range of general insurance products across motor, home, commercial, travel, pet and rescue, both direct to customers and through price comparison websites ("PCWs").

In 2023, we sold our brokered commercial business, prioritised actions to improve margins in Motor, while also continuing to maintain performance in our other businesses.

We are confident that the Group has the foundations for improved performance going forward.

Progress in all segments

Sale of brokered commercial business

During the year, we sold our brokered commercial insurance business for an attractive valuation which strengthened the Group both strategically and financially, as well as significantly improving our solvency ratio.

For more information, please read page 16.

Improving Motor margins

As a result of significant pricing and underwriting actions, in the second half of the year we were underwriting profitably consistent with a 10% net insurance margin.

For more information, please read page 15.

Resilient performance from other businesses

Our Home, Commercial direct, Rescue and other businesses have delivered a good performance with an improved ongoing net insurance margin.

For more information, please read page 15.





Focused on customers

Our mission is to be brilliant for customers every day. It's the driving force behind everything we do.

We know the importance of providing an exceptional insurance service and aim to deliver great outcomes for our customers.

Over 2023, we have undertaken extensive work across the organisation to further focus on how we meet our customers' insurance needs, whether it's from the point of sale through to resolving claims, we want to make it simple for our customers and be there for them when they need us, with the products that meet their needs both now and in the future.

Adapting to customer needs

Direct Line Essentials

We launched a new Direct Line Essentials product this year, expanding our product range to meet the needs of more Motor customers.

[Read more on page 52.](#)

Consumer Duty

Across the business we have been embedding delivery of our Consumer Duty obligations to ensure good customer outcomes and meet our mission to be brilliant for customers every day.

[Read more on page 51.](#)

Motor Claims Hub

Knowing that many of our customers prefer to register their claims online, we have focused on enhancing our capability to provide end-to-end digital claims journeys, launching a new Motor Claims Hub in 2023.

[Read more on page 53.](#)





Focused on retail personal and commercial insurance

Following the sale of our brokered commercial business, we are fully focused on the areas in which we have the most expertise.

Looking forward, we are now fully focused on retail personal lines and commercial small business customers where our brands, claims management and technology gives us the opportunity to outperform for our customers.

Focused for the future

Motability partnership

In September we welcomed over 700,000 Motability customers and brought on board 600 colleagues based in Liverpool.

Read more on pages 15 and 52.

By Miles acquisition

As part of our drive to enable customers to pick the motor insurance cover that best suits them, we acquired By Miles, a company that harnesses vehicle data to provide real-time, pay-by-mile insurance policies.

Read more on page 53.

Commercial direct

We are focused on using our expertise to the benefit of personal and commercial customers serviced through direct and PCW channels.

Read more on pages 15 to 16.







Danuta Gray
Chair of the Board

Chair's statement

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We have entered 2024 with a more resilient business, well positioned to achieve our mission of being brilliant for customers every day.

”

Dear Shareholders,

2023 has been a challenging year for the Group, but a year in which I believe we have delivered on some important commitments to put the Group on a more stable footing.

We have restored capital resilience and have continued to adjust our Motor insurance premiums to mitigate the effect of claims inflation, with the result that we are now writing Motor business profitably. Our non-motor businesses performed well in 2023.

The sale of our brokered commercial business to RSA Insurance Limited represents a significant milestone for the Group. It reflects our intention to leverage the full potential of our personal lines and commercial direct businesses in which we have well-recognised brands and serve over nine million customers.



Welcoming our new CEO, Adam Winslow

In August 2023, we were delighted to announce that Adam Winslow was to be appointed as Chief Executive Officer of the Group, subject to regulatory approval.

The Board conducted an extensive search and Adam stood out for his strategic understanding of the sector, outstanding track record of leading high performing businesses and his focus on driving operational excellence to consistently meet customer needs.

Adam has deep expertise in the UK general insurance market and significant leadership experience, spanning two decades across personal and commercial lines insurance and, throughout his career, his commitment to delivering for customers has been a clear focus, as has his energy and passion as a leader.

Adam Winslow, Chief Executive Officer designate, commented: "Direct Line Group is one of the UK's leading insurers with some of the most recognisable brands in the retail and commercial market. It's a privilege to be invited to lead the Group into the future, particularly given its rich heritage and passion for serving its millions of customers.

"The UK insurance industry is dynamic and always evolving. Delivering great customer service relies on strong strategic vision and the operational capability to execute quickly across a variety of distribution channels. I'm looking forward to working with my new colleagues who share my determination for driving growth, delivering for customers and creating long-term shareholder value."

Adam became the Chief Executive Officer on 1 March 2024 and will join the Board on 21 March 2024.

Dividend and capital management

Following a challenging 2022, we took decisive action in 2023 to restore the capital resilience of our business. In January, we entered into a three-year quota share reinsurance programme and, in September, agreed the sale of the Group's commercial brokered business. We exit 2023 with a strong solvency position above our agreed risk appetite.

The Board is acutely aware of the importance of dividends to our shareholders. At the time of our interim results in September we announced our aim to restart dividends subject to two conditions: the recovery of our solvency ratio to the upper end of our risk appetite range; and a return to organic capital generation in Motor.

We have made good progress towards meeting these conditions with a pre-dividend solvency ratio of 201% as at the end of 2023 and increasing confidence in the profitability of the Motor business we have written in the second half of 2023. Reflecting their increased confidence, the Board is, therefore, recommending a final dividend of 4.0 pence per share for 2023. We will continue to keep this under active review throughout 2024 and provide an update at the interim results.

I acknowledge that our shareholders would like us to resume the payment of dividends as soon as possible, but equally that they would like us to prioritise the strengthening of the business for long-term stability.

Board and leadership

In early 2023 Penny James stepped down from the Board as CEO and Jon Greenwood agreed to serve as Acting Chief Executive Officer whilst we conducted a search for a permanent successor.

We were delighted to announce, in August 2023, that Adam Winslow would be joining us as our new Chief Executive Officer. He joined the Group on 1 March and his appointment to the Board will take effect on 21 March 2024. Adam brings with him a wealth of experience gained from a successful career in the insurance industry, most recently leading Aviva's UK and Ireland general insurance business. Adam is committed to delivering for customers, creating value for our shareholders and is a passionate and energetic leader who shares the Group's values and will lead the continued transformation of the business.

Jon Greenwood will step down into a senior executive role following a handover to Adam. I would like to thank Jon for his hard work and commitment through 2023, during which he led the organisation in taking the critical action to restore its capital resilience and profitability.

During the year we welcomed Mark Lewis and David Neave to the Board as independent Non-Executive Directors. Mark, a former Chief Executive of MoneySupermarket.com Group, is contributing his deep understanding of the regulated aggregator marketplaces in which our brands operate, as well as his experience of digital marketing strategy and improving multi-channel customer experience in retail and financial services. David, whose executive career spanned General and Life Insurance, broking and the legal and technology sectors, is contributing his deep understanding of general insurance to the Board's oversight of our core businesses.



At the end of 2023, Sebastian James stepped down as an independent Non-Executive Director, having served for over nine years. I would like to thank Sebastian for his energetic support of the Group and the Board, as well his leadership of the Sustainability Committee and his contribution to the work of the Board's other Committees.

On 20 March 2024, the Board approved the appointment of Carol Hagh as an independent Non-Executive Director with effect from 1 April 2024. Carol's career has encompassed financial services consultancy, insurance marketing strategy, customer strategy and executive search. She is a former Head of Spencer Stuart LLP's UK Insurance practice and is an independent Non-Executive Director of Chesnara plc. Carol will contribute her deep experience of customer-orientated business transformation, as well as her passion for diversity and inclusion.

Customers

During 2023, we have continued working hard to meet our customers' needs and to improve our customer outcomes-focused culture to serve them best in the future. We welcomed over 700,000 new customers under our ten-year partnership with Motability. This is a significant commercial partnership for the Group and enables us to leverage our repair and customer service capabilities, delivering significant scale benefits. In addition, the Group, launched our Direct Line Essentials Motor product, which offers customers a basic comprehensive product at enhanced value for money during the cost-of-living crisis, and completed the acquisition of By Miles, whose technology enables a pay-as-you-drive product to be offered to customers (see pages 41, 52 and 53 respectively.)

2023 also saw the FCA's Consumer Duty regulation coming into effect. The Board has been closely engaged in overseeing work to ensure that the Group was ready, with support from the Consumer Duty Champion, Tracy Corrigan. We continue to monitor initiatives aimed at ensuring the regulation is embedded into the culture of the organisation and that we deliver good outcomes and fair value for customers.

2023

We have continued working hard to meet our customers' needs and to improve our customer outcomes-focused culture to serve them best in the future.

2024

We have entered 2024 with a more resilient business, well-positioned to achieve our mission of being brilliant for customers every day.

However, I must also acknowledge areas in which we did not perform as well as we would have liked for customers. During the year we announced that, following extensive consultation with the FCA, we would be undertaking two past business reviews relating to motor total loss payments and the implementation of the pricing practices regulation. Where things have gone wrong, we are committed to putting them right. We have worked hard to rectify the unintentional errors that occurred and ensure any lessons learned are embedded into control and process improvements. In total, we have provided for the cost of the total remediation of £150 million, which we consider to be final.

Culture

During the year, the Board intensified its oversight of culture, ensuring actions were taken to enable Direct Line to become a truly high performing and customer-centric organisation with a deeply ingrained awareness of the benefits of excellent risk management. This work included the delivery of a new performance management framework for our people; augmentation of operational measures to provide improved insights into culture change; and enhancements to our risk framework and controls and the tools we use to assess them. We have also developed new metrics to obtain insights into the drivers of customer outcomes and have augmented the role of the Customer and Sustainability Committee, which will meet more frequently to oversee the embedding of the Consumer Duty and how we deliver for our customers. More information on this work can be found on pages 54, 106 and 127.

People

Areas on which the Board focused in 2023 included driving high performance across all levels of the business and reviewing the Group's current leadership capability to ensure it meets the requirements of the future. In addition to assessing our current skills, we have actively recruited for future skills needs as well as implementing a more comprehensive talent assessment and development for our leadership group population, in partnership with Korn Ferry. This work commenced in Q4 2023, with all senior leaders immediately below Executive Committee level invited to take part in an Executive Leadership Assessment, the outputs of which will provide valuable insights and inform our group leadership development approach, aligned to a new leadership model in 2024. In addition to this, the new performance framework launched in 2023 is intended to equip and encourage our people leaders to improve the quality of their development and careers conversations with colleagues.

Recognising that economic conditions remain challenging for our people, we awarded a 5% pay increase to all colleagues, excluding senior management, from January 2023 and made a cost-of-living payment to colleagues on lower rates of pay.

Our company values were refreshed and simplified in 2023 to guide the way we work together to perform as a business and deliver for our customers. I was delighted that the Group was ranked in the Inclusive Top 50 UK Employers List for the third year running.

Planet

In 2022 we became one of the early personal lines general insurers in the UK to have Science-Based Targets approved by the Science Based Targets initiative, a key step in the journey towards our ambition of becoming a Net Zero business by 2050. During 2023, the Board oversaw the work and initiatives needed to help us make significant progress against these targets which we are reporting on for the first time. Initiatives included implementing the use of hydrogenated vegetable oil in our recovery vehicles at 95% of our Auto Services sites and providing clear mandates to our investment portfolio managers to reduce the impact of our investment portfolio. For more information, please see pages 61 to 65, 78 and 79.

Conclusion

As a result of the action we have taken during the year, I believe we have entered 2024 with a more resilient business, well-positioned to achieve our mission of being brilliant for customers every day. I know that our people have worked incredibly hard in a very challenging year and I would like to take this opportunity to thank them for their continued dedication and support. I would also like to acknowledge the intensive work done by the Board in 2023 and to thank my fellow Directors for redoubling their efforts in supporting the business. I believe, under the leadership of our new CEO, Adam, we are poised to realise the full potential of our technological investments and fantastic brands and to deliver good outcomes for all our stakeholders.



Danuta Gray
Chair of the Board



Adam Winslow
Chief Executive Officer

CEO review

“

With the right strategy in place and determined actions, I am confident we can deliver a net insurance margin of 13%¹ in 2026.

”

Note

1. Normalised for weather.

I joined Direct Line Group because I believe there is an opportunity to improve performance and nothing has changed that view since arriving. Direct Line Group has strong foundations, with a leading personal lines customer franchise, scaled market positions and some of the most recognisable brands in the market across a complementary and diverse portfolio.

The last few years have been challenging and the Group has not always delivered best value for its shareholders. We need to significantly improve our performance and I joined both to acknowledge these challenges and seek to solve them.

I believe we have a strong platform to build from. The Group has some of the most recognisable brands in the market, over 9 million customers and a diverse portfolio of assets. In addition, the management actions taken during 2023 have been the right ones. We believe that Motor has turned a corner, and with business outside Motor performing well during 2023, we expect overall performance to improve in 2024.

We have one clear agenda, an unrelenting focus on driving shareholder value by serving our customers well. We believe that through a combination of quick wins, alongside medium-term strategic opportunities, we can deliver a net insurance margin of 13% in 2026.

I have transformed legacy businesses before and understand what it takes to win in general insurance. There are immediate actions we can take in 2024 to address some of the gaps and deliver quick wins.

Reduce our cost base

There is a substantial opportunity to reduce our total cost base and significantly improve operational efficiency through reducing operational complexity and technology costs, including through increasing our use of digital channels for customers. We will focus change spend on the areas that drive most financial benefit and tighten discretionary spend.

Our marketing spend can be reduced further and we will build out customer self-service options by leveraging investments the Group has already made, for example the digital Motor claims hub and the Caha! App that we launched in 2023. Across all these levers, we have identified a series of initiatives that are expected to deliver significant cost savings by the end of 2025. The run-rate annualised cost savings have been considered in the context of a total addressable cost base of £849 million in 2023.

Approximately 54% of these savings are expected to come from technology and digitalisation initiatives and 46% from removing complexity across the Group. The savings will mainly be realised by:

- driving greater digital adoption and increasing automation, mainly across Claims, Sales and Services, as well as reducing third party technology spend, simplifying and modernising IT infrastructure; and
- simplifying operational complexity, right-sizing support functions and reducing change initiatives across the Group.

We expect to incur non-recurring costs of up to £165 million in total by 2025 to implement these savings and to help fund further opportunities towards our ambition to deliver greater savings beyond 2025. A significant amount of these costs is already assumed within the Group's ongoing capital expenditure expectations for 2024 and 2025. No dis-benefits are expected to arise from the programme.

In realising these cost savings by the end of 2025 on a run-rate annualised basis the Group is expected to deliver an expense ratio that is more in line with its comparable peer group.

Improve claims performance

The Group has strong foundations in claims, having one of the largest insurer-owned garage networks across the UK and a strong track record on counter fraud, but our competitors in recent years have caught up. We need to capture the benefits from our structural advantage by repairing more cars at lower cost through our owned network where we consistently deliver superior customer service. We are about to launch a claims transformation, which will initially focus on optimising our garage network and building on counter fraud efforts.

In 2024, we have identified immediate actions to drive value. These include adapting processes in order to leverage the DLG Auto Services advantage, increasing the speed and effectiveness of recoveries and introducing enhanced technology at policy stage to further reduce fraud.

Optimise pricing capability

A full transformation of our Motor pricing capabilities is already underway. There is more to do. In 2023, we upgraded our core pricing models and launched new products. While our capabilities have improved versus peers, there is further to go and in 2024 we will build on our efforts by developing the next generation of technical pricing models and enrich these models with more internal and external data sources while enhancing fraud protection and simplifying our Motor pricing algorithms.

Broaden market coverage

Direct Line and Churchill are two of the strongest and best known brands in the market and we need to utilise our brand portfolio to its full potential. We plan to increase our Motor PCW quotability to historical levels of over 70% in 2024 and create a clear segmentation strategy and value proposition across our different brands. As part of this work, we are evaluating whether we put Direct Line on PCWs and that decision will be shared at the Capital Markets Day in July.

Financial impact of transformation programme

We see immediate opportunities for improved performance, we plan this to be achieved primarily through:

- Tight management of the cost base through targeting discretionary spend and increasing usage of customer self-serve functionality.
- Improving claims performance by building on existing counter fraud efforts and optimising third party claims capture.
- Optimising our pricing by developing the next generation of pricing models, enriching data sources and simplifying pricing algorithms.
- Increasing market coverage by developing a clearer brand value proposition and improving PCW quotability.

Furthermore, we see greater potential benefits as we move into 2025 and 2026. We have set a target to deliver significant cost savings on an annualised run-rate basis by the end of 2025 and together with benefits from other areas of our transformation programme, we are targeting a net insurance margin, normalised for weather, of 13% in 2026.

Strategic review

Alongside the actions highlighted above, I am completing a comprehensive strategic review during the first half of 2024. I will report back to shareholders in July when I will set out our plans and update on our progress.

Capital and dividends

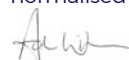
The Group ended 2023 with a strong capital position and a solvency capital ratio of 201% before our proposed dividend, above its risk appetite range.

The Board is proposing a dividend in respect of 2023 of 4.0 pence per share (£52 million) reflecting the Group's strong capital position following the sale of the brokered commercial business and good performance in Home, Commercial and Rescue. While the Board is confident in the actions taken in Motor, it recognises that the period over which to judge the sustainability of Motor's capital generation has been short and consequently this dividend should not be regarded as a resumption of regular dividends. The Board will update on any changes to its dividend policy, alongside the conditions it has previously set to consider restarting regular dividends, in July to coincide with its planned strategy update.

Outlook

We have taken the right actions during 2023 to improve written margins in Motor and expect this to improve Motor performance in 2024.

The Group believes there is significant opportunity to create further value and is targeting a net insurance margin, normalised for weather, of 13% in 2026.



Adam Winslow
Chief Executive Officer



Jon Greenwood
*Acting Chief
Executive Officer*

Outgoing Acting CEO review

“

I am confident that the actions we have taken this year will strengthen the business and leave us well placed to improve earnings going forward. As I hand over to our new CEO, Adam Winslow, I know that we are in good hands and well equipped to build on the changes we have made.

”

After a challenging period, the Group has now turned a corner. We have delivered against our three key objectives, having improved our Motor margins, maintained the good performance of our other businesses and restored the resilience of our balance sheet.

First, in Motor we have taken significant pricing and underwriting action, prioritising margin improvement over volume. We believe that for the majority of the second half of 2023 we have been underwriting profitably, consistent with our ambition of a net insurance margin of above 10%.

Encouragingly, we began to see the signs of an improvement in our current year net insurance claims ratio in the second half of 2023.

Secondly, our other businesses delivered a good performance with an overall net insurance margin of 12.2% and operating profit of £130 million. This shows the benefits of the strong positions the Group holds in Home, Rescue and Commercial Direct.

Finally, the sale of the Group's brokered commercial business has restored the resilience of the Group's balance sheet, crystallising an attractive valuation whilst also focusing the Group's strategy on retail personal and small business insurance. With a solvency capital ratio post-dividend of 197% at year-end, above the top end of the Group's risk appetite range of 140% to 180%, we exit the year in a strong capital position.

Whilst these priorities have been the key focus for the Group during 2023, we have also commenced our partnership with Motability, bringing further scale to our operations, and continued to deliver other improvements across the business. In 2023 we expanded our accident repair network, launched the Green Flag patrol service and four new Motor products, and continued to make it easier for customers to engage with us through digital journeys.

Overall, whilst it will take time for the actions we have taken to fully come through in our reported figures, I am confident the Group has taken the right actions and together with the new operational improvement plan, can improve performance going forward.

2023 results

The 2023 results do not reflect the profitability of the business we believe is being written by the Group today. Whilst we have taken action to return Motor to underwriting profitability, the Group's financial result in 2023 reflects the below target margin business written in Motor during 2022 and the first half of 2023. This resulted in an operating loss of £319.6 million in Motor, which more than offset a good performance across the rest of the Group where operating profit was £130.1 million.

Overall, this delivered an ongoing operating loss of £189.5 million, compared to a £6.4 million loss in 2022. The net gain from the sale of the Group's brokered commercial business contributed to a profit before tax of £277.4 million, up from a loss before tax of £301.8 million in 2022.

Improved our written margins in Motor

We have taken a range of actions in Motor to improve our performance and increase our written margins back to target levels. These actions have delivered a material increase in our average premiums, mitigating the impacts of elevated inflation while also reducing our risk exposure.

There are four key areas we have focused on.

1. Pricing – we have applied significant rate increases in 2023 and improved renewal discounting controls, which have delivered a 37% increase in our average written premiums in Q4 2023 compared with the same period in 2022. Average earned premiums increased by 15% between the first and second half of 2023. Pricing ahead of claims inflation has enabled us to improve written profitability and it is encouraging to see these pricing actions begin to benefit our earned margins.
2. Underwriting and claims – we have made good progress across a range of actions on our underwriting footprint. We made considerable improvements to our pricing and trading capabilities, tightened our fraud controls and took targeted actions on underperforming segments. We launched a new retail price optimisation model in the price comparison website ("PCW") channel and, in claims, we continued to expand our own vehicle repair network, having acquired our 23rd DLG Auto Services centre.
3. Product – in order to meet the needs of a broader set of customers, we launched Direct Line Essentials this year, which has driven an increase in conversion. Darwin, which launched in 2019, passed the 250,000 policy milestone in 2023 and rolled out two new products, Darwin Gold and Darwin Platinum.
4. Team – we have brought in experience from across the market into our pricing and underwriting teams, through several key hires in leadership positions.

As a result of these actions, we believe we have been writing business consistent with a net insurance margin in line with our ambition for the majority of the second half of 2023. Whilst it will take time for these actions to fully earn through into reported numbers, we are encouraged by our performance in the second half of 2023 where we have seen the current year claims ratio in Motor improve by around 6 percentage points compared with the first half of 2023.

Motor current-year attritional net insurance claims ratio

	H1	H2	Full year
2023	89.8 %	84.0 %	86.7 %
2022	75.6 %	84.3 %	79.9 %

Commenced new Motability partnership

After nearly two years of preparation, we welcomed over 700,000 Motability customers at the start of September. The partnership is forecast to deliver over £800 million of gross premium annually and allows for six-monthly repricing to mitigate the risk of claims inflation, whilst being capital light as it is 80% reinsured

This is an important commercial partnership for the Group and demonstrates how we can utilise our claims operations as a wider service proposition. The fleet of modern vehicles provides significant scale benefits as well as repair insight across our claims network. We are also pleased to have welcomed a large team of specialist call handlers to support Motability's customers.

This partnership is expected to deliver good margins for the Group.

Non-Motor businesses delivered resilient performance

Outside of Motor, the Group delivered an ongoing net insurance margin of 12.2% whilst delivering gross written premium and associated fees growth of 4.7%.

Resilient performance in Home

In Home, our focus was on maintaining margins and we achieved this whilst also growing share of new business in the PCW channel. Following a challenging market backdrop in 2022, the market applied considerable rate increases in 2023 and this helped improve our competitiveness, driving 42% growth in new business sales while retention remained strong.

Overall we delivered 6.4% gross written premium growth in 2023 and a net insurance margin of 10.0%. There were several named weather events across the year and our Home claims team helped over 3,000 customers. Despite the high frequency of events, our estimate for event weather of £25 million is below our 2023 assumption for normal event weather of £54 million.

Continued growth in Commercial Direct

Separate from the brokered commercial business, the sale of which we announced in September, Commercial Direct sells SME cover under the Direct Line for Business and Churchill brands, both direct to customer and through PCWs. Landlord insurance is the largest product by premium and policy count, followed by Van. Commercial continued to perform strongly, with premium growth of 10.1% and continued strong margins.

Gross written premium growth was achieved across all product lines, while policy count growth in Direct Line Landlord and SME was offset by reductions in Van, where we continued to increase prices in response to high claims inflation.

The largest growth area was Landlord, which accounts for around half of Direct Line branded Commercial premiums due to our differentiated rent guarantee proposition. We now provide landlord cover for an estimated 370,000 properties across the UK. Our Churchill brand continued to grow in the PCW channel, delivering 48% gross written premium growth over the last three years.

The net insurance margin was 13.1% during 2023 (2022: minus 2.7%), with strong margins in Direct Line Landlord and benign weather conditions more than offsetting the impact of heightened inflation within Van.

These Commercial results exclude the brokered commercial business that was sold in the second half of 2023 and is now reported outside of ongoing operations.

Strong margins in Rescue and other personal lines

Rescue and other personal lines continued to deliver strong margins with a net insurance margin of 15.6% and £48.0 million of operating profit.

In Green Flag, we focused on improving pricing and customer journeys which delivered higher average premiums with minimal impact on sales and retention. We also expanded our Green Flag patrol service across the North of the UK, attending to over 7,000 rescues. The patrol service of 20 vans is helping customers get back on the road faster, including through the sale of tyres and batteries at the roadside, and has delivered strong Net Promoter Scores, which is why we have an ambition to get to 130 vehicles. Green Flag was once again ranked as the top rescue provider in the UK by the UK Institute of Customer Service.

Across our other personal lines products, good results in Travel and Pet offset weather-related losses in our mid- to high-net worth business, UK Select.

Expanding our products and servicing options for our customers

We have also continued to focus on providing customers with greater choice of products and channels to interact with us.

In Motor, we have expanded our Motor product options. Alongside our two new Essentials products we further expanded our own brand portfolio through the acquisition of By Miles, a digitally native insurer, that offers 'pay as you drive' insurance. This not only increases choice for customers, it provides the Group with new data and digital capabilities including direct integration with newer vehicles.

Furthermore, we are creating easy, digital first journeys to enable customers to interact with us seamlessly from sales through to claims. In 2020 we first offered customers a simple way to register motor claims online and in 2023 we took a step forward with the launch of our new Motor Claims Hub, a fully integrated claims journey. We're initially offering customers the ability to register a single vehicle or third party claim online and we plan to extend this service to include online repair booking and claim tracking.

Past business reviews

As previously announced, we are conducting two unconnected past business reviews: the first regarding Motor total loss claims and the second about the implementation of the FCA's Pricing Practices Review ("PPR") regulations. These reviews are progressing well and we aim to complete both reviews in mid 2024. Following extensive review and consultation with the FCA, we have provided for the cost of the total remediation of £150 million, which we consider to be final. A breakdown is set out in the CFO review.

In response to these reviews we have carried out extensive read across activity and have taken steps to improve the control environment.

Sale of Brokered Commercial business

In September we announced the sale of the brokered commercial insurance business. The sale crystallised an attractive valuation for a business we have turned around over the last ten years, but one that ultimately had a different trading model and operates in a different part of the UK insurance market to the rest of the Group.

Following the sale, our strategy is focused on retail personal lines and small business commercial customers. The proceeds from the sale and the release of capital increased the Group's solvency capital ratio by 46 percentage points.

A positive start to 2024 trading

Trading has been positive in the first two months of the year with premium growth across all segments. Motor premiums grew by 21.4%, with a modest reduction in policy count. In Home, own brand policy count growth was offset by lower partnership policies, with premiums increasing 14.2% year on year. There were some weather event claims in the early stages of the year, with a current estimate of £22 million in Home compared to a full year assumption of £54 million.

	Gross written premium and associated fees		In-force policies	
	Feb YTD £m	Variance to PY %	29 Feb 2024 '000s	Change to Dec 2023
Motor	262.8	21.4 %	4,113	(1.6 %)
Home	93.3	14.2 %	2,445	0.0 %
Rescue and other personal lines	40.3	0.5 %	2,110	(2.9 %)
Of which: Rescue	19.8	2.8 %	1,924	(2.0 %)
Commercial	47.0	19.1 %	645	0.0 %
Total ongoing	443.4	17.4 %	9,313	(1.4 %)



Jon Greenwood
Outgoing Acting Chief Executive Officer

Section 172(1) statement

The Board of Direct Line Insurance Group plc ("Direct Line") confirms that during the year under review, it has acted in the way it considers would be most likely to promote the long-term success of the Company for the benefit of its members as a whole, whilst having regard to the matters set out in Section 172(1)(a)-(f) of the Companies Act 2006 ("Section 172(1)").

Purpose and Vision

The matters set out in Section 172(1) underpin Direct Line's purpose and vision and form the foundation for the Board's considerations and decision making. Our purpose – to help people carry on with their lives, giving them peace of mind now and in the future – is centred on customers and their long-term interests. Our vision – to create a world where insurance is personal, inclusive and a force for good – reflects our desire to do business in a way that benefits all stakeholders, the environment and wider society.

Stakeholders

Information on Direct Line's key stakeholders is set out in the Sustainability section of the Strategic report on the following pages: Customers, pages 51 to 53; People, pages 54 to 57; Society, pages 58 to 60; and the Planet, pages 61 to 65.

Engagement

The Board recognises that our stakeholders have diverse and sometimes competing interests that need to be finely balanced, and that these interests need to be heard and understood in order for them to be effectively reflected in decision making. Information about how the Board has engaged with stakeholders during the year and outcomes of that engagement can be found on page 107 in the table titled "How the Board engages with stakeholders".

Board decisions and oversight

Examples of how stakeholder engagement and Section 172(1) matters have influenced Board discussion and decision making during the year can be found in the table titled "Consideration of Section 172(1) factors by the Board" on pages 105 to 106. The table covers a number of key topics including: Consumer Duty implementation; the cost of living crisis; and the sale of the brokered commercial insurance business. The metrics and processes which the Board looks at to ensure that business practices and behaviours reflect the Company's culture, purpose and values, including the impact of decisions on key stakeholders, are set out on page 109. Information about Board oversight of environmental matters can be found on pages 70 to 71 in the TCFD Report.

The table below sets out where key disclosures in respect of each of the Section 172(1) matters can be found.

Section 172(1) factor	Relevant disclosures
the likely consequences of any decision in the long-term	Mission, vision, purpose and strategic objectives (page 22) Consideration of Section 172(1) factors by the Board (pages 105 to 106)
the interests of the Company's employees	Key performance indicators – Colleague engagement scores (page 25) Outcome of employee engagement (pages 108 to 109) Diversity and Inclusion (pages 112 to 113) How the Board engages with stakeholders (pages 107 to 108) Employee Representative Body (page 109)
the need to foster the Company's business relationships with suppliers, customers and others	Key performance indicators – NPS and customer complaints metrics (pages 53 and 25) Customer support (pages 51 to 53) Supply Chain (page 63) How the Board engages with stakeholders (pages 107 to 108)
the impact of the Company's operations on the community and the environment	Community Fund 2023 (page 58) Science-Based Targets (page 62) External ratings, memberships and benchmarks (page 69) TCFD disclosures (pages 70 to 85) How the Board engages with stakeholders (pages 107 to 108) Customer and Sustainability Committee report (pages 127 to 128)
the desirability of the Company maintaining a reputation for high standards of business conduct	Our values (page 22) The role of the Board in the Company's culture (page 103) Internal controls (pages 115 to 116)
the need to act fairly between members of the Company	Capital management (page 32) How the Board engages with stakeholders (pages 107 to 108) Shareholder voting rights (page 158) Annual General Meeting (page 259)

Business model

We cover a wide range of customer needs across personal and small commercial lines



Motor



Home



Van



Landlord



Rescue



Pet



Tradesperson



Business



Travel

We give our customers a choice of brands and channels

We know how to build brand value and have some of the most well-known brands in the UK

Our brands are available direct, and through price comparison websites ("PCW")

We also partner with other well-known brands



Privilege.

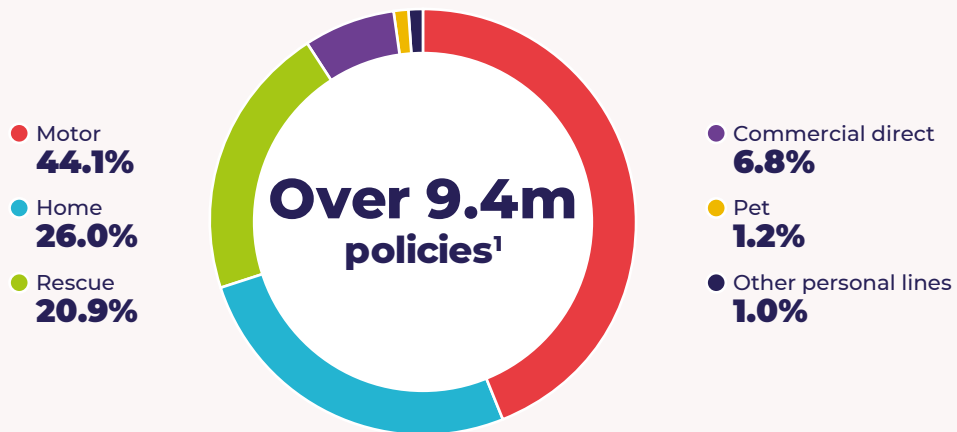
Darwin.

ONLY THE BEST GET THE GREEN FLAG

Together with



We are a fully focused retail personal and small commercial insurer with fundamental strengths



This is how we create value



Diversified model

Our diversified model enables us to generate premiums from a range of brands and products across retail personal and small commercial lines.

Accident repair centres

We own 23 accident repair centres, the largest network of any insurer, delivering lower repair costs and providing data-led insights, enabling us to react to emerging trends and helping inform our pricing.

Claims management

We have a deep specialism in claims handling and leveraged our claims management capabilities to win the partnership with Motability.

Balanced investment portfolio

The premiums we collect from customers are invested in a diversified investment portfolio designed to meet our long-term claims commitments whilst also generating investment returns. We seek to align our investment strategy with our sustainability strategy.

Cost control

We're focused on improving efficiency through greater use of digital processes across the business.

Capital management

We aim to manage capital efficiently and generate long-term sustainable returns for shareholders, while balancing operational, regulatory, rating agency, and policyholder requirements.

1. In-force policies as at 31 December 2023 excluding brokered commercial business and run-off partnerships.

Market Overview

Motor premium and claims inflation

The UK motor market continued to be affected by challenging conditions, driven by the impact of elevated inflation.

Premium inflation was significant in the year, as the market reacted to heightened claims inflation. The proportion of new motor insurance policies in the market rose, as consumers responded to a rise in premiums with increased shopping, resulting in a reduction in market retention rates.

Claims inflation remained elevated in 2023, albeit lower than the levels seen in 2022. In the second half of the year, several inflationary pressures began to moderate, which included the stabilisation of used car prices. Repair cost inflation remained elevated in the market, driven by higher labour costs.

Car usage was higher in the year with miles driven returning closer to pre-pandemic levels, leading to the market experiencing an increase in underlying claims frequency.

The Group responded with significant pricing action, as well as targeted action on its underwriting portfolio. We also continued to expand our repair network capabilities to repair vehicles as efficiently and economically as possible. See pages 40 to 41 for more information.

Home premium and claims inflation

The UK household market experienced strong premium inflation in 2023 driven by claims inflation, which included pressures from the severe freeze event in December 2022, and higher reinsurance pricing. These trends saw the volume of consumers shopping in the market increase.

The market experienced a number of weather events in the year, particularly in the fourth quarter, in which there was a high frequency of named weather events. Despite this, the impact of these events was smaller when compared to those experienced in 2022, partly due to the mitigating effect of reinsurance provided by Flood Re.

The Group focused on maintaining margins throughout the year, in line with market wide premium inflation, whilst growing its share of new business through the PCW channel. See pages 42 to 43 for more information.

Consumer trends

During 2023, the market focused on offering consumers access to a greater range of cover options during a period of high premium inflation and the cost of living crisis, which continues to see customers remaining price sensitive.

Elsewhere, consumers are placing increased importance on multi-channel, self-serve and digital journeys. In addition, the future of the electric vehicle landscape continues to see products and propositions evolve in the market.

In response to these trends, we have delivered greater product choice to customers, continued to make it easier for customers to engage with us through digital journeys and expanded our repair capacity and capabilities.



The Group welcomes the FCA's Consumer Duty, which aligns with our purpose to help people carry on with their lives, giving them peace of mind now and in the future.



Financial Conduct Authority Consumer Duty

The FCA's Consumer Duty came into effect on 31 July 2023 and introduced higher expectations for the standard of care that financial service firms should provide to customers, as well as introducing a more outcomes-focused approach.

The Group welcomes the FCA's Consumer Duty, which aligns with our purpose to help people carry on with their lives, giving them peace of mind now and in the future. As part of the implementation of Consumer Duty, we reviewed all our critical customer journeys, enhanced our methodology to put testing customer understanding at the heart of our thinking and embedded predicting customer harm in our ways of developing journeys and customer experience. Our new Riverbank House office in London, which was opened in August 2023, includes a purpose-built user experience testing facility where we can meet with customers to test new experiences and place customers at the heart of any changes we make.

Climate change

A focus on climate remains, with particular emphasis placed on how firms are assessing and managing longer-term climate-related risks. Increased importance is also being given to the communication of plans that companies have in place to support the transition to a low-carbon economy. This includes the actions that are being taken to progress against emission reduction targets and net zero aims. Furthermore, we continue to expect an increase in regulatory focus on how firms are managing climate-related financial risks, as well as how this is reported, supported by developments in reporting frameworks and disclosure requirements.

The Group continues to respond to climate change, and we take our responsibilities seriously in our assessment of climate-related risks to our business. Our disclosure against the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") (see pages 70 to 85) sets out our strategic response to climate change and reflects continued action to further develop our understanding and management of the associated risks and opportunities. The disclosure reports on the progress we have made in the year against our carbon emissions reduction targets, which were approved by the Science Based Targets initiative ("SBTI") in 2022.



In June 2023, the International Sustainability Standards Board (“ISSB”) issued its Sustainability Disclosure Standards, IFRS S1 and S2. The Standards are currently subject to UK endorsement, which is expected later in 2024. The TCFD’s monitoring responsibilities will be transferred to the ISSB from 2024. The Group welcomes the ISSB’s new Sustainability Disclosure Standards and appreciates the value the Standards will have in evolving the global baseline for climate-related reporting.

Solvency II reforms

In June 2023, HM Treasury published two draft statutory instruments allowing it to implement reform to the calculation of the risk margin, ahead of other proposed reforms to Solvency II in the UK. The revised calculation reduces the amount of risk margin that insurers must hold and applies to both general insurance business and long-term life insurance business, which includes Periodic Payment Orders (“PPOs”).

In December 2023, these regulations were laid before parliament and came into force on 31 December 2023.

In line with the Government’s legislative plans, the remainder of the regime reforms are expected later in 2024.

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The Group continues to respond to climate change, and we take our responsibilities seriously in our assessment of climate-related risks to our business.

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Strategy

Our mission is to be brilliant for customers every day

Our vision is to create a world where insurance is personal, inclusive and a force for good

Our purpose is to help people carry on with their lives, giving them peace of mind now and in the future

Our values

Our values shape the Group's strong and positive culture. They set the expectations for how we want our people to deliver in their role. Colleagues use these shared values as a set of guiding principles to help them to work together effectively, make good decisions, and deliver for our customers.



Win together

Nobody has all the answers. Think, act and win as one team to deliver great outcomes for our customers each and every day. Draw upon diverse skills and perspectives, testing and iterating as you go. Collaborate, communicate and be inclusive.



Be yourself

We want the real, whole you and value diverse perspectives, ideas and opinions. So feel confident and empowered. Believe in yourself as much as we do. Be you, have fun, and make this a great place to be.



Own it

Make it happen. Spot the opportunities, take the initiative and be accountable. Be brave, innovative and embrace new challenges, doing what's right not what's easy. Keep it simple and take risks in a positive way. Develop new skills, own your own career path and push your talent to the limit.



Speak up

We need different perspectives, so your input matters. Ask questions, make suggestions, raise concerns but be respectful and make the space to listen to others. Face into difficult conversations so we continue to evolve and improve.

Our core strengths and capabilities drive our strategy

Growth opportunities

We look to innovate for future success, be it developing new products, services and digital tools, to understanding the latest car tech or tackling climate change.

Core strengths

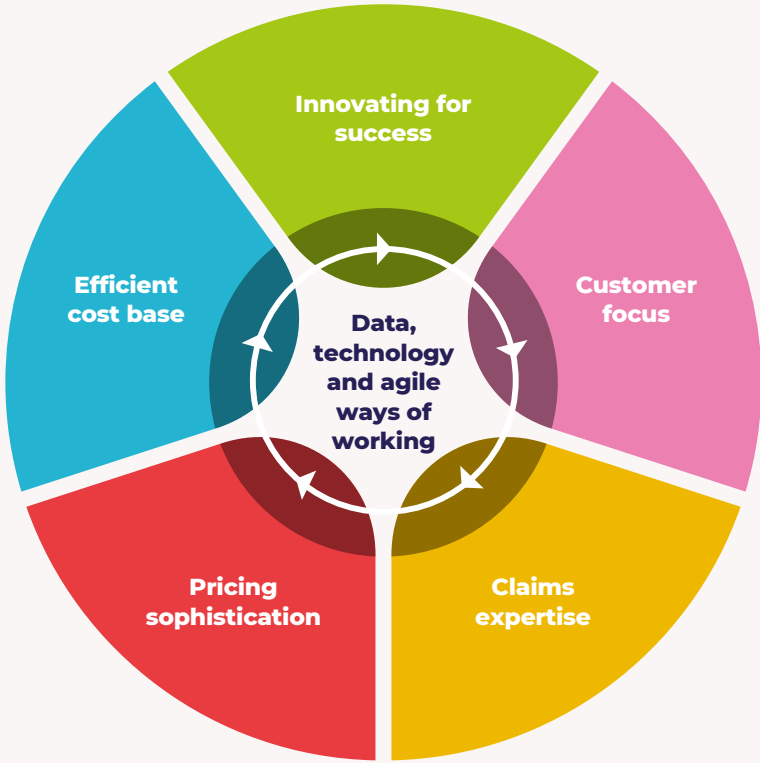
We have powerful, trusted brands with unique propositions and high customer retention.

We provide customers with a claims experience that combines leading capabilities and repair expertise which uses our network of 23 accident repair centres, the largest network of any UK insurer.

Enhanced capability

We are delivering easy digital-first journeys so if customers want the simplicity of managing their insurance online, they can. If they prefer the phone, we're there for them.

We can price at speed and with greater accuracy thanks to the combination of our historical data and new pricing systems.



Our sustainability pillars

We believe that by working sustainably we can create value for all our stakeholders. Our five pillar Sustainability Strategy supports our vision of creating a world where insurance is personal, inclusive and a force for good.



Customers



People



Society



Planet



Governance

Our key performance indicators

Net insurance margin - ongoing operations¹ ("NIM") (%)



Definition

A measure of financial year underwriting profitability. A positive NIM indicates profitable underwriting. The NIM is calculated by dividing the net insurance service result by net insurance revenue.

Aim

We aim to produce a profitable insurance service result and the Group has an ambition over time to generate a NIM of above 10%, normalised for weather.

For additional performance information see page 28

Remuneration

We base part of the Annual Incentive Plan ("AIP") awards on operating profit. The NIM is closely linked to this.

For additional performance information see pages 132 and 140

22 23

Operating loss per share - ongoing operations¹ (pence)



Definition

This is calculated by dividing the earnings attributable to shareholders less coupon payments in respect of Tier 1 notes and restructuring and one-off costs by the weighted average number of Ordinary Shares in issue.

Aim

We have not set a target. However, our aim is to grow operating earnings per share.

For additional performance information see page 31

Remuneration

We based the 2023 Long-term Incentive Plan ("LTIP") partly on operating earnings per share.

For additional performance information see page 143

22 23

Operating return on tangible equity ("Operating RoTE")¹ (%)



Definition

The return generated on the capital that shareholders have in the business. This is calculated by dividing adjusted operating earnings by average tangible equity.

Aim

We do not set a target. However our aim is to grow operating RoTE.

For additional performance information see page 31

Remuneration

We base the LTIP awards partly on adjusted RoTE over a three-year performance period.

For additional performance information see pages 132 and 143

22 23

(Loss)/profit before tax (£m)



Definition

A measure of overall profitability of the Group, including the insurance service result, investment return, net insurance finance result and other operating income, expenses and finance costs.

Aim

Profit before tax includes income and expenses that are outside of management control, although it does aim to operate profitably.

For additional performance information see page 27

Remuneration

We base part of the AIP awards on operating profit. Profit before tax is closely linked to this.

For additional performance information see pages 132 and 140

22 23

Notes:

- See glossary on pages 261 to 264 and Appendix A – Alternative performance measures on pages 265 to 266 for reconciliation to financial statement line items.

Changes to our KPIs in 2023

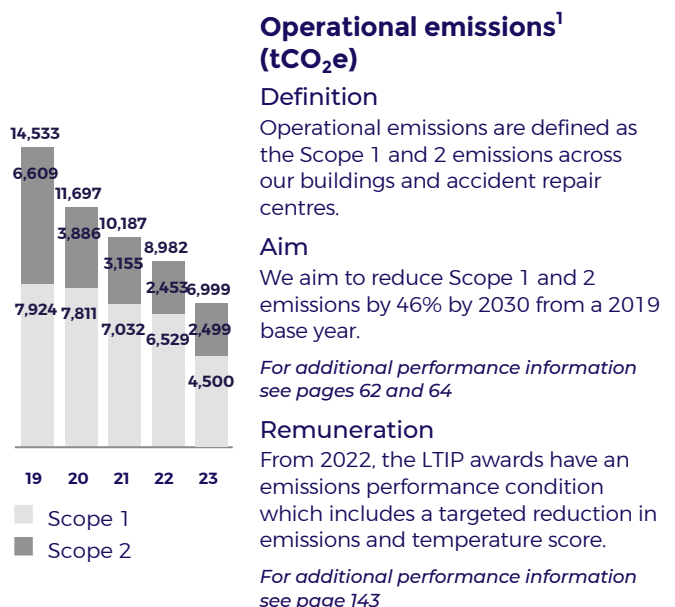
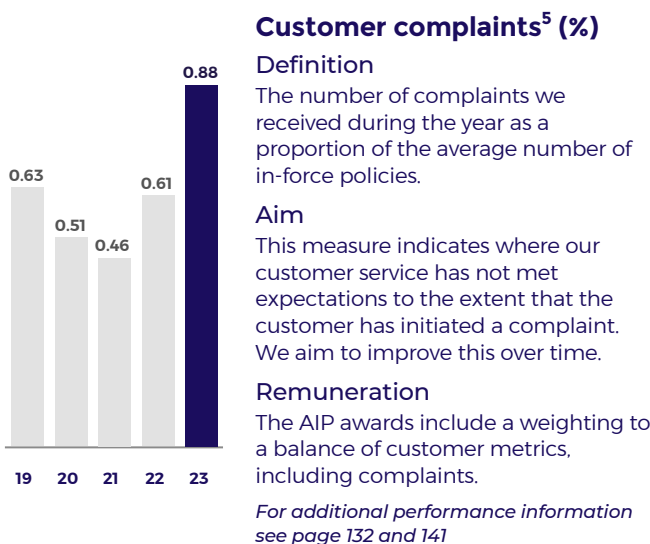
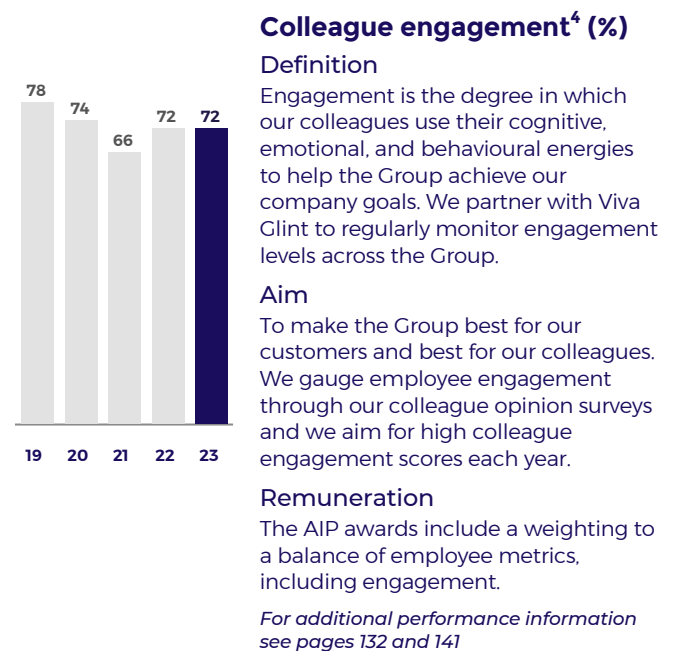
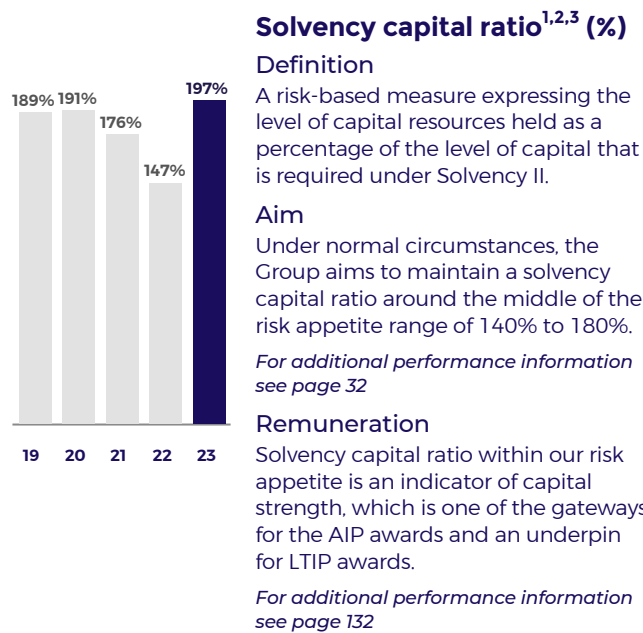
Our metrics are reviewed annually and updated as appropriate to ensure they remain an effective measure of delivery against our objectives. For 2023, the review of these metrics resulted in the following changes:

Following adoption of IFRSs 17 and 9, the Group no longer uses combined operating ratio to measure underwriting profitability and has, instead, adopted net insurance margin as it more closely resembles how the Group runs the business.

KPIs that have been impacted by the Group's adoption of IFRSs 17 and 9 have been restated for 2022. Earlier periods have not been recalculated and have not been reported. Comparative numbers will in due course be built back up to disclose five years of data.

In previous years the Group used earnings per share as one of its KPIs. As LTIP awards granted by the Group during 2023 included an operating earnings per share performance measure the KPI was updated to reflect the relationship to remuneration.

Net promoter score continues to be a key measure of performance and is disclosed on page 53.



2. The 2019 solvency capital ratio has been adjusted to remove the cancelled 14.4p final dividend and £120 million of the share buyback as announced in March/April 2020. (The reported number was a solvency capital ratio of 165%).

3. Estimates based on the Group's Solvency II partial internal model.

4. The methodology for determining colleague engagement changed in 2022 as a result of a change of survey provider. Engagement scores for the years 2018 to 2021 are presented on a consistent basis. The 2022 score was assessed against a benchmark score of 75% and is not directly comparable to the scores in 2021 and prior years.

5. For the Group's principal underwriter, U K Insurance Limited.



Neil Manser
Chief Financial Officer

CFO review

“

The Group's solvency capital ratio at the end of 2023 improved to 201%, following significant management action and benefiting from the sale of the Group's brokered commercial business.

”

Financial Summary

- Stable policy count overall as the introduction of over 700,000 new Motability customers offset lower policies elsewhere primarily in Motor and associated Rescue.
- Gross written premium and associated fees increased by 27.1% during 2023, with 46.2% growth in the second half.
- Net insurance margin of minus 8.3% was impacted by the continued earn through of Motor policies written during 2022 and first half of 2023. Outside of Motor, the Group delivered a good result and a net insurance margin of 12.2%.
- In Motor, premium rate increases contributed to a 5.8 percentage point improvement in the current year net insurance claims ratio in the second half of 2023. Motor policies written since August estimated to be in line with the Group's ambition of a net insurance margin of above 10%.
- Operating loss from ongoing operations of £189.5 million in 2023, compared to a loss of £6.4 million in 2022, with the adverse movement in the net insurance margin partially offset by an increase in investment income. The proceeds of the sale of the Group's brokered commercial business contributed to a profit before tax of £277.4 million, up from a loss before tax of £301.8 million in 2022.
- The Group's solvency capital ratio at the end of 2023 improved to 201%, following significant management action and benefiting from the sale of the brokered commercial business. A dividend of 4.0 pence per share is proposed, with the solvency capital ratio, post-dividend, equal to 197%.

Group financial performance

		2023	2022	Change
Ongoing operations¹				
In-force policies ² (thousands)		9,442	9,397	0.5%
		FY 2023	FY 2022	Change
	Notes	£m	£m (restated ³)	£m
Ongoing operations¹				
Gross written premium and associated fees ⁴		3,106.0	2,443.6	27.1%
Net insurance revenue ⁴		2,547.5	2,481.8	2.6%
Insurance service result		(211.8)	(23.5)	(188.3)
Net insurance margin ⁴		(8.3%)	(0.9%)	(7.4pts)
Combined operating ratio ⁴		108.3%	100.9%	(7.4pts)
Net insurance claims ratio ⁴		81.8%	74.9%	(6.9pts)
Net acquisition ratio ⁴		6.8%	7.0%	0.2pts
Net expense ratio ⁴		19.7%	19.0%	(0.7pts)
Normalised net insurance margin ⁴		(9.6%)	1.7%	(11.3pts)
Investment income		141.8	94.1	50.7%
Unwind of discounting of claims ⁴		(118.7)	(50.4)	(68.3)
Other operating income and expenses before restructuring and one-off costs		(0.8)	(26.6)	97.0%
Operating loss - ongoing operations^{1 4}		(189.5)	(6.4)	(183.1)
Of which:				
Current-year operating (loss)/profit ⁴		(43.8)	(41.8)	(2.0)
Prior-year reserve development		(145.7)	35.4	(181.1)
FV gains/(losses) ⁴		124.4	(342.5)	136.3%
Effect of change in yield curve ⁴		(25.5)	60.7	(142.0%)
Restructuring and one-off costs		(59.5)	(45.3)	(31.3%)
Brokered commercial business		27.6	62.9	(56.1%)
Run-off partnerships ¹		(29.5)	(10.8)	(18.7)
Other finance costs		(14.5)	(20.4)	28.9%
Gain on disposal of business		443.9	—	0.0%
Profit/(loss) before tax		277.4	(301.8)	579.2
Tax (charge)/credit		(54.5)	69.9	(124.4)
Profit/(loss) for the year attributable to the owners of the Company		222.9	(231.9)	454.8
KPIs				
Operating return on tangible equity ⁴		(14.9%)	(2.7%)	(12.2pts)
Basic earnings/(loss) per share (pence)	10	15.9	(19.1)	35.0
Diluted earnings/(loss) per share (pence)	10	15.7	(19.1)	34.8
Operating loss per share (pence)		(12.8)	(2.7)	(10.1)
Return on equity annualised ⁴	11	10.6%	(11.6%)	22.2pts
Investments metrics				
Investment income yield ⁴		3.5%	2.1%	1.4pts
		2023	2022	Change
Capital and returns metrics				
Dividend per share - total ordinary (pence)		4.0	7.6	(47.4%)
Net asset value per share (pence)	11	158.6	142.1	11.6%
Tangible net asset value per share (pence)		95.5	78.8	21.2%
Solvency capital ratio - post dividend ⁵		197%	147%	50pts

Notes:

- Ongoing operations and run-off partnerships – See glossary on pages 261 to 264 for definitions and appendix A – Alternative Performance Measures on pages 265 to 268 for reconciliation to financial statement line items.
- In-force policies as at 31 December 2022 have been restated to remove 14,500 Commercial policies that were previously included in the reported amounts in error.
- Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
- See glossary on pages 261 to 264 for definitions and appendix A – Alternative Performance Measures on pages 265 to 268 for reconciliation to financial statement line items
- Estimates based on the Group's Solvency II partial internal model.

Group financial performance

Ongoing operations ¹	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022	
In-force policies (thousands) ^{2,3}	9,442	9,518	9,071	9,228	9,397	
				FY 2023 £m	FY 2022 £m restated ⁴	Change
Gross written premium and associated fees ^{2,4}				3,106.0	2,443.6	27.1%
Insurance service result						
Motor				(331.6)	(70.7)	(369.0%)
Home				50.2	(3.5)	1534.3%
Rescue and other personal lines - ongoing operations ¹				42.0	55.7	(24.6%)
Commercial				27.6	(5.0)	652.0%
Insurance service result - total ongoing operations				(211.8)	(23.5)	(801.3%)
Net investment income				141.8	94.1	50.7%
Unwind of discounting of claims ⁵				(118.7)	(50.4)	(135.5%)
Other operating income and expenses before restructuring and one-off costs				(0.8)	(26.6)	97.0%
Operating (loss)/profit - ongoing operations⁵				(189.5)	(6.4)	(2860.9%)
Net insurance margin⁵				(8.3%)	(0.9%)	(7.4pts)
Net insurance claims ratio ⁵				81.8%	74.9%	(6.9pts)
Current-year attritional net insurance claims ratio ⁵				75.1%	71.3%	(3.8pts)
Prior-year reserves development ratio ⁵				5.7%	(1.4%)	(7.1pts)
Major weather events ratio ⁵				1.0%	5.0%	4.0pts
Net acquisition ratio ⁵				6.8%	7.0%	0.2pts
Net expense ratio ⁵				19.7%	19.0%	(0.7pts)
Normalised net insurance margin⁵				(9.6%)	1.7%	(11.3pts)

IFRS17 and description of operating (loss)/profit

This is the first set of annual results that the Group is reporting under IFRS 17, the new insurance accounting standard for insurance contracts. Although the new standard does not change the economics of the Group, it does introduce new disclosure headings and some changes in timing of recognition. For example, insurance claims are now all discounted to reflect the time value of money.

The table above sets out the Group's operating loss for ongoing operations. Significant items excluded from operating loss for ongoing operations include the results from certain partnerships that are now in run-off, the results from the brokered commercial business, the sale of which we announced in September, fair value movements on investments and the effect of changes of discount rates on brought forward claims reserves. These items are discussed later in this report.

2023 performance

Overall, gross written premium grew by 27.1% in 2023 however, operating profit was adversely affected by the earn through of below target margin Motor policies that were written in 2022 and the first half of 2023, alongside remediation provisions arising from past business reviews. Outside of Motor, results in Home, Rescue and Commercial were good and benefited from relatively benign weather conditions. Net investment income improved due to the effect of higher interest rates and this was largely offset by an increase in the unwinding of previous periods discounting. Overall operating loss for ongoing operations was £190 million, split between an operating loss of £319.6 million in Motor and an operating profit of £130.1 million outside of Motor.

In-force policies and gross written premium and associated fees^{1,2}

In-force policies from ongoing operations were 9.4 million at the end of December, in line with the end of 2022 as the introduction of over 700,000 new Motability customers offset a reduction in the number of own brand policies. Own brand policy reductions were largest in Motor, where we strongly increased premiums to achieve target margins. This also led to a reduction in linked Rescue policies.

Gross written premium and associated fees from ongoing operations grew by 27.1% to £3,106.0 million predominantly due to premium rate increases and the contribution from the Motability partnership delivering strong growth of 42.9% in Motor, 10.1% in Commercial and 6.4% in Home, offset by a small decline in Rescue and other personal lines.

Total Group in-force policies were 12.0 million which was in line with 2022, and gross written premium and associated fees was £3,921.9 million compared with £3,098.4 million in 2022.

Insurance service result¹

In 2023, the Group's net insurance margin was minus 8.3% (2022: minus 0.9%) and normalised for weather, it was minus 9.6% (2022: 1.7%). This represents an insurance service result from ongoing operations of a loss of £211.8 million (2022: £226.6 million), compared with a loss of £23.5 million in 2022.

Ongoing operations (£m)	2023	2022	Variance
Insurance service result	(211.8)	(23.5)	(188.3)
Of which:			
Motor - current year	(193.2)	(75.0)	(118.2)
Motor - prior year	(138.4)	4.3	(142.7)
Home	50.2	(3.5)	53.7
Rescue and other personal lines	42.0	55.7	(13.7)
Commercial	27.6	(5.0)	32.6

This £188.3 million deterioration in the ongoing operations insurance service result was predominantly driven by Motor, with prior year strengthening alongside an adverse movement in current year reflecting the earn through of lower margin business. This was partially offset by more benign weather conditions helping deliver a £53.7 million improvement in Home's profitability, alongside a recovery in the Commercial result.

We are currently conducting two past business reviews and approximately £104 million was recognised for these in 2023. Excluding these provisions, the net insurance margin would have been 4.1 percentage points better.

Impact of past business reviews on reported net insurance margin

	Ongoing operations		Motor		Home	
	2023	2022	2023	2022	2023	2022
Total loss £m	78	28	78	28	—	—
Pricing practices £m	26	18	14	13	12	5
Total remediation provisions £m	104	46	92	41	12	5
Reported net insurance margin	(8.3)%	(0.9)%	(21.1)%	(4.8)%	10.0 %	(0.8)%
Remediation impact (pts)	4.1 pts	1.8 pts	5.9 pts	2.8 pts	2.1 pts	1.1 pts
Adjusted net insurance margin	(4.2)%	0.9 %	(15.2)%	(2.0)%	12.1 %	0.3 %

The insurance service result for Motor was a £331.6 million loss (2022: £70.7 million loss) with a 15.9pts increase in the Motor net insurance claims ratio. This reflected the earn through of below target margin business written during 2022 and in the first half of 2023, alongside adverse experience on prior-year reserves. Performance improved in the second half of 2023, with the net current year claims ratio 5.8 percentage points better than the first half of 2023 as higher premiums from rate increases started to earn through, together with a more stable claims environment.

Outside of Motor, our other ongoing business areas delivered a good set of results, with a cumulative insurance service result of £119.8 million across Home, Rescue and other personal lines and Commercial (2022: £47.2 million) and a net insurance margin of 12.2% (2022: 4.7%).

Overall, the Group delivered a net insurance claims ratio from ongoing operations of 81.8% (2022: 74.9%).

The current year attritional claims ratio increased by 3.8pts to 75.1% primarily driven by a 6.8pts increase in Motor. Outside of Motor, Home and Rescue and other personal lines saw modest increases in their current year attritional claims ratios, offset by a significant improvement in Commercial.

Weather-related claims for ongoing operations in the year were £27 million, less than our 2023 assumption for ongoing operations of £59 million and £122 million lower than prior year. Our 2024 weather-related claims assumption for Home and Commercial combined is £62 million.

Prior-year reserve movements were impacted by a £138.4 million reserve strengthening in Motor which included a £78 million increase in the cost for the remediation from the total loss past business review. This delivered a deterioration in the prior-year reserve movement from ongoing operations from a release of £35.4 million in 2022 to a strengthening of £146 million in 2023. Outside of Motor, Home saw a £8.9 million release, but this was offset by a strengthening within the Commercial Van product. As previously set out, the opportunity for prior-year reserve releases in the short term remains low.

The net acquisition ratio from ongoing operations decreased by 0.2pts to 6.8%, as a reduction in marketing costs was only partially offset by an increase in commissions. The expense ratio from ongoing operations increased by 0.7pts to 19.7% primarily due to higher amortisation and depreciation costs as well as underlying inflation in IT and other costs. Staff costs increased by less than wage inflation.

In 2024 we expect the expense ratio for ongoing operations will be broadly stable.

Expenses in insurance service result

	FY 2023	FY 2022 (restated) ³
	£m	£m
Commission expenses	(111.1)	(95.9)
Marketing	(62.7)	(77.9)
Acquisition expenses	(173.8)	(173.8)
Staff costs ⁶	(194.6)	(188.6)
IT and other operating expenses ^{6,7}	(102.9)	(85.6)
Insurance levies	(81.2)	(83.0)
Depreciation, amortisation and impairment of intangible and fixed assets ⁸	(123.4)	(114.9)
Operating expenses	(502.1)	(472.1)
Total expenses - ongoing operations	(675.9)	(645.9)
partnerships	(24.5)	(23.2)
Total expenses	(907.9)	(871.0)
Net acquisition ratio ⁵ - ongoing operations	6.8%	7.0%
Net acquisition ratio ⁵ - total Group	9.3%	9.7%
Net expense ratio ⁵ - ongoing operations	19.7%	19.0%
Net expense ratio⁵ - total Group	19.7%	18.7%

Investment result and unwind of discount rate¹

Net investment income increased to £141.8 million (2022: £94.1 million) primarily driven by yield improvements in variable rate asset classes benefiting from a rising interest rate environment. This represents an investment income yield of 3.5%. Based on current yields, we estimate an investment income yield of around 3.8% for 2024 and 3.9% for 2025.

	FY 2023 £m	FY 2022 £m restated ⁴
Investment income	149.1	101.9
Investment fees	(7.3)	(7.8)
Net investment income	141.8	94.1
Insurance and reinsurance finance expenses - unwind of discounting of claims	(118.7)	(50.4)
Finance income and expenses in operating profit	23.1	43.7
	FY 2023	FY 2022
Investment income yield (total Group)	3.5%	2.1%

The increase in investment income was offset by an increase in the unwind of the discounting of claims. The unwinding of prior-period discounting in 2024 is expected to be similar to 2023.

Reconciliation of operating (loss)/profit to basic earnings/(loss) per share

	Note	FY 2023 £m	FY 2022 £m restated ⁴
Motor		(319.6)	(64.8)
Home		52.4	0.9
Rescue and other personal lines - ongoing operations ¹		48.0	60.1
Commercial		29.7	(2.6)
Operating loss - ongoing operations¹		(189.5)	(6.4)
Operating profit - brokered commercial business ¹		27.6	62.9
Operating loss - run-off partnerships ¹		(29.5)	(10.8)
Operating (loss)/profit - total Group		(191.4)	45.7
Restructuring and one-off costs		(59.5)	(45.3)
Net fair value gains/(losses) ⁵		124.4	(342.5)
Net insurance finance income - effect of change in yield curve		(25.5)	60.7
Other finance costs		(14.5)	(20.4)
Gain on disposal of business	9	443.9	—
Tax (charge)/credit		(54.5)	69.9
Profit/(loss) for the year attributable to the owners of the Company		222.9	(231.9)
Basic earnings/(loss) per share (pence)	13	15.9	(19.1)
Operating return on tangible equity annualised⁵		(14.9%)	(2.7%)

Ongoing operations and run-off segments¹

The Group has excluded the results of the brokered commercial business and three run-off partnerships from its ongoing results.

Results relating to ongoing operations are clearly referenced. Note 4 (Segmental analysis) has also been amended to reflect the change. The insurance service result including run-off segments was a loss of £251.4 million (2022: £14.3 million profit).

Brokered commercial business

The Group has excluded the results of the brokered commercial business from its ongoing results and has restated all relevant comparatives across this review. We agreed the transfer of the Group's brokered commercial lines insurance business and associated partnerships to Royal and Sun Alliance Insurance Limited with effect from 1 October 2023 through a combination of quota share reinsurance and a form of renewal rights transfer. As a result, the economic effect of the brokered commercial insurance business moved to Royal and Sun Alliance Insurance Limited and the back book of policies has remained with the Group. The operating profit relating to the brokered commercial business in 2023 was £27.6 million (2022: £62.9 million). The formal separation and operational transfers are expected to start in the second quarter of 2024, with subsequent transfers of outstanding elements of the overall brokered commercial insurance business to follow.

Run off partnerships

These partnerships are in Travel and Rescue and have either been exited or termination has been initiated. This will reduce the Group's exposure to low margin packaged bank accounts so it can redeploy capital to segments with higher return opportunities. The two Travel partnerships were with NatWest Group and Nationwide Building Society and expire in 2024. The Rescue partnership was with NatWest Group and expired in December 2022. The operating loss relating to run off partnerships in 2023 was £29.5 million (2022: £10.8 million loss).

Net fair value gains/(losses)

Net fair value gains in the period were £124.4 million, a significant improvement on 2022 reflecting the tightening of credit spreads and interest rate movements. Fair value gains on debt securities, derivatives and investment property was £125.0 million (2022: £341.9 million loss).

Net insurance finance income

The net insurance finance expenses reflects the effect of changes in the yield curve and the ASHE index on the discounting of previously recognised PPO claims.

Restructuring and one-off costs

The Group incurred £59.5 million of restructuring and one-off costs in 2023, which were predominantly driven by work carried out in relation to the Group's two past business reviews, cost efficiency initiatives and impairments.

Gain on disposal of brokered commercial business

In 2023 the Group announced the sale of its brokered commercial business for a consideration of £520 million, which was received by the Group in October. After deducting £76.1 million for transaction costs, disposal of assets, and asset impairment, this resulted in a gain on disposal of £443.9 million.

Other finance costs

Other finance costs fell to £14.5 million (2022: £20.4 million) primarily as a result of the redemption of the Group's £250 million 9.25% Tier 2 subordinated notes on 27 April 2022.

Effective corporation tax rate

The Effective Tax Rate ("ETR") for 2023 was 19.6% (2022: 23.2%), which was lower than the standard UK corporation tax rate of 23.5% (2022: 19.0%). This was driven primarily by the offset of capital losses brought forward, which had not previously been recognised in deferred tax, together with tax relief for coupon payments on the Group's Tier 1 notes, which are accounted for as a distribution, partly offset by disallowable expenses and the tax effect of a property revaluation.

Due to the offset of capital losses against the capital gain arising on the sale of the brokered commercial business in 2023, the ETR is lower than the restated ETR for 2022, which reflected the rate differential between the in-force corporation tax rate for 2022 of 19% and future enacted tax rates (25% from 1 April 2023) on tax adjustments arising on transition from IFRS 4 to IFRS17 and IFRS9 to be relieved in subsequent periods at higher standard tax rates.

Operating return on tangible equity^{1,5}

The operating return on tangible equity decreased by 12.2pts to minus 14.9% (2022: minus 2.7%) due primarily to the decrease in the Group's operating profit from ongoing operations.

Earnings/(loss) per share

The basic earnings per share for period was 15.9 pence (2022: loss of 19.1 pence). Diluted earnings per share were also 15.7 pence (2022: loss of 19.1 pence), mainly reflecting an increase in the Group's post tax loss for the calculation of earnings per share in 2023. Operating loss per share was 12.8 pence (2022: loss of 2.7 pence).

The financial performance of the Group is discussed in detail on pages 28 to 32. The calculation of earnings/(loss) per share is presented in note 13 on page 220. The calculation of operating earnings/(loss) per share is presented on page 268.

Notes:

- Ongoing operations – See glossary on pages 261 to 264 for definitions and appendix A – Alternative Performance Measures on pages 265 to 266 for reconciliation to financial statement line items.
- See appendix B for additional data on in-force policies and gross written premium and associated fees.
- In-force policies as at 31 December 2022 and 31 March 2023 have been restated to remove 14,500 and 19,700 Commercial policies respectively that were previously included in the reported amounts in error.
- Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
- See glossary on pages 261 to 264 for definitions and appendix A – Alternative performance measures on pages 265 to 266 for reconciliation to financial statement line items.
- Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
- IT and other operating expenses include professional fees and property costs.
- Includes right-of-use ("ROU") assets and property, plant and equipment. For the year ended 31 December 2023, there were no impairment charges which relate solely to own occupied freehold property (2022: no impairments).

Cash flow

		2023	2022
		£m	£m
	Note		restated ¹
Net cash generated from operating activities		404.9	800.2
Of which:			
Operating cash flows before movements in working capital		(284.6)	26.7
Movements in working capital		416.6	49.6
Tax paid		(30.9)	(44.5)
Cash generated from investment of insurance assets		304.4	768.1
Net cash generated from/ (used in) investing activities		398.3	(100.8)
Net cash used in financing activities		(51.8)	(657.5)
Net increase in cash and cash equivalents	25	751.4	41.9
Cash and cash equivalents at the beginning of the year		938.4	896.5
Cash and cash equivalents at the end of the period	25	1,689.8	938.4

Note:

- Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

The Group's cash and cash equivalents increased by £751.4 million during the year (2022: £41.9 million increase) to £1,689.8 million.

The Group had an operating cash outflow before movements in working capital of £284.6 million (2022: inflow £26.7 million), a reduction of £311.3 million due to an increase in non-cash movements. After taking into account movements in working capital, the Group's cash inflow was £100.5 million (2022: outflow £32.1 million), an increase of £68.4 million. The Group has considerable assets under management, the cash generated from these assets decreased by £463.7 million to £304.4 million as proceeds from the disposal and maturity of debt securities held at fair value through profit or loss ("FVTPL") exceeded purchases. Net cash generated from operating activities was £404.9 million (2022: £800.2 million).

Net cash generated from investing activities of £398.3 million primarily reflected net proceeds from the sale of the brokered commercial business of £469.7 million, offset with the Group's continuing investment in its major IT programmes (2023: £124.1 million, 2022: £108.4 million).

Net cash used in financing activities of £51.8 million included £16.6 million in Tier 1 capital coupon payments and £nil in dividends in the year (2022: £314.5 million in dividends and Tier 1 capital coupon payments), £nil in share buybacks (2022: £50.1 million) and £10.8 million (2022: £8.9 million) lease principal payments. Also included in 2022 was the redemption of the remaining £250.0 million Tier 2 subordinated debt issued in 2012.

The £404.9 million the Group generated from operating activities and £398.3 million generated from investing activities more than offset net cash used in financing activities and resulted in a net increase in cash and cash equivalents of £751.4 million (2022: £41.9 million increase) to £1,689.8 million (2022: £938.4 million). The sale of the Groups brokered commercial business contributed £469.7 million to the net increase in cash and cash equivalents. The levels of cash and other highly liquid sources of funding that the Group holds to cover its claims obligations are continually monitored with the objective of ensuring that the levels remain within the Group's risk appetite.

Balance sheet management

Capital management and dividend policy

The Group's capital management and dividend policy is as follows:

"The Group aims to manage its capital efficiently and generate long-term sustainable value for shareholders, while balancing operational, regulatory, rating agency and policyholder requirements.

"The Group aims to grow its regular dividend in line with business growth.

"Where the Board believes that the Group has capital which is expected to be surplus to the Group's requirements for a prolonged period, it intends to return any surplus to shareholders. In normal circumstances, the Board expects that a solvency capital ratio around the middle of its risk appetite range of 140% to 180% of the Group's solvency capital requirement ("SCR") would be appropriate and it will therefore take this into account when considering the potential for special distributions.

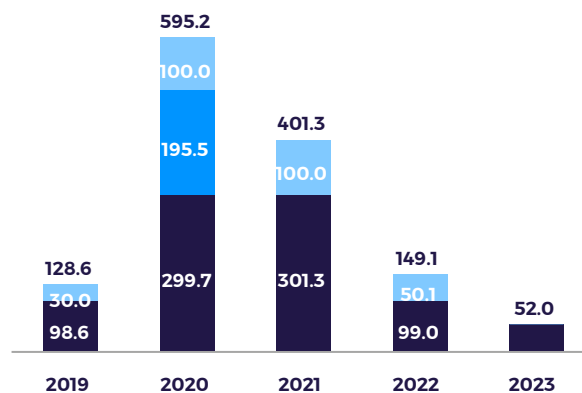
"In the normal course of events the Board will consider whether or not it is appropriate to distribute any surplus capital to shareholders once a year, alongside the full year results.

"The Group expects that one third of the annual dividend will generally be paid in the third quarter as an interim dividend, and two thirds will be paid as a final dividend in the second quarter of the following year. The Board may revise the dividend policy from time to time. The Company may consider a special dividend and/or a repurchase of its own shares to distribute surplus capital to shareholders."

The Board is proposing a dividend in respect of 2023 of 4.0 pence per share (£52 million) reflecting the Group's strong capital position following the sale of the brokered commercial business and good performance in Home, Commercial and Rescue. While the Board is confident in the actions taken in Motor, it recognises that the period over which to judge the sustainability of Motor's capital generation has been short and consequently this dividend should not be regarded as a resumption of regular dividends. The Board will update on any changes to its dividend policy, alongside the conditions it has previously set to consider restarting regular dividends, in July to coincide with its planned strategy update.

The final dividend is to be recommended to the shareholders at the annual general meeting scheduled for 8 May 2024 and paid on 17 May 2024 to shareholders on the register on 5 April 2024. The ex-dividend date will be 4 April 2024.

Capital Returns (£million)



- Ordinary dividends
- Special dividends
- Buyback programmes

Capital analysis

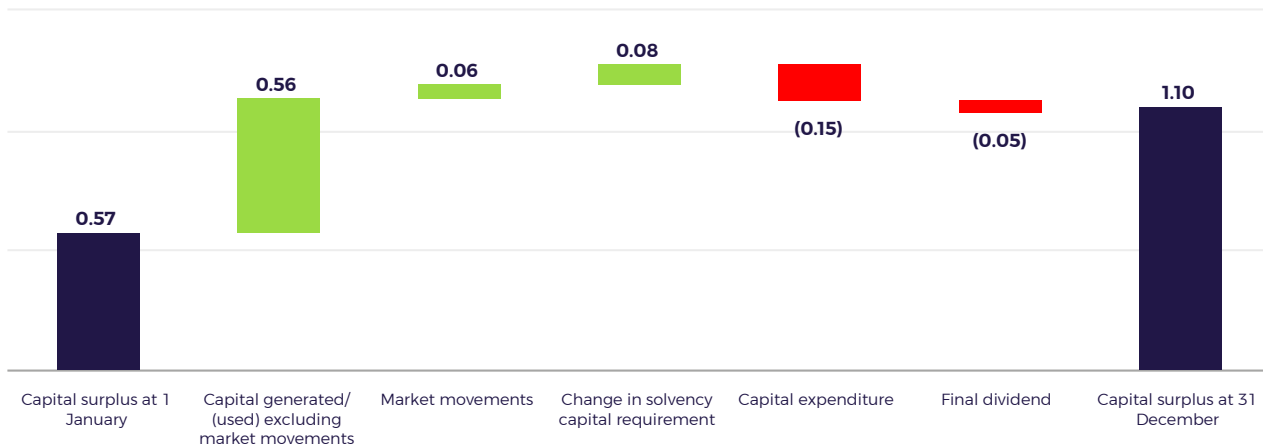
The Group is regulated under Solvency II requirements by the PRA on both a Group basis and for the Group's principal underwriter, U K Insurance Limited. In its results, the Group has estimated its Solvency II own funds, SCR and solvency capital ratio as at 31 December 2023.

Capital position

At 31 December 2023, the Group held a Solvency II capital surplus of £1.10 billion above its regulatory capital requirements, which was equivalent to an estimated solvency capital ratio of 197%

At 31 December	2023	2022
Solvency capital requirement (£ billion)	1.13	1.21
Capital surplus above solvency capital requirement (£ billion)	1.10	0.57
Solvency capital ratio post-dividends	197%	147%

Movement in capital surplus (£bn)



Movement in capital surplus

	2023 £bn	2022 £bn
Capital surplus at 1 January	0.57	1.03
Capital generated/(used) excluding market movements	0.56	(0.06)
Market movements	0.06	(0.12)
Capital generated/(used)	0.62	(0.18)
Change in solvency capital requirement	0.08	0.14
Surplus generated/(used)	0.70	(0.04)
Capital expenditure	(0.15)	(0.12)
Repayment of subordinated Tier 2 notes	–	(0.25)
Interim dividend	–	(0.10)
Final dividend	(0.05)	–
Removal of second tranche of share buyback	–	0.05
Decrease in ineligible Tier 3 capital	0.03	–
Net surplus movement	0.53	(0.46)
Capital surplus at 31 December	1.10	0.57

Note:

1. At 31 December 2023, no ineligible Tier 3 capital arose as the Group's available Tier 3 capital was under the amount permitted under the Solvency II regulations (15% of the Group's SCR). At 31 December 2022, ineligible Tier 3 capital arose as the Group's Tier 3 capital was above the amount permitted under the Solvency II regulations.

During 2023, the Group generated £0.62 billion of Solvency II capital after market movements, supported by the proceeds of the sale of the Group's brokered commercial business. After capital expenditure of £0.15 billion the net surplus for the year increased by £0.53 billion.

Notes:

- Sensitivities are calculated on the assumption that full tax benefits can be realised.
- The periodic payment order ("PPO") inflation assumption used is an actuarial judgement which is based on a range of factors including the economic outlook for wage inflation relative to the PRA discount rate curve excluding any change in discount rate. Scenario updated to the latest PPO inflation assumptions with discount rates held constant.
- Includes only the impact on assets held at FVTPL (excludes assets held at amortised cost) and assumes no change to the SCR.
- Scenario updated to latest PPO inflation assumptions and to include change in expected investment return on cash holdings. The 2022 sensitivity has been restated on a like for like basis.

Change in solvency capital requirement

	2023 £bn
Solvency capital requirement at 1 January	1.21
Model and parameter changes	0.07
Exposure changes	(0.03)
Adjustments relating to the sale of the brokered commercial insurance business	(0.12)
Solvency capital requirement at 31 December	1.13

During 2023, the Group's SCR reduced by £0.08 billion to £1.13 billion, primarily due to the sale of the Group's brokered commercial business, partially offset by higher reserve risk.

Scenario and sensitivity analysis¹

The following table shows the impact on the Group's estimated solvency capital ratio in the event of the following scenarios as at 31 December 2023. The impacts on the Group's solvency capital ratio arise from movements in both the Group's SCR and own funds.

At 31 December	Impact on solvency capital ratio	
	2023	2022
Deterioration of small bodily injury motor claims equivalent to that experienced in 2008/09	(5pts)	(5pts)
One-off catastrophe loss equivalent to the 1990 storm "Daria"	(9pts)	(10pts)
One-off catastrophe loss based on extensive flooding of the River Thames	(7pts)	(10pts)
Increase in Solvency II inflation assumption for PPOs by 100 basis points ²	(15pts)	(10pts)
100bps increase in credit spreads ³	(5pts)	(5pts)
100bps decrease in interest rates with no change in the PPO discount rate ⁴	(6pts)	(2pt)

Own funds

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

	2023	2022
At 31 December	£bn	£bn
Tier 1 capital – unrestricted	1.59	1.07
Tier 1 capital – restricted	0.32	0.32
Less reclassified restricted Tier 1 debt ¹	–	(0.05)
Eligible Tier 1 capital	1.91	1.34
debt ¹	0.22	0.26
Tier 3 capital – deferred tax	0.10	0.21
Ineligible Tier 3 capital ²	–	(0.03)
Total eligible own funds	2.23	1.78

Notes:

- As at 31 December 2023, none (31 December 2022: £51 million) of the Group's restricted Tier 1 capital was reclassified as Tier 2 due to Solvency II tiering restrictions.
- At 31 December 2023, no ineligible Tier 3 capital arose as the Group's available Tier 3 capital was under the amount permitted under the Solvency II regulations (15% of the Group's SCR). At 31 December 2022, ineligible Tier 3 capital arose as the Group's Tier 3 capital was above the amount permitted under the Solvency II regulations.

During 2023, the Group's eligible own funds increased from £1.78 billion to £2.23 billion. Eligible Tier 1 capital after foreseeable distributions represents 86% of own funds and 169% of the estimated SCR. Tier 2 capital relates to the Group's £0.22 billion subordinated debt with no ineligible Tier 1 capital.

The maximum amount of Restricted Tier 1 capital permitted as a proportion of total Tier 1 capital under the Solvency II regulations is 20%. Restricted Tier 1 capital relates solely to the Tier 1 notes issued in 2017.

The amount of Tier 2 and Tier 3 capital permitted under the Solvency II regulations is 50% of the Group's SCR and the amount of Tier 3 alone is 15% of the Group's SCR. The Group has no ineligible Tier 3 own funds.

Reconciliation of IFRS shareholders' equity to Solvency II eligible own funds (£bn)



- Tier 1 capital unrestricted
- Tier 1 capital restricted
- Tier 1 debt and Tier 2
- Tier 3 capital – deferred tax

Reconciliation of IFRS shareholders' equity to Solvency II eligible own funds

	2023	2022
At 31 December	£bn	£bn
Total shareholders' equity	2.06	1.93
Goodwill and intangible assets	(0.82)	(0.82)
Change in valuation of technical provisions	0.43	–
Other asset and liability adjustments	(0.03)	(0.04)
Foreseeable dividend	(0.05)	–
Tier 1 capital – unrestricted	1.59	1.07
Tier 1 capital – restricted	0.32	0.32
Less reclassified restricted Tier 1 debt ¹	–	(0.05)
Eligible Tier 1 capital	1.91	1.34
Tier 2 capital – reclassified restricted Tier 1 debt and Tier 2 subordinated debt ¹	0.22	0.26
Tier 3 capital – deferred tax	0.10	0.21
Ineligible Tier 3 capital ²	–	(0.03)
Total eligible own funds	2.23	1.78

Notes:

- As at 31 December 2023, none (31 December 2022: £51 million) of the Group's restricted Tier 1 capital was reclassified as Tier 2 due to Solvency II tiering restrictions.
- At 31 December 2023, no ineligible Tier 3 capital arose as the Group's available Tier 3 capital was under the amount permitted under the Solvency II regulations (15% of the Group's SCR). At 31 December 2022, ineligible Tier 3 capital arose as the Group's Tier 3 capital was above the amount permitted under the Solvency II regulations.

Investment portfolio

Our investment strategy aims to deliver several objectives, which are summarised below:

- to ensure there is sufficient liquidity available within the investment portfolio to meet stressed liquidity scenarios;
- to match PPOs and non-PPOs liabilities in an optimal manner; and
- to deliver a suitable risk-adjusted investment return commensurate with our risk appetite.

The current strategic asset allocation is being reviewed given the changed macro-economic environment and resulting shifts in investment risk and return opportunities.

Asset and liability management

The following table summarises the Group's high-level approach to asset and liability management.

Liabilities	Assets	Characteristics
More than 10 years, for example PPOs	Property and infrastructure debt	Inflation linked or floating
Short and medium term - all other claims	Investment-grade credit	Fixed - key rate duration matched
Tier 1 equity	Investment-grade credit	Fixed
Tier 2 sub-debt	Commercial real estate loans and cash	Floating
Tier 2 sub-debt fixed	Investment-grade credit and cash	Fixed or floating
Surplus - tangible equity	Investment-grade credit, short-term high yield, cash and government debt securities	Fixed or floating

Asset allocation and benchmarks - U K Insurance Limited

The current strategic benchmarks for U K Insurance Limited are detailed in the following table:

	Benchmark Holding	Actual Holding	Benchmark Holding	Actual Holding
	2023	2023	2022	2022
Investment-grade credit	60.0 %	43.8 %	66.0 %	49.5 %
High yield	6.0 %	5.4 %	6.0 %	5.8 %
Investment-grade private placements	0.0 %	1.4 %	3.0 %	2.1 %
Credit	66.0 %	50.6 %	75.0 %	57.4 %
Sovereign	10.0 %	13.0 %	3.0 %	10.7 %
Total debt securities	76.0 %	63.6 %	78.0 %	68.1 %
Infrastructure debt	4.0 %	4.1 %	4.0 %	5.0 %
Commercial real estate loans	6.5 %	2.8 %	6.5 %	4.2 %
Other loans	0.0 %	0.1 %	0.0 %	0.0 %
Cash and cash equivalents	8.0 %	24.1 %	6.0 %	16.9 %
Investment property	5.5 %	5.3 %	5.5 %	5.8 %
Total investment holdings	100.0 %	100.0 %	100.0 %	100.0 %

With a focus during the year being on resilience of the capital position of the Group, assets under management has been overweight cash and underweight credit versus its benchmark holdings. During this time, a strategic asset allocation exercise was undertaken which resulted in several benchmark allocation changes being implemented effective in Q4 2023. These included a 7% increase in sovereign holdings and a 2% increase in cash and cash equivalents, offset by a reduction in investment grade credit and private placement bonds, thus reducing expected volatility and value at risk in the portfolio.

Investment holdings and yields

	2023			2022 (restated) ¹		
	Allocation (£m)	Income (£m)	Yield (%)	Allocation (£m)	Income (£m)	Yield (%)
Investment-grade credit ²	2,288.1	51.1	2.2 %	2,360.0	59.1	1.9 %
High yield	281.2	16.5	5.9 %	278.8	14.9	4.8 %
Investment-grade private placements	70.6	2.8	3.3 %	97.2	2.7	2.9 %
Credit	2,639.9	70.4	0.0 %	2,736.0	76.7	2.2 %
Sovereign	681.2	8.5	1.4 %	510.3	2.0	0.7 %
Total debt securities	3,321.1	78.9	0.0 %	3,246.3	78.7	2.2 %
Infrastructure debt	214.2	14.8	6.6 %	236.8	7.9	3.2 %
Commercial real estate loans	145.9	12.9	7.5 %	198.9	8.8	4.4 %
Other loans	3.1	–	0.4 %	1.6	–	0.4 %
Cash and cash equivalents ³	1,689.8	65.2	5.5 %	938.4	13.9	1.5 %
Investment property	277.1	16.1	5.8 %	278.5	15.6	5.3 %
Equity investments ⁴	19.7	–	0.0 %	14.4	–	0.0 %
Total Group	5,670.9	187.9	3.5 %	4,914.9	124.9	2.3 %

Notes:

- Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 21 for further details.
- Asset allocation at 31 December 2023 includes investment portfolio derivatives, which have a mark-to-market asset value of £12.4 million which is split as assets of £12.0 million included in investment grade credit and of £0.4 million included in sovereign debt (31 December 2022: mark-to-market asset value of £2.5 million and £0.9 million liability respectively). This excludes non-investment derivatives that have been used to hedge operational cash flows.
- Net of bank overdrafts: includes cash at bank and in hand and money market funds.
- £241.8 million (2022: £nil) of this balance is invested within money market funds under the 100% quota share reinsurance treaty for the brokered commercial business, which is operated on a funds withheld basis. This entitles the reinsurer to the investment return earned on underlying collateral assets held in money market funds. The Group has appointed a custodian for the asset while retaining ownership of the funds withheld assets collateral.
- Equity investments consist of quoted shares and insurtech-focused equity funds. The insurtech-focused equity funds are valued based on external valuation reports received from a third-party fund manager.

At 31 December 2023, total investment holdings of £5,670.9 million were 15.4% higher than at the start of the year, reflecting fair value movements in fixed rate debt securities and the net sale proceeds from the disposal of the Group's brokered commercial business. Total debt securities were £3,321.1 million (31 December 2022: £3,246.3 million), of which 2.6% were rated as 'AAA' and a further 61.5% were rated as 'AA' or 'A'. The average duration at 31 December 2023 of total debt securities was 2.1 years (31 December 2022: 2.3 years).

At 31 December 2023, total unrealised losses on investments held at FVTPL were £136.5 million (31 December 2022: £282.1 million unrealised losses).

		FY 2023 £m	FY 2022 £m restated ¹
	Note		
Investment income		149.1	101.9
Investment fees		(7.3)	(7.8)
Net investment income in operating profit		141.8	94.1
Net investment income - brokered commercial business		35.2	20.4
Net investment income - exited partnerships		1.6	0.9
Net investment income	6	178.6	115.4
Net FV gains/(losses) ⁴	6	124.4	(342.5)
Total investment income recognised through the statement of profit or loss	6	303.0	(227.1)

Net investment income increased to £141.8 million (2022: £94.1 million) primarily driven by yield improvements in variable rate asset classes benefiting from a rising interest rate environment.

Fair value gains were £124.4 million, versus losses in 2022 (£342.5 million), with a tightening of credit spreads and interest rates accounting for the majority of the movement. Fair value adjustments to commercial property valuations resulted in a £1.4 million write-down during 2023.

Net asset value

		2023 £m	2022 £m restated ¹
Net assets ²	Note 14	2,058.2	1,845.3
Goodwill and other intangible assets	14	(818.6)	(822.2)
Tangible net assets	14	1,239.6	1,023.1
Closing number of Ordinary Shares (millions)	14	1,297.7	1,298.2
Net asset value per share (pence)	14	158.6	142.1
Tangible net asset value per share (pence)	14	95.5	78.8

Notes:

- Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 21 for further details.
- See glossary on pages 78 to 80 for definitions and appendix A - Alternative Performance Measures on pages 84 to 87 for reconciliation to financial statement line items.

Net assets at 31 December 2023 increased by £212.9 million to £2,058.2 million (31 December 2022: £1,845.3 million) and tangible net assets decreased to £1,239.6 million (31 December 2022: £1,023.1 million).

Leverage

The Group's financial leverage remained steady at 22.7% (2022: 24.7%).

	2023	2022
	£m	£m
		restated ¹
Shareholders' equity	2,058.2	1,845.3
Tier 1 notes	346.5	346.5
Financial debt – subordinated debt	258.8	258.6
Total capital employed	2,663.5	2,450.4
Financial leverage ratio²	22.7%	24.7%

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 21 for further details.
2. Total IFRS financial debt and Tier 1 notes as a percentage of total IFRS capital employed.

Credit ratings

Moody's Investors Service provides insurance financial-strength ratings for U K Insurance Limited, our principal underwriter.

Moody's rate U K Insurance Limited as 'A2' for insurance financial strength (strong) with a stable outlook.

Reserving

We make provision for the full cost of outstanding claims from the general insurance business at the statement of financial position date, including claims estimated to have been incurred but not yet reported at that date and associated claims handling costs. We consider the class of business, the length of time to notify a claim, the validity of the claim against a policy, and the claim value. Claims reserves could settle across a range of outcomes, and settlement certainty increases over time. However, for bodily injury claims the uncertainty is greater due to the length of time taken to settle these claims. The possibility of annuity payments for injured parties also increases this uncertainty.

We seek to adopt a prudent approach to assessing liabilities. The liability for incurred claims ("LIC") reserves are the combination of best estimate of liabilities ("BEL") and a risk adjustment, which is set around the 75th percentile and provides a prudence margin on top of the BEL. The BEL is set on a discounted basis and includes an allowance for events not in data ("ENIDs"), set by reference to various actuarial scenario assessments. ENIDs also consider other short- and long-term risks not reflected in the actuarial inputs, as well as the actuarial function's view on the uncertainties in relation to the BEL.

The most common method of settling bodily injury claims is by a lump sum. When this includes an element of indemnity for recurring costs, such as loss of earnings or ongoing medical care, the settlement calculations apply the statutory discount rate (known as the Ogden discount rate) to reflect the fact that payment is made on a one-off basis rather than periodically over time. The current Ogden discount rate is minus 0.25% for England and Wales, with the equivalents being minus 0.75% in Scotland, and minus 1.5% in Northern Ireland.

We reserve our large bodily injury claims at the relevant discount rate for each jurisdiction, with the overwhelming majority of cases now reserved at minus 0.25% as most will be settled under the law of England and Wales. The Ogden discount rate will be reviewed again at the latest in 2024 and the Group has booked a probability weighted allowance for a discount rate change within its best estimate of liabilities. Since 2021, we have reduced the level of Motor reinsurance purchased, resulting in higher net reserves for accident years 2021 to 2023.

If the claimant prefers, large bodily injury claims can be settled using a PPO. This is an alternative way to provide an indemnity for recurring costs, making regular payments, usually for the rest of the claimant's life. These claims are reserved for using an internal discount rate, which is progressively unwound over time. As it is likely to take time to establish whether a claimant will prefer a PPO or a lump sum, until a settlement method is agreed we make assumptions about the likelihood that claimants will opt for a PPO. This is known as the PPO propensity.

At 31 December 2023, the real discount rate for PPOs is 0.7% (2022: 0.6%, restated for IFRS 17), the combination of cash flow weighted inflation and discounting of 3.9% (2022: 4.2%, restated for IFRS 17), which allows for higher short-term inflation before reverting to a long term trend of 3.5%, and a yield curve based discount rate of 4.6% (2022: 4.8%, restated for IFRS 17).

Higher claims inflation remains a risk, given the continuing high level of consumer prices and wage inflation. In 2022, consumer prices inflation was at its highest level for the past decade and is not expected to normalise until at least 2024. Upwards pressure is likely to remain on wages, with potential implications for the cost of care. Global supply chain issues remain problematic, resulting in a risk of price increases for products and components in short supply. A range of general and specific scenarios for excess inflation has been considered in the reserving process.

Prior-year reserve development at year end 2023 was £149.0 million (2022: £97.8 million release), driven by strengthening in Motor, of which £78 million related to the Motor total loss past business review remediation. Looking forward, the opportunity for prior-year reserve releases in the short term remains low given the inflationary backdrop.

Net liability for incurred claims

	31 Dec 2023	31 Dec 2023	31 Dec 2023	31 Dec 2022	31 Dec 2022	31 Dec 2022
	Estimate of present value cash flows	Risk adjustment	Total	Estimate of present value cash flows	Risk adjustment	Total
	£m	£m	£m	£m	£m	£m
Motor	1,634.9	79.9	1,714.8	1,393.0	72.7	1,465.7
Home	352.5	16.1	368.6	386.9	19.5	406.4
RoPL ^{1,2}	65.7	2.4	68.1	75.4	3.0	78.4
Commercial	129.0	6.2	135.2	102.2	6.3	108.5
Total ongoing operations¹	2,182.1	104.6	2,286.7	1,957.5	101.5	2,059.0
Brokered commercial business	354.7	18.5	373.2	415.4	20.8	436.2
Run-off partnerships	72.8	2.2	75.0	55.1	1.3	56.4
Total	2,609.6	125.3	2,734.9	2,428.0	123.6	2,551.6

Note:

1. Ongoing operations – See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 for reconciliation to financial statement line items.

Sensitivity analysis – changes in: the discount rate used in relation to PPOs and other claims, the assumed Ogden discount rate and claims inflation

The table below provides a sensitivity analysis of the potential net impact of a change in a single factor (the internal discount rate used for PPOs and other claims, the Ogden discount rate or claims inflation) with all other assumptions left unchanged. Other potential risks beyond the ones described could have additional financial impacts.

	Increase/(decrease) in profit before tax and equity gross of reinsurance ^{1,2}		Increase/(decrease) in profit before tax and equity net of reinsurance ^{1,2}	
	2023	2022	2023	2022
At 31 December	£m	£m	£m	£m
Discount curve - PPOs³				
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	95.0	87.1	39.0	35.2
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	(127.8)	(113.7)	(52.1)	(45.4)
Discount curve - other claims⁴				
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	55.9	39.7	37.2	27.1
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	(58.6)	(41.4)	(38.9)	(28.2)
Ogden discount rate⁵				
Impact of the Group reserving at a discount rate of 0.75% compared to minus 0.25% (2022: 0.75% compared to minus 0.25%)	105.1	85.7	48.1	24.8
Impact of the Group reserving at a discount rate of minus 1.25% compared to minus 0.25% (2022: minus 1.25% compared to minus 0.25%)	(220.6)	(180.4)	(97.0)	(48.2)
Claims inflation				
Impact of a decrease in claims inflation by 200 basis points for two consecutive years	112.8	96.9	71.7	64.5
Impact of an increase in claims inflation by 200 basis points for two consecutive years	(114.6)	(98.3)	(72.8)	(65.4)
Risk adjustment⁶				
Impact of a risk adjustment at the 70th percentile compared to the booked risk adjustment at the 75th percentile	73.1	74.1	36.6	33.7
Impact of a risk adjustment at the 80th percentile compared to the booked risk adjustment at the 75th percentile	(84.5)	(87.5)	(42.9)	(38.6)

Notes:

- These sensitivities are net of reinsurance and exclude the impact of taxation.
- These sensitivities reflect one-off impacts at the statement of financial position date and should not be interpreted as predictions.
- The sensitivities relating to an increase or decrease in the real discount rate used for PPOs illustrate a movement in the time value of money from the assumed level of 0.6% for reserving. The PPO sensitivity has been calculated on the direct impact of the change in the real internal discount rate with all other factors remaining unchanged.
- The sensitivities relating to an increase or decrease in the yield curve used to discount all reserves excluding PPOs illustrate a movement in the time value of money from the assumed level at the statement of financial position dates. The sensitivity has been calculated on the direct impact of the change in the discount curve with all other factors remaining unchanged.
- Ogden discount rate sensitivity has been calculated on the direct impact of a permanent change in the discount rate in England and Wales with all other factors remaining unchanged. The Group will consider the statutory discount rate when setting the reserves but not necessarily provide on this basis. This is intended to ensure that reserves are appropriate for current and potential future developments.
- The risk adjustment sensitivities are with respect to the discounted net risk adjustment at the statement of financial position dates.

The PPO sensitivity above is calculated on the basis of a change in the internal discount rate used for the actuarial best estimate reserves as at 31 December 2023. It does not take into account any second order impacts such as changes in PPO propensity or reinsurance bad debt assumptions.

Reinsurance

The objectives of the Group's reinsurance strategy are to reduce the volatility of earnings, facilitate effective capital management, and transfer risk outside the Group's risk appetite. This is achieved by transferring risk exposure through various reinsurance programmes:

- Catastrophe reinsurance to protect against an accumulation of claims arising from a natural perils event. The retained deductible is £100 million and cover is placed annually on 1 January up to a modelled 1-in-200 year loss event of £1,000 million.
- Motor reinsurance to protect against a single claim or an accumulation of large claims, which renews on 1 January. The retained deductible is set at an indexed level of £5 million per claim, with unlimited protection above £10 million subject to an additional aggregate retention of £37.5 million.
- Motor excess of loss reinsurance has been purchased and inceptioned on 1 September 2023 for Motability Operations. The retained deductible is set at an indexed level of £5 million per claim up to an unlimited amount. Motability policies are 80% quota share reinsured.
- Following the Group's sale of its brokered commercial business to RSA Insurance Limited, quota share reinsurance between the two parties inceptioned on 1 October 2023, on an earned basis, covering 100% of all premiums earned and claims incurred after this date. Commercial property risk reinsurance was not renewed following the sale of the Group's brokered commercial business.
- Whole account (excluding Motability) structured quota share reinsurance with a 10% cessation, ceded on a funds-withheld basis with a three-year term that inceptioned on 1 January 2023..

Tax management

The Board recognises that the Group has an important responsibility to manage its tax position effectively. The Board has delegated day-to-day management of taxes to the Chief Financial Officer and oversight is provided by the Audit Committee.

These arrangements are intended to ensure that the Group: complies with applicable laws and regulations; meets its obligations as a contributor and a collector of taxes on behalf of the tax authorities; and manages its tax affairs efficiently, claiming reliefs and other incentives where appropriate.

Tax authorities

The Group has open and co-operative relationships with the tax authorities with which it deals in the countries where the Group operates, namely the UK, the Republic of Ireland, South Africa and India.

Tax policy and governance

The Group's tax policy has been reviewed and approved by the Audit Committee. The Group Tax function supports the Chief Financial Officer in ensuring the policy is adhered to at an operational level.

For more information please see our published Group Tax policy on the Group's website at:

www.directlinegroup.co.uk/en/sustainability/reports-policies-and-statements.html

Total tax contribution

The Group's direct and indirect tax contribution to the UK Exchequer is significantly higher than the UK corporation tax that the Group would ordinarily pay on its profits. The Group collects taxes relating to employees and customers on behalf of the UK Exchequer and other national governments. It also incurs a significant amount of irrecoverable value added tax relating to overheads and claims. Taxes borne and collected in other tax jurisdictions have not been included in this note as the amounts are minimal in the context of the wider UK Group.

During 2023, the sum of taxes either paid or collected across the Group was £936.8 million. The composition of this between the various taxes borne and collected by the Group is shown below.

Total taxes borne

	2023
At 31 December	£m
Current-year Corporation Tax charge	24.3
Irrecoverable Value Added Tax incurred on overheads	89.6
Irrecoverable Value Added Tax embedded within claims spend	214.4
Employers' National Insurance contributions	44.7
Other taxes	5.2
Total	378.2

Total taxes collected

	2023
At 31 December	£m
Insurance Premium Tax	439.1
Value Added Tax	17.0
Employees' Pay As You Earn and National Insurance contributions	102.5
Total	558.6



Neil Manser
Chief Financial Officer

Motor

Performance summary

—
In-force policies grew by 9.0% as our partnership with Motability began in September 2023. Direct own brand policy count reduced by 10.2%.

—
Gross written premium grew by 42.9%.

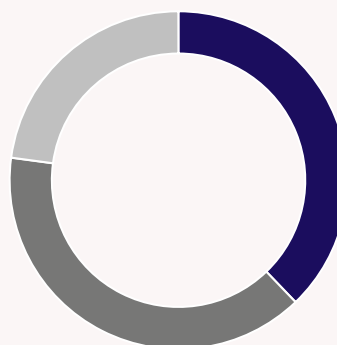
—
Operating loss of £319.6 million reflects the earn through of below target margin business written in 2022 and the first half of 2023.



Financial summary

	2023	2022
	£m	£m
In-force policies (thousands)	4,181	3,836
Of which:		
Direct own brands ¹	3,373	3,756
Partnerships	808	80
Gross written premium ²	2,047.8	1,432.7
Of which:		
Direct own brands ¹	1,575.7	1,398.5
Partnerships	472.1	34.2
Operating loss²	(319.6)	(64.8)
Loss before other finance costs	(274.4)	(252.3)
Net insurance margin²	(21.1%)	(4.8%)
Net insurance claims ratio ²	95.5%	79.6%
Current-year attritional net insurance claims ratio	86.7%	79.9%
Prior-year reserves development ratio	8.8%	(0.3%)
Net acquisition ratio ²	5.7%	5.6%
Net expense ratio ²	19.9%	19.6%

Gross written premium by channel



- 38 % Direct
- 39 % Price comparison websites
- 23 % Partnerships

Notes:

1. Direct own brands include in-force policies under the Direct Line, Churchill, Darwin, Privilege and By Miles brands.
2. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
3. See glossary on pages 261 to 264 for definitions and appendix A - Alternative Performance Measures on pages 265 to 268 for reconciliation to financial statement line items.



Motability: Welcoming over 700,000 customers

We welcomed over 700,000 new customers through our Motability partnership in September 2023 after nearly two years of preparation. Forecast to deliver around £800 million of gross written premium annually, it is a great strategic partnership but also brings significant other benefits including ongoing repair insights gathered from working on their fleet of modern vehicles and the opportunity to learn from a new team of colleagues skilled in supporting vulnerable customers.

The Motor result was adversely affected by the earn through of below target margin policies which were written in 2022 and the first half of 2023. The Group has taken significant pricing and underwriting actions and therefore believes it has been underwriting consistent with a net insurance margin of above 10% for the majority of the second half of 2023.

In-force policies and gross written premium and associated fees

In response to market wide claims inflation, the motor market experienced significant price inflation during 2023. Market average premiums increased by around 25%¹ which led to an increase in customer shopping and a reduction in market retention rates. The Group applied significant rate increases across its own brand portfolio during the year which delivered an increase in own brand average premiums of 28%²

The Group's actions to improve profitability led to an increase in direct own brand gross written premium and associated fees of 12.7% compared with 2022 despite in-force policies reducing by 10.2% over the period. Policy count loss was greatest in Q3 as rate increases worked through and decelerated during Q4, as new business competitiveness and retention rates improved. Following the commencement of the partnership with Motability, total Motor gross written premium and associated fees grew by 42.9% compared with 2022 and in-force policies grew by 9.0% over the period.

Underwriting

Market wide claims inflation remained a feature during 2023 although trends stabilised in the second half of the year. In the first half our view of 2022 severity inflation deteriorated, due to repair inflation and high levels of total losses arising from industry repair backlogs.

Notes:

1. Source: ABI motor premium tracker as at Q4 2023.
2. Average premium and rate figures quoted relate to Motor direct own brands excluding the By Miles brand.

In the second half, we reduced repair times across the network and used car prices began to deflate whereas inflation persisted in the cost of parts and labour rates. These trends resulted in attritional claims severity inflation of around 9% in 2023, in line with our expectation of high single digits. Outside of damage, in 2023 we experienced a higher number of large bodily injury claims

Prior year reserves were strengthened by £138 million in 2023 primarily reflecting a combination of increased damage costs from industry backlogs in the first half of the year and costs associated with the remediation for the Motor total loss past business review.

In 2024 we expect attritional inflation to remain in high single digits.

Net insurance margin and loss

These factors delivered a higher net insurance claims ratio in 2023, with an increase of 15.9pts compared with 2022. However, the significant pricing actions taken throughout the year began to come through in improved margins in the second half of 2023, and together with the new Motability partnership, delivered a 5.8 percentage point improvement in the current year net insurance claims ratio compared with the first half of 2023.

Overall, the net insurance margin was minus 21.1% and the operating loss was £319.6 million in 2023.

Loss before other finance costs

Loss before other finance costs increased from a loss of £252.3 million in 2022 to a loss of £274.4 million in 2023 due to the factors described above.

Home

Performance summary

– Total in-force policies 2.3% lower at 2.4 million. Direct own brand policies were 1.5% lower at 1.7 million.

– Total gross written premium grew 6.4% to £551.5 million. Direct own brand gross written premium grew 7.2% to £408.8 million.

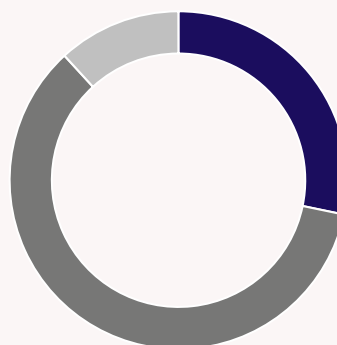
– Operating profit increased to £52.4 million, primarily due to more benign weather in 2023.



Financial summary

	2023	2022
	£m	£m
In-force policies (thousands)	2,444	2,501
Of which:		
Direct own brands ¹	1,706	1,732
Partnerships	738	769
Gross written premium ²	551.5	518.1
Of which:		
Direct own brands ¹	408.8	381.5
Partnerships	142.7	136.6
Operating profit²	52.4	0.9
Profit/(loss) before other finance costs	71.7	(30.7)
Net insurance margin²	10.0%	(0.8%)
Net insurance claims ratio ²	62.3%	76.8%
Current-year attritional net insurance claims ratio	59.2%	57.7%
Prior-year reserves development ratio	(1.8%)	(3.2%)
Major weather events ratio	4.9%	22.3%
Net acquisition ratio ²	8.4%	6.3%
Net expense ratio ²	19.3%	17.7%
Normalised net insurance margin ²	4.2%	11.0%

Gross written premium by channel



- 28 % Direct
- 60 % Price comparison websites
- 12 % Partnerships

Notes:

1. Direct own brands include in-force policies under the Direct Line, Churchill and Privilege brands.
2. See glossary on pages 261 to 264 for definitions and appendix A – Alternative Performance Measures on pages 265 to 268 for reconciliation to financial statement line items.



Supporting customers during the storms

We know extreme weather events are often when our customers need our support the most. In 2023 we introduced SMS messaging to make customers in vulnerable areas aware of approaching high-risk weather conditions and providing a link to enable them to register claims online where appropriate. To help ensure people could contact us quickly, we increased the number of colleagues available to take customer calls and delivered assistance on the ground with our Direct Line and Churchill vehicles visiting affected areas to help policyholders who were vulnerable or had damage to their homes.

Home continued to trade well in 2023, with growth in premium written and a low level of weather-related claims.

In-force policies and gross written premium and associated fees

Following challenging market conditions during 2022, the home market experienced increased pricing in 2023 with an estimated increase in market prices of 41%. This reflected increases in reinsurance costs alongside the inflationary pressures on escape of water claims from the severe freeze event in December 2022. These trends led to increased shopping in the market and enabled the Group to deliver a 42% increase in new business sales. The Group increased prices during 2023 to reflect our view of claims inflation and increased reinsurance costs, which resulted in average premium in direct own brands increasing by 12%. Retention remained strong across the period.

Overall gross written premium and associated fees increased by 6.4% compared to 2022, or 7.7% when adjusted to remove the impact of remediation. In-force policies reduced by 2.3% during the year, however own brands returned to growth in the fourth quarter.

Underwriting

Underlying claims trends for 2023 remained elevated, albeit in line with our expectations of mid- single digits. We experienced an increase in escape of water severity for claims received late in 2022 around the time of the December freeze event, which reduced prior-year reserve releases compared to 2022.

Despite a high frequency of named weather events in the year, weather-related claims at £25 million (2022: £119 million) were below our assumptions for the year demonstrating good underwriting management of flood exposure. The full year 2024 weather event claims assumption is £54 million and the impact of freeze and flood events in early 2024 is estimated at £22 million.

Net insurance margin and profit

These factors combined led to a 14.5pts improvement in the claims ratio to 62.3%, with lower weather claims more than offsetting the impact of reduced prior-year reserve releases. Normalised for the impact of weather and excluding prior-year reserve movements, the attritional claims ratio increased by 1.5 percentage points between 2022 and 2023, due to the impact of elevated inflation and 2022 benefiting from the earn through of premiums written prior to the introduction of the FCA's PPR regulations.

The net insurance margin was 10.0% with operating profit of £52.4 million. Excluding the impact of remediation, the net insurance margin was 12.1%, and 6.3% when normalised for weather and remediation.

The planned rollout of our new Home platform in 2024 is intended to enable longer-term trading and product development opportunities.

Profit/(loss) before other finance costs

Profit/(loss) before other finance costs increased from a loss of £30.7 million to profit of £71.7 million due to the factors described above alongside higher net investment income.

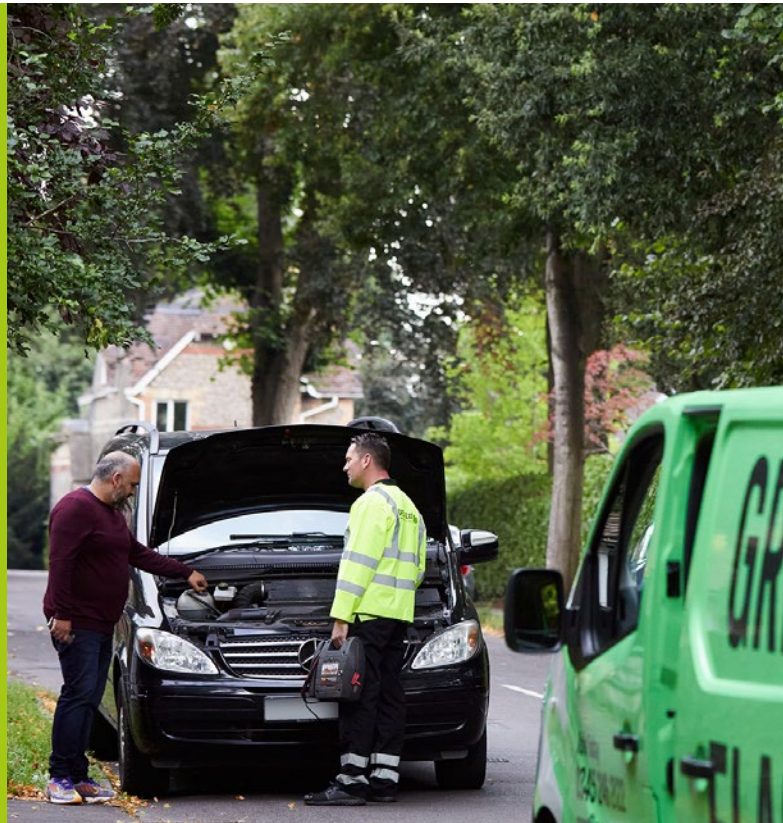
Rescue and other personal lines

Performance summary

Rescue in-force policies reduced by 10.1% and gross written premium and associated fees fell by 3.0%.

Rescue operating profit of £47.6 million and net insurance margin of 29.0%.

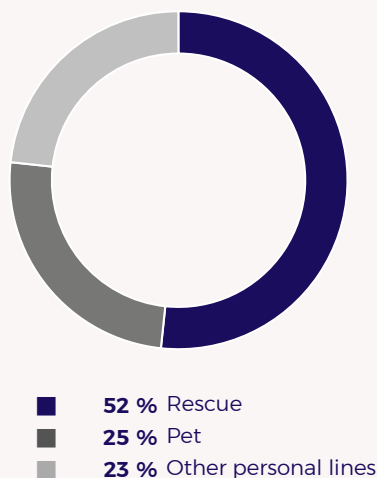
Operating profit of £0.4 million in other personal lines.



Financial summary

	2023	2022
	£m	£m
Ongoing operations¹		
In-force policies (thousands)	2,172	2,424
Of which:		
Rescue - ongoing operations	1,965	2,185
Of which Green Flag direct	1,048	1,106
Pet	112	128
Other personal lines - ongoing operations	95	111
Gross written premium and associated fees ²	265.7	273.9
Of which:		
Rescue - ongoing operations	137.3	143.7
Of which Green Flag Direct	85.1	88.2
Pet	66.5	70.8
Other personal lines - ongoing operations	61.9	59.4
Operating profit²	48.0	60.1
Profit before other finance costs	53.8	52.7
Net insurance margin ²	15.6%	19.8%
Net insurance claims ratio ²	57.0%	52.3%
Current-year attritional net insurance claims ratio	56.6%	53.9%
Prior-year reserves development ratio	0.4%	(1.6%)
Net acquisition ratio ²	4.6%	7.9%
Net expense ratio ²	22.8%	20.0%

Gross written premium and associated fees by product



Notes:

- Ongoing operations - See glossary on pages 261 to 264 for definitions and appendix A - Alternative performance measures on pages 265 to 268 for reconciliation to financial statement line items.
- See glossary on pages 261 to 264 for definitions and appendix A - Alternative performance measures on pages 265 to 268 for reconciliation to financial statement line items.



Green Flag: delivering customer satisfaction

Green Flag was once again ranked as one of the top 20 brands for customer service in the UK, in the Institute of Customer Service Customer Satisfaction Index, reflecting how the brand continues to develop and enhance its offer to meet the evolving needs of the modern motorist. We rolled out a new fleet of branded patrol vehicles in 2023 and focused on broadening the availability of roadside products, such as batteries and tyres, to help get customers moving more quickly.

Overall Rescue and other personal lines delivered strong margins with a net insurance margin of 15.6%, providing £48.0 million diversified operating profit for the Group. Gross written premium was broadly flat during the year, with modest reductions in Rescue and Pet, partially offset by growth in our medium to high net worth business, UK Select. Operating profit of £48.0 million was lower than the prior year primarily due to higher claims costs and prior year strengthening in other personal lines.

Rescue

Rescue's gross written premium from ongoing operations was 4.5% lower in 2023 with in-force policies reducing by 10.1%. The largest fall was in Linked where Rescue is sold alongside a Motor policy.

Rescue experienced increases in claims frequency and modest claims inflation which was mitigated by self-help actions taken across its managed network. Green Flag increased its prices towards the end of 2023 which delivered additional premium with minimal impact on sales or retention.

Overall, Rescue's ongoing operations delivered operating profit of £47.6 million in 2023 (2022: £53.7 million), with an attractive net insurance margin of 29.0%. A fleet of Green Flag branded patrol vehicles is being rolled out following a successful pilot. This aims to help mitigate the impact of claims inflation and offer new revenue opportunities through vehicle related sales at the roadside.

Other personal lines

Other personal lines is made up of Pet, Travel, Creditor and Select, our insurance targeted at mid- to high-net worth customers. Pet is the largest product within Other personal lines. Pet gross written premiums fell 1.4% as in-force policies reduced by 14.4%. Overall Other personal lines made an operating profit of £0.4 million in 2023.

Profit before other finance costs

Profit before other finance costs increased by £1.1 million to £53.8 million due the factors set out above.

Commercial

Performance summary

– In force policies grew by 1.4%.

– Gross written premiums grew by 10.1%.

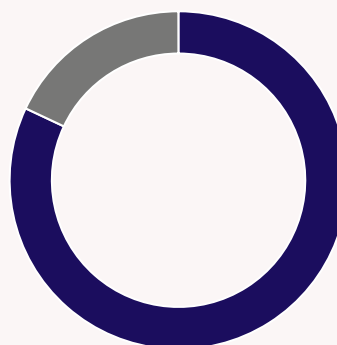
– Operating profit increased to £29.7 million with a net insurance margin of 13.1%.



Financial summary

	2023	2022
	£m	£m
In-force policies ¹ (thousands)	645	636
Gross written premium ²	241.0	218.9
Operating profit/(loss)²	29.7	(2.6)
Profit/(loss) before other finance costs	34.4	(10.1)
Net insurance margin²	13.1%	(2.7%)
Net insurance claims ratio ²	57.9%	66.9%
Current-year attritional net insurance claims ratio	49.8%	69.3%
Prior-year reserves development ratio	7.1%	(5.0%)
Major weather events ratio	1.0%	2.6%
Net acquisition ratio ²	14.1%	19.0%
Net expense ratio ²	14.9%	16.8%
Normalised net insurance margin ²	11.4%	(2.4%)

Gross written premium by channel



■ 82% Direct
■ 18% Indirect

Notes:

1. Commercial includes in-force policies for Direct Line for Business and Churchill brands.
2. See glossary on pages 261 to 264 for definitions and appendix A – Alternative Performance Measures on pages 265 to 268 for reconciliation to financial statement line items.



Assisting landlords in an emergency

An increasing number of landlords are choosing to insure with us. Among the products we offer is Landlord Emergency cover, a callout service within four hours for a number of insured emergencies, including failure of electricity or heating. This year we have reduced average wait times for those using this service, to ensure tenants are supported when they need emergency assistance.

Following the sale announced in 2023, the brokered commercial business is reported as being in run-off. Results for prior periods have been restated.

Commercial continued to trade well in 2023, maintaining its premium growth whilst delivering strong margins. Commercial sells SME cover under the Direct Line for business and Churchill brands, both direct to customer and through price comparison websites. Landlord insurance is the largest product by premium followed by Van.

In-force policies and gross written premium and associated fees

Through a combination of both policy count growth and premium rate increases, Commercial delivered policy growth of 1.4% and gross written premium growth of 10.1% during 2023.

Both Direct Line and Churchill delivered strong premium growth across all products in 2023, Direct Line grew policy count by 1.3% and premiums by 7.0% while Churchill delivered 23.7% premium growth and policy count was stable.

In Landlord, whilst new business volumes were lower than 2022, it was a positive market backdrop, against which the Group was able to expand its footprint in multi property policies, delivering gross written premium growth of 14.5% and policy count growth of 3.4%.

In Van, in response to elevated inflation, average premiums increased across the market during 2023, driving an increase in new business sales and reductions in market retention rates. The Group focused on maintaining margins, with significant rate increases delivering gross written premium growth of 5.1%, alongside a reduction in policy count of 6.0%.

Underwriting

Commercial's claims ratio improved by 9.0pts to 57.9% during 2023. Alongside relatively benign weather conditions, the focus on maintaining margins more than offset a £15 million prior year reserve strengthen, predominantly driven by the impact of elevated claims inflation in Van.

Net insurance margin and profit/(loss)

Overall, these factors combined led to a net insurance margin of 13.1% (2022 minus 2.7%) with operating profit of £29.7 million. Normalised for weather the net insurance margin was 11.4%.

Profit/(loss) before other finance costs

Profit/(loss) before other finance costs increased from a loss of £10.1 million to profit of £34.4 million due to the factors described above alongside higher net investment income.

Brokered commercial business and run-off partnerships

The Group's ongoing operations result excludes the results of the brokered commercial business, that it sold to RSA Insurance Limited in 2023, and the Rescue and other personal lines partnerships that the Group first excluded from its 2022 results. Run-off partnerships comprises personal Rescue and Travel packaged bank account business.



Brokered commercial business

	2023	2022
	£m	£m
In-force policies (thousands)	286	277
Gross written premium and associated fees	665.8	530.4
Operating profit	27.6	62.9
Net insurance margin¹	3.1%	10.6%
Net insurance claims ratio ¹	49.4%	45.5%
Net acquisition ratio ¹	26.6%	26.4%
Net expense ratio ¹	20.9%	17.5%

On 6 September 2023 we announced the sale of our brokered commercial business and we are presenting the results for this business as a separate segment.

The transaction involved the sale of the Group's brokered commercial business and associated partnerships through a combination of reinsurance and a form of renewal rights transfer. As a result, with effect from 1 October 2023 (the risk transfer date), new business moved to RSA. The Group retains the back book of policies and will manage these policies until they run off. The formal separation and operational transfers are expected to start in the first quarter of 2024, with subsequent transfers of outstanding elements of the overall brokered commercial insurance business to follow.

2023 results

Gross written premium and associated fees were £665.8 million (2022: £530.4 million). The operating profit relating to the brokered commercial business was £27.6 million (2022: £62.9 million).

Note:

1. See glossary on pages 261 to 264 and Appendix A – Alternative performance measures on pages 265 to 268 for reconciliation to financial statement line items.

Run-off partners

	2023	2022
	£m	£m
In-force policies (thousands)	2,224	2,188
Gross written premium and associated fees	150.1	124.4
Operating loss	(29.5)	(10.8)
Net insurance margin¹	(19.6%)	(8.7%)
Net insurance claims ratio ¹	102.9%	89.7%
Net acquisition ratio ¹	1.5%	1.8%
Net expense ratio ¹	15.2%	17.2%

In our FY 2022 results we disclosed that we planned to reduce our exposure to packaged bank accounts where they do not meet target levels of return and are no longer required for operational scale, in order to improve our capital efficiency, and we are presenting the results for this business as a separate segment.

Rescue packaged accounts

Our contract with NatWest Group ended in December 2022 and was fully run off by the end of 2023. This partnership represented around 1.1 million in-force policies.

Travel packaged accounts

Our partnerships with NatWest Group and Nationwide Building Society are due to expire in 2024. Together, these travel partnerships represent around 2.2 million in-force policies.

On 31 January 2024 our contract with NatWest ended and all business was transferred to the new provider. The Nationwide contract will end on 30 April 2024 although policy upgrades will continue to be underwritten by the Group until 30 April 2025.

2023 results

Gross written premium and associated fees were £150.1 million (2022: £124.4 million). The operating loss relating to run-off partnerships in 2023 was £29.5 million (2022: £10.8 million).

Non-financial and sustainability information statement

This non-financial and sustainability information statement highlights information necessary for an understanding of the Company's development, performance, position and impact of its activity, information relating to environmental, employee, social, respect for human rights, anti-corruption and anti-bribery matters.

Where possible, the following table states where additional information can be found that supports the requirements of sections 414CA and 414CB of the Companies Act 2006.

Reporting Requirement	Annual Report	Page	Relevant policies, statements and codes available at directlinegroup.co.uk
Environment	Sustainability	50 to 69	Environment Statement
	Task Force on Climate-related Financial Disclosures	70 to 85	
	Streamlined Energy and Carbon Reporting	85	
Anti-bribery and anti-corruption	Financial crime and anti-bribery and corruption	124	Prevention of Financial Crime Policy Code of Business Conduct
	Ethical Code for Suppliers	67	Ethical Code for Suppliers Whistleblowing Policy
Employees	People	54 to 57	Flexible Working Policy Health & Safety Policy
Business model	Brilliant for customers every day	4 & 51 to 53	Prompt Payment Code
	Strategy	22 to 23	Responsible Investment Policy
	Business model	18 to 19	Underwriting Standards
	Operating review	40 to 48	Tax Policy
Social and community matters	Market overview	20 to 21	Board Diversity Policy
	Society	58 to 60	Data Privacy Policy
	Community fund	58 to 60	Corporate Website Privacy Notice
Human rights	Human rights and modern slavery	67 & 128	Human Rights, Diversity and Inclusion Policy Modern Slavery Statement
KPIs	Our key performance indicators	24 to 25	
Risk management	Risk management	86 to 92	
	Principal risks and uncertainties	88 to 90	
	Emerging risks	91 to 92	

The table below has been produced to comply with the requirements of section 414CB of the Companies Act 2006, as amended by the Companies (Strategic Report) (Climate-related Financial Disclosures) Regulations 2022. The information listed is incorporated by cross-reference.

Reporting requirement	Page	Further information
(a) a description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities	70 to 71	Refer to Governance
(b) a description of how the company identifies, assesses, and manages climate-related risks and opportunities	80 to 81	Refer to Risk Management
	71	Refer to Management's role
	70 to 85	Additional information available throughout TCFD report
(c) a description of how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management process	80 to 81	Refer to Risk Management
(d) a description of: - (i) the principal climate-related risks and opportunities arising in connection with the company's operations; and - (ii) the time periods by reference to which those risks and opportunities are assessed	77	Refer to table within Our strategic response
(e) a description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy	77 to 81	Refer to Our strategic response
(f) an analysis of the resilience of the company's business model and strategy, taking into account consideration of different climate-related scenarios	73 to 76	Refer to Scenario analysis
(g) a description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets	78, 79, 83, 84 and 85	Refer to Science-Based Targets
(h) the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those key performance indicators are based	81 to 85	Refer to Metrics and Targets

Building a sustainable future

Our five-pillar sustainability strategy was developed and has evolved to support our vision of creating a world where insurance is personal, inclusive and a force for good.

Each pillar is defined through an overarching ambition that together drive us to deliver a positive impact for our stakeholders and strengthen our own business by taking action on priority environmental, social and governance issues.

Over the last year, we have progressed all areas of our strategy, from cost of living support for our customers and tools to drive a high performance and inclusive culture for our people, to new social mobility partnerships and programmes in our local communities and the continued decarbonisation of our business as we report performance against our Science-Based Targets for the first time.

Our vision

To create a world where insurance is personal, inclusive and a force for good



Customers

Earn our customers' trust by demonstrating how we are acting in their interests



People

Encourage a culture that celebrates difference and empowers people so that they can thrive



Society

Use our expertise to improve outcomes for society and the communities we serve



Planet

Protect our business from the impact of climate change and give back more to the planet than we take out



Governance

Look to the long term for our stakeholders, build a reputation for high standards of business conduct and develop a sustainable business

2023 actions

- Rolled out enhanced vulnerable customer training
- Refreshed how we review customer conduct
- Enhanced our customer experience design process
- Launched a new performance framework
- Set new gender and ethnic diversity targets
- Rolled out Community Fund outreach programme
- Launched new partnership with UK Youth
- Developed our climate-related risk management roadmap
- Rolled out our supply chain sustainability programme
- Conducted new materiality research and analysis
- Reviewed Board Committees' Terms of Reference for sustainability and climate

Near-term priorities

- **Evolve and enhance our digital servicing options for customers**
- **Review and update our electric vehicle strategy**
- **Develop and embed new learning opportunities**
- **Define our approach to culture, leadership and future prospects**
- **Review our approach, programmes and partnerships**
- **Integrate our community approach to build future talent pipelines**
- **Review and align with new SBTi standard for financial institutions**
- **Build out our climate transition plan**
- **Complete materiality analysis and use findings to update our strategy**
- **Enhance overall governance of sustainability and climate across the business**

Customers

Our mission is to be brilliant for customers every day, and we want to be known for excellence through all stages of the customer journey.

We are focused on meeting the needs of all our customers, aiming to provide them with the products they want, while delivering an exceptional service.

Over the year, we've continued to enhance our customer approach following the introduction of the Consumer Duty, recognising ongoing cost of living challenges, launched our Direct Line Essentials product and improved our capability to provide easy digital-first journeys.



“The Group has come together around Consumer Duty to put the customer at the heart of everything we do.”

Lorraine Price, Head of Product Lifecycle Management



The Consumer Duty

In July 2023, Consumer Duty came into effect, introducing significant new Financial Conduct Authority (“FCA”) rules on consumer protection for all financial services firms. To support and strengthen our approach to be brilliant for customers every day, we:

- provided Consumer Duty training to all colleagues, including those interacting with customers every day.
- completed a review of our key customer journeys and processes, making numerous improvements to help and support our customers.
- engaged with key suppliers, producing a supplier-specific guidance pack to help them understand the expectations around customer outcomes and how we will support them to achieve this.
- launched a customer closeness programme for our Senior Leadership community to go ‘back to the floor’ and walk in our customers’ shoes.
- introduced new product forums with specific accountability for reviewing customer outcomes and reporting against the four main outcomes of the Consumer Duty.

Supporting our customers

Direct Line Essentials and cost of living support

Building on the success of last year's Churchill Essentials product, we launched our Direct Line Essentials product this year for our Motor customers, expanding our product range and giving those who need it greater choice during a time when many are facing cost of living challenges. The Direct Line Essentials product is available for customers looking for an entry-level comprehensive car insurance policy.

In addition to this, we continue to assist those facing financial difficulty, asking customers to discuss with us their needs so we can look to offer the most appropriate support which may include reviewing levels of cover or considering alternative products.

Enhancing our vulnerable customer approach

We continued to build on our vulnerable customer training programme and during 2023 over 4,000 of our employees received enhanced refresher training. In addition, further reference tools were introduced to enable employees to support vulnerable customers and those experiencing financial difficulty.

To improve customer communications, we also continued our partnership with Plain Numbers, an organisation which aims to change the way numbers are presented to improve comprehension, by training more colleagues as practitioners this year. We were pleased to be recognised for our efforts, receiving accreditation and becoming one of just ten organisations to achieve this accolade.

Additionally, we have worked with the disability charity, Scope, to review our websites and make changes to the way we present information to improve accessibility and partnered with And or If Ltd, a specialist agency who find creative ways to present customer communications to refresh our policy documents.

Focused on customer needs

Motability onboarding

We welcomed over 700,000 new customers as part of our partnership with Motability Operations in September last year which will help us to gain further insight into their fleet of modern vehicles. The more insight we have the better able we are to fix customers' cars so customers will benefit.

Planning for this partnership over the last few years, we have worked on mapping out customer journeys and built new technology platforms and data flows. Since the integration, our teams have handled over 110,000 calls from customers, replied to around 39,000 web chats and registered around 80,000 claims.

Darwin milestone

Our Darwin motor brand continues to grow since its launch in 2019 and reached the significant milestone of welcoming its 250,000th customer this year. Utilising new technology and machine learning models to offer competitive prices to customers on Price Comparison Websites ("PCWs"), Darwin is one of the highest-rated motor insurance brands in the UK on Trustpilot.



Customer user research suite

To enhance our understanding of customer wants and needs, we've opened a new user research suite in our Riverbank House office in London, providing a relaxed and informal space where we can gain customer feedback for future products and teams can test many experiences from digital journeys, websites, apps, to our latest marketing campaign and more.

Making electric easy

Our electric vehicle ("EV") strategy is focused on providing comprehensive EV insurance combined with additional non-insurance benefits with the overall aim of supporting our customers to make sustainable choices by making the switch to electric easy.

We carefully consider our EV insurance products to reflect the specific needs of EV owners, giving our customers and those considering purchasing an EV for the first time peace of mind. For example, our policies include battery cover, home charger and cable cover, specialist EV repairs completed by qualified EV technicians and liability cover to others if they're injured by cables which are attached to an EV.

During 2023, we have also continued to enhance our added-value proposition through the Direct Line electric vehicle bundle that we first introduced in 2021 in partnership with Zoom EV to provide essential, non-insurance services to customers to help them run their EV. This is offered for free to new and existing Direct Line motor insurance customers and includes benefits such as access to discounted public charging, discounts off home charging devices, EV home energy benefits, community charging, discounted parking, and access to a dedicated EV expert helpline – with the services provided by established operators in the market.

The proposition has proved popular with our EV customers; to date, 45% have activated their bundle with over 70% of these engaging and interacting with at least one of our end service providers. In 2024, we will continue to expand on the benefits and partnerships available, offering accessible solutions for our customers to the commonly cited barriers to EV ownership.

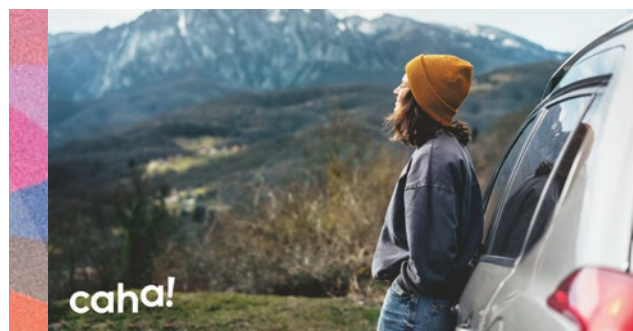
Behind the scenes, we continue to build our own capabilities and expertise to support the growth and development of our EV strategy. This includes the training and recruitment of EV-accredited technicians in our accident repair centres (with over 170 across our sites and a minimum of two on each site), developing strategic supply chain partnerships to support EV repairs, maintaining a presence at key industry events to facilitate collaboration and partnership, as well as building internal awareness around all things EV and supporting our employees to make the transition.

During 2024, our EV strategy team will be reviewing and updating our approach to ensure it remains fit for purpose and continues to reflect the needs of our customers in this crucial stage of the EV transition.

Delivering digital-first journeys

By Miles acquisition

Enhancing our capability to provide easy digital-first journeys for our customers, we acquired By Miles, a managing general agent, which has sold over 100,000 policies since its launch in 2018 and has around 50,000 customers. By Miles proprietary cloud-based platform allows customers to pay only for the miles they drive, which members can manage through a smartphone app.



Launch of Caha! app

This year, after undertaking extensive consumer research to find out the biggest issues for motorists we launched a new app, Caha! to bring together all aspects of car management and ownership on one platform. Aiming to meet more customer needs, the app allows users to find parking spots, fuel stations, as well as holding any car-related documents such as insurance policies, V5 documents and MOT certificates.

Motor Claims Hub

Knowing that many of our customers prefer to register their claims online, we have focused on enhancing our capability to provide end-to-end digital claims journeys, launching a new Motor Claims Hub in 2023. The Hub gives our Churchill customers the opportunity to report both third-party and single vehicle claims, allowing them the flexibility to inform us of an accident at any time of day from their phone, tablet or laptop, all while getting real-time claim decisions. Future plans for the Hub include extending this capability to Motability, Direct Line and Privilege customers, as well as introducing additional features for customers to conveniently track their claims online.

Recognition

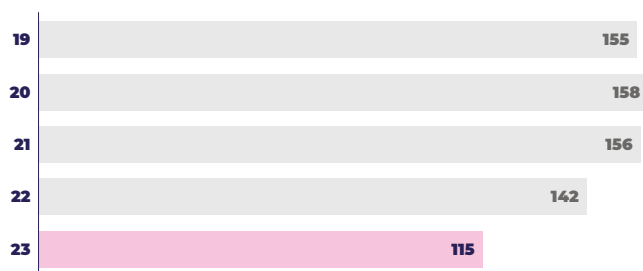
Brand awards

- Direct Line and Churchill received Which? Recommended Supplier Status, recognised for outstanding cover and services for Jan – Dec 2023.
- Green Flag was again ranked as the top rescue service provider by the UK Institute of Customer Service in 2023.
- Darwin is one of the highest-rated mainstream motor insurers in the UK with 80% of the 20,000 reviews rating the brand five stars.

Net Promoter Score (“NPS”)

Our aim is always to deliver good customer outcomes and maintain a strong NPS. In 2023 we experienced a decrease in our Direct Line NPS which was driven mainly by rising premium prices in a challenging economic environment and claims delays impacted by supply chain challenges. These challenges have had an impact across our industry. We have taken action to mitigate these challenges and continue to be fully focused on delivering good customer outcomes in 2024.

Net Promoter Score – Direct Line brand



People

At Direct Line Group we're a team of talented individuals all working together to be brilliant for customers every day.

In 2023 we have been focused on putting in place the enabling blocks to support and encourage colleagues to build on their skills, capabilities and experience to do the best work of their career and make their full contribution to embedding a high-performance culture.

Focused on performance

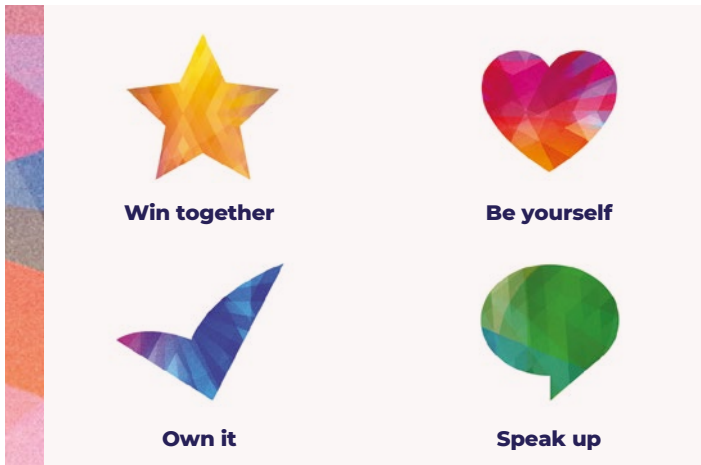
Our new performance framework means all colleagues can be clear on what high-performance looks like, what they need to deliver and how to deliver it by demonstrating our core values. We have applied a strong diversity and inclusion lens to our approach – helping to protect against bias. This has provided colleagues with clarity, fairness and transparency to help them succeed, progress and take ownership of creating their own future.

Focused on Values

This year we have evolved our Values to represent the best of the Group, and to guide the way we work together to perform as a business and deliver for our customers. Our Values help us make good decisions, support each other in the right way and draw on diverse perspectives.

In November we recognised and celebrated those colleagues who had gone above and beyond in exemplifying our Group Values with our new Group Annual Awards.

More information on our Group Values can be found on page 22.



“It’s fantastic to have 400 colleagues on Ignite apprenticeships and we are really proud of the 44 who successfully completed their qualification in 2023.”

Stephanie Bishop, Emerging Careers Lead



Building skills and capabilities

At the Group we’re serious about ensuring our colleagues are equipped not just for the job they are doing today but also the skillsets they and the business will need in the future. Highlights of learning and development in 2023 were:

- LinkedIn Learning: We partnered with LinkedIn Learning to connect colleagues with learning opportunities, helping them to develop critical skills and grow their careers. Since its launch in July, over 2,100 hours of learning have been consumed.
- Ignite Programmes: Launched in 2022 we continue to evolve our programmes to develop the future skills needed to serve our increasingly tech-savvy customers. 394 colleagues are currently on a diverse range of apprenticeships, with 33% focused on vehicle repairs and 43% on data and technology.



Riverbank House – a great place to work for all our people

In August we opened Riverbank House – our new, fit for purpose and accessible by design office in London. It provides the environment we need for how we work now with lots of spaces for collaboration, creativity and interaction. The new location is in easy reach by multiple public transport routes, broadening the geographical area from which to attract top talent.

Working with external specialists and with extensive input from our Diversity Network Alliance employee networks, the building has been designed to meet the needs of our colleagues. Spaces include: a quiet room, multi-faith prayer room, nursing room and gender neutral toilet and shower facilities, alongside gender specific facilities. Office features include lighting and temperature controls, accessible fixtures and fittings, tactile and braille signage, with assistive hearing technology available. This inclusivity and accessibility lens was also applied to our new Motability office in Liverpool, creating a bright, modern and accessible space where colleagues can work at their best.

Rewarding colleagues

In January 2023 all colleagues (excluding Executive Directors and senior management) received a 5% pay rise, this was three months earlier than usual in recognition of cost of living pressures. This meant our minimum salary rose to £21,840 p.a. (based on a 37.5hr working week). This was set at 2.8% above the Living Wage Foundation's National Real Living Wage (as set in September 2022 for roles outside of London) and was also 7.5% above the Government's statutory National Living Wage (effective 1 April 2023 for those aged 23 and over). To provide additional support for colleagues on lower salaries, in February 2023 a one-off cost-of-living payment of £1,000 was announced for colleagues earning less than £40,000.

In March 2024, we announced that all eligible employees (excluding Executive Directors and senior management) will receive a salary increase of 5% effective from 1 April 2024. We remain firm to our commitment to lift the pay of our lowest earners and also announced that all colleagues will meet the Living Wage Foundation's National Real Living Wage (as set in November 2023) from 1 April 2024. This means that some employees will see their salary rise by around 7% on a full-time basis (for a 37.5hr working week), and the DLG minimum salary

will be £23,400 from 1 April 2024, for a 37.5hr working week, (excluding apprentices in DLG Auto Services who receive different rates of pay).

A diverse and inclusive business

We know that to succeed as a high performing business we need our workforce to be truly representative of our customers and society. Diverse perspectives, ideas and opinions lead to more insight, innovation and better decision making. And we know that being diverse is not enough, we also need to be inclusive, so everyone feels free to be themselves and succeed in their careers.

We've received some great external recognition; the Group has featured on the Top 50 UK Inclusive Employer's List for the last three years running and we have been placed in the Social Mobility Index for the first time this year. However, we've continued to build on the strong foundations we have in place, addressing under-representation at the senior levels of our business, whilst focusing on improving inclusion through key programmes of work. We are:

- holding Senior Leadership to account for the delivery of representation targets, with progress towards these new targets being a factor of consideration within the annual bonus outcome discussions.
- using inclusive hiring principles, which include the use of language decoders for job adverts, diverse shortlisting standards, anonymised CVs and panel-based interviewing.
- starting to build a stronger pipeline of diverse talent, especially in areas where we need skills for the future. This is complemented by additional interventions such as work experience, mentoring and skills building programmes that target these communities for our Ignite apprenticeship initiatives.
- learning from our Diversity Network Alliance (“DNA”) which comprises of seven employee networks which are a key driver of diversity and inclusion across our business. They focus on the following areas: Belief, Life (families and carers), LGBTQ+, Neurodiversity and Disability, REACH (race, ethnicity and cultural heritage), Social Mobility and Thrive (gender).

Increasing diverse representation in Senior Leadership

Increasing the diversity of Senior Leadership is a continuing focus for the Group, in particular the representation of women and ethnic minority and Black colleagues. Our progress is ongoing, but we are proud of the progress we have made. This year we have been investing in coaching and targeted development programmes for our high potential women, ethnic minority and Black talent to support their progression into senior roles.

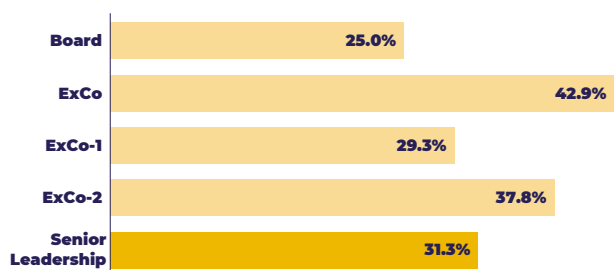
During 2023, we evolved our Senior Leadership diversity representation targets in order to better align with the approach taken by the FTSE Women Leaders Review, Women in Finance review and Parker Review. Whereas previously we set senior level diversity representation targets (including our 2023 targets) based on our internal role grading structure, going forward we define Senior Leadership in this context as the Executive Committee and their direct reports, excluding direct reports in support or administrative roles.

With this refined definition, we have challenged ourselves by setting longer-term stretching targets to hold us to account for delivering change.

Senior Leadership female representation

Despite our long-term focus on investing in women, we missed our 2023 annual target of 42.8% of women in senior roles (set with a definition based on our internal role grading structure, which covered a larger population including ExCo-2).

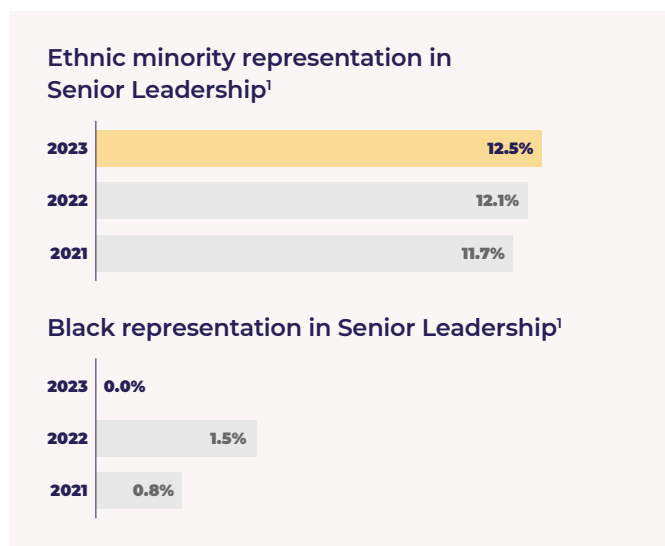
Looking to the future, we have set a new stretching target of 40% female representation in Senior Leadership by the end of 2027 (based on the new definition outlined above). At the end of 2023, women made up:



Senior Leadership ethnic minority and Black representation

Although we missed our senior role ethnic minority and Black representation 2023 annual targets (being 14.2% and 2.6% respectively), we recognise that progress is not always linear, and our representation remains strong compared to industry peers. We are strengthening our Senior Leadership succession pool by investing in developing ethnic minority successors through engaging with external programmes such as Solaris and Involve Emerging Leaders.

We have set new targets to achieve 16% ethnic minority and 4% Black representation in Senior Leadership roles by the end of 2027.

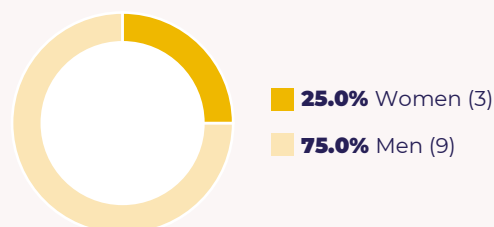


Notes:

1. 2023 figures refer to definition of Senior Leadership as Executive Committee and direct reports, excluding direct reports in support or administrative roles. 2021 and 2022 figures refer to a previous definition, used for 2023 annual targets, whereby senior roles are based on our internal role grading structure, which covered a larger population including ExCo-2.

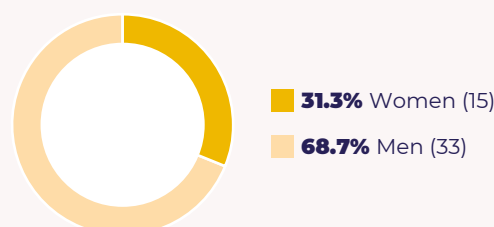
Gender diversity of our Board

As of 31 December 2023



Gender diversity of Senior Leadership

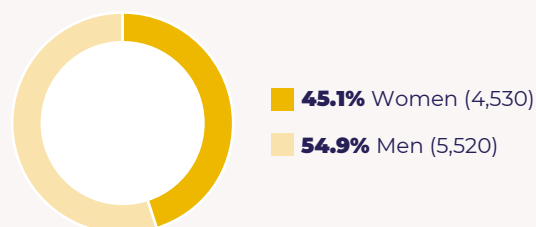
As of 31 December 2023



Gender diversity of Senior Leadership defined as Executive Committee and direct reports, excluding those in support or administrative roles

Gender diversity of all employees

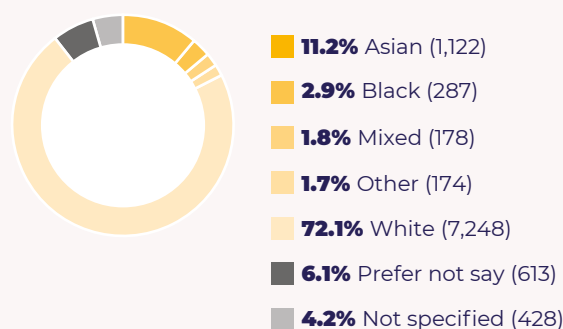
As of 31 December 2023



Excludes an estimated 0.4% of colleagues who identify as non-binary, gender-fluid or other gender due to data reporting constraints

Ethnicity of all employees

As of 31 December 2023



For more information on leadership gender diversity, including gender diversity of the Board see pages 101 and 112 to 113.

Gender pay gap¹

Last year our mean gap widened by 1.8 percentage points and our median gap by 3.1 percentage points. Our pay gap continues to be low compared with the broader financial services sector, but we want to see that gap close. We are comfortable that we do not pay people differently because of their gender and believe that the way to reduce the gap in the medium- to long-term is to continue with our work to address the disproportionate representation of women at certain levels and in certain areas of our business. For example, a particular driver of the pay gap movement we have seen is a market-driven movement in salaries in our accident repair centres, which is an area heavily resourced by men.

Our 2023 gender pay gap showed:

Pay gap

	Mean	Median
2023	21.1%	23.4%
2022	19.3%	20.3%
2021	16.1%	14.2%

Bonus gap

	Mean	Median
2023	53.8%	43.8%
2022	46.7%	45.4%
2021	45.9%	34.0%

% of employees receiving bonus

	Men	Women
2023	84.2%	87.3%
2022	83.1%	82.6%
2021	72.7%	60.6%

Ethnicity pay gap²

This is the third year that we are voluntarily disclosing our ethnicity pay gap. This year, aligned with new government guidance, we have changed the way we report this data to focus on more disaggregated ethnic minority groups.

As with the gender pay gap, we are comfortable that we do not pay people differently because of their ethnicity and believe that the way to reduce the gap in the medium- to long-term is to continue with our work to address the disproportionate representation of ethnic minority and black colleagues at certain levels and in certain areas of our business. Our disclosure rate has increased since last year. We are proud that 91% of colleagues are disclosing this information. However, changes in disclosure rate could change our gap, so as we continue to encourage colleagues to share their ethnicity with us, the numbers we report in the future may change.

It is important to note that when pay gap data is based on a smaller number of individuals, it can vary significantly over time due to colleagues' changes during the year. Our pay gap for all ethnic minorities remains low and has narrowed in 2023.

Ethnicity pay gap

	2023		2022	
	Mean	Median	Mean	Median
Ethnic minority (overall)	1.0%	12.7%	3.1%	9.7%
Asian	-2.7%	14.1%	1.1%	16.1%
Black	12.2%	17.8%	11.8%	11.0%
Mixed	3.2%	8.2%	1.0%	4.9%
Other	2.9%	-0.2%	2.9%	6.1%

Ethnicity bonus gap

	2023		2022	
	Mean	Median	Mean	Median
Ethnic minority (overall)	28.7%	20.4%	40.9%	19.1%
Asian	29.2%	20.5%	33.6%	17.8%
Black	40.6%	24.5%	59.7%	26.4%
Mixed	22.3%	15.3%	45.1%	22.5%
Other	16.9%	10.1%	45.6%	8.3%

% of employees receiving bonus:

	2023	2022
White	88.0%	84.6%
Ethnic minority (overall)	78.5%	74.6%
Asian	77.7%	71.5%
Black	74.1%	67.6%
Mixed	78.6%	77.0%
Other	89.6%	91.2%

Notes:

- The gender pay gap shows the difference in average pay between women and men. This is different to equal pay, which is women and men receiving the same pay for work of equal value. Our reporting is based on a snapshot date of 5 April 2023.
- The ethnicity pay gap shows the difference in average pay between ethnic minorities, Asian, Black, Mixed, Other and White colleagues. This is different to equal pay that is ethnic minority and White colleagues receiving the same pay for work of equal value. Our reporting is based on a snapshot date of 5 April 2023 and 91% of colleagues that have shared their ethnicity with us, this is an increase of 4% compared to last year.

Society

Building on the success of our Community Fund programme to help equip students with key career skills, we launched the second phase of activity in 2023 supporting social mobility by focusing on breaking down barriers further and engaging with harder to reach groups.

Progressing towards our ambition to build a more inclusive and equitable Britain, we developed our approach to include youth centre engagement, business simulations and outreach with special educational needs and disability (“SEND”) students.



Insurance business simulations



Introducing immersive experiences with a competition element where students can learn about different insurance roles and skills.

Youth centre engagement



Partnering with UK Youth, colleagues are visiting youth centres to engage with young people who face more complex barriers to accessing the workplace.

Working with SEND students



Working closely with special education providers, Majorie McClure and The Courtyard schools, to create tailored programmes to help students gain insight into Insurance and a professional work environment.



“It was a privilege to show neurodiverse students how maths and data is used within insurance.”

Fifi Arthur, Data Scientist

Work experience



Providing in-person and virtual opportunities for students with a focus on employability and careers skills.

Mentoring



Supporting young people on a one-to-one basis with career options, raising aspirations, and helping to build professional networks.

Insight events



Running insight events that enable students to develop networking skills and learn about different career pathways in insurance.

From 2022-2023

600+

colleague volunteers

2,200+

total volunteering hours

75%

of colleagues feel that we do a good job of supporting communities

9,700

young people's employability positively impacted

84%

were eligible for free school meals

83%

were from an ethnic minority background



We were delighted to be recognised for our efforts to support social mobility, ranking on the Social Mobility Foundation's Employer Index for the first time. We were assessed on various criteria for our work across the organisation including our recruitment approach, internal progression opportunities, our engagement with young people via the Community Fund and more.

Looking ahead to 2024, we want to build on the foundations we have created by connecting students with potential job opportunities to broaden access to careers in financial services.

Aligned with our vision to be a force for good, we aim to have a positive impact on the communities we serve and society as a whole.

We know that our stakeholders want us to contribute positively and we are working towards this ambition with our charity support, volunteering and Community Fund activity.

In 2023, we kicked off the second phase of our Community Fund, focused on outreach and enhancing our approach to working with young people who face more complex barriers to employment as we aim to broaden access to careers in financial services. This included the launch of a new partnership with UK Youth to complement our existing partnerships. Further information on our Community Fund activity can be found on pages 58 to 59. In 2024, we will focus on creating further synergies between our Community Fund outreach programmes and our emerging careers strategy to generate talent pipelines for critical business areas.

We were additionally delighted to rank on the Social Mobility Employer Index for the first time in 2023, recognised for various initiatives across the organisation as well as our Community Fund.

Charity support

We have also continued to help those in need by providing donations to various charitable causes in the UK, as well as several humanitarian appeals globally during 2023, including:

- Sponsoring the NSPCC's Great Chefs dinner, which raised close to £300,000 to help vulnerable children around the UK.
- £100,000 going out to local causes from our colleague-led Community and Social Committees ("CASCs").
- £90,000 distributed from our Diversity Network Alliance to a variety of organisations supporting their aims.
- £70,000 to various humanitarian and Disasters Emergency Committee campaigns across the world.



Volunteering

A key part of our social sustainability strategy, that supports our Community Fund outreach and our ambition to have a positive impact on the communities we serve, involves employee volunteering through our One Day programme. In 2023, hundreds of colleagues took part in various volunteering activities ranging from mentoring young people to hands-on projects improving spaces in our local communities and we look forward to continuing to drive engagement in 2024 with the launch of a new volunteering platform.

Our 2023 tax contribution

In accordance with applicable tax laws and regulations and our responsibilities both as a contributor of corporate taxes and as a collector of taxes on behalf of HMRC, in 2023 the Group's net tax contribution was £936.8 million, which includes the Group's direct and indirect taxation.

Our customers	IPT	£439.1m
Our suppliers	VAT	£17.0m
Our people	PAYE NIC	£102.5m
Our operations	Other taxes including business rates	£5.2m
	Irrecoverable VAT	£304.0m
	Employers NIC	£44.7m
Our performance	Corporation Tax	£24.3m

HM Treasury

£936.8m¹

Net tax contribution

Society

- Public services
- Healthcare
- Infrastructure
- Welfare
- Education
- Defence

Note:

1. The Group's total tax contribution in 2023, including direct and indirect tax contributions.

Planet

We are focused on playing our part in accelerating the transition to a low-carbon future, while supporting our customers to make sustainable choices.

Aligned with our mission to protect our business from the impact of climate change and give more back to the planet than we take out, our climate strategy is summarised in the diagram below.

This is supported by our Science-Based Targets (“SBTs”) and our climate-related risk management roadmap, against which we continued to make progress in 2023. For more information, please see our progress against our SBTs on page 62 and in our understanding and management of climate-related risks and opportunities in our climate-related disclosures on pages 70 to 85.

Our vision

To create a world where insurance is personal, inclusive and a force for good

Our climate ambition

To become a Net Zero business across all scopes by 2050

Having had our Science-Based Targets approved by the Science Based Targets initiative in November 2022, we are taking a strategic and rounded approach to developing a transition plan to meet our targets and manage our climate-related risks and opportunities.

Our 5 near-term Science-Based Targets¹ to support our ambition

Operational emissions (Scope 1 and 2)

1. Reduce emissions 46% across our office estate and accident repair centres by 2030

Investment portfolio (Scope 3): Corporate bonds

2. Align our scope 1 and 2 portfolio temperature rating to 2.08°C by 2027

Investment portfolio (Scope 3): Corporate bonds

3. Align our scope 1, 2 and 3 portfolio temperature rating to 2.31°C by 2027

Investment portfolio (Scope 3): Commercial property

4. Reduce emissions from our commercial property portfolio by 58% per square metre by 2030

Investment portfolio (Scope 3): Real estate loans

5. Reduce emissions from our real estate loans portfolio by 58% per square metre by 2030

Our commitments to deliver against our ambition and targets

Plan and implement

- Tangible actions to reduce emissions across our office estate and auto services sites.
- Strategies and new products and services to support our customers in the transition such as our EV strategy.
- Strategies to tilt our investments towards companies taking action to reduce emissions.

Engage and influence

- Our supply chain through our supply chain sustainability programme that encourages and supports suppliers to reduce their emissions.
- Our external investment partners to align their strategies with our commitments.
- Our people through our internal sustainability networks and education programmes.
- Our sector through our involvement with the ABI and its working groups.

Govern and manage

- Our climate-related risks and opportunities through our climate-related risk management roadmap.
- Our underwriting footprint by understanding our underwriting emissions.
- Our SBTs through annual external assurance and future alignment to updated guidance and standards.
- The integration of oversight responsibilities for climate across our Board Committees.

Strategic management actions

Electric vehicles

Supply chain

Flood resilience

Underwriting footprint

Note:

1. Targets were set against a 2019 baseline and are expected to be updated and expanded according to new SBTi sector guidance, due in 2024.

Science-Based Targets

In November 2022, we had our SBTs validated by the Science Based Targets initiative (“SBTi”). Current guidance from SBTi has enabled us to set near-term targets for our operational emissions (Scope 1 and 2) and emissions associated with our investments, which are estimated to represent 70% of our Scope 3 emissions. This is our first year of reporting against three of our five targets with our 2023 performance summarised below. We are due to report against our commercial property and real estate loans targets for the first time in 2024. While we wait for finalised sector guidance from SBTi in 2024, we have also set an internal target to reduce our supply chain emissions through to 2030.

2023 performance

Progress against targets

Operational emissions (Scope 1 and 2)

Covering

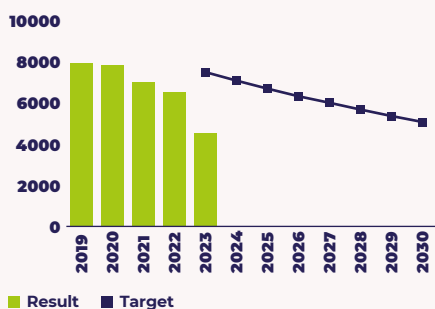
Operational footprint

Our buildings and garage network including our 23 auto services sites and 13 offices.

Targets

1. Reduce emissions by 46% across our offices and accident repair centres by 2030 against the 2019 baseline.

Operational emissions (Scope 1 and 2)



In 2023 we further reduced these emissions by 31%¹ compared to 2022 as we continue to make progress in downsizing and investing in our office estate, electrifying our auto services sites and using alternative fuels in our recovery trucks. Overall we have now reduced our Scope 1 and 2 emissions by 43%¹ against our 2019 baseline meaning we are on track to deliver our 2030 target of a 46% reduction. Our work will continue this year and beyond as we look to renegotiate our renewable energy contracts, continue the electrification of our auto services sites and explore fossil fuel alternatives for our recovery trucks.

1. We are required to use Scope 1 and Scope 2 market-based emissions for SBTi operational target-setting and reporting. When including Scope 2 location-based emissions this reduction is equivalent to a 22% reduction when compared to 2022 and a 52% reduction overall.

Investments (Scope 3)

Covering

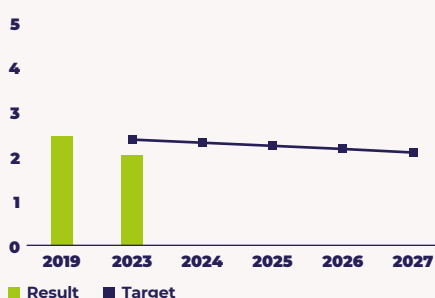
Corporate bonds

The largest asset class in our investment portfolio and typically short-duration holdings.

Targets

2. Align our Scope 1 and 2 corporate bonds portfolio temperature rating to 2.08°C by 2027 from 2.44°C in 2019.

Corporate bonds Scope 1 and 2 temperature rating

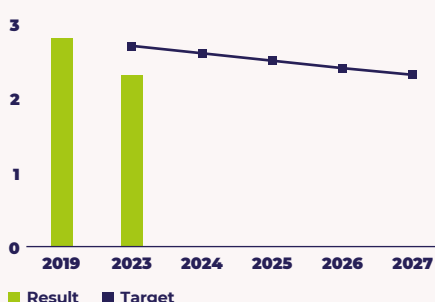


Our performance in 2023 shows we were successful in reducing the temperature rating of this portfolio to 2.02°C for Scope 1 and 2 against our 2019 baseline of 2.44°C (Target 2) and to 2.31°C for Scope 1, 2 and 3 (Target 3) against our 2019 baseline of 2.8°C. This means we have hit our 2027 targets early, something we have achieved through working with our investment managers and providing them with clear mandates.

Reductions have been largely driven by an increasing number of investee companies achieving lower temperature ratings by setting ambitious greenhouse gas reduction targets including SBTs. This has helped to lower the aggregate portfolio temperature score. To a lesser extent, reducing exposure to US dollar denominated corporate bonds (as part of the Group-wide capital de-risking exercise in summer 2022) has helped as firms in the dollar universe have been relatively slower to set targets for emissions reduction than in Europe. Although the weight to US dollar debt will likely increase in 2024, we do not expect the temperature score to materially rise as managers are expected to largely target bonds issued from companies with stronger climate credentials.

3. Align our Scope 1, 2 and 3 portfolio temperature rating to 2.31°C by 2027 from 2.8°C in 2019.

Corporate bonds Scope 1, 2 and 3 temperature rating



Commercial property

4. Reduce commercial property emissions by 58% per square metre by 2030 compared to the 2019 baseline.

Investment portfolio consisting of prime UK commercial properties.

2023 performance will be reported with a one-year lag in the 2024 Annual Report and Accounts.

Real estate loans

5. Reduce real estate loans emissions by 58% per square metre by 2030 compared to the 2019 baseline.

Investment portfolio consisting of short-dated loans backed by UK commercial properties.

2023 performance will be reported with a one-year lag in the 2024 Annual Report and Accounts.

Our investments

All external investment managers are signatories of the United Nations Principles for Responsible Investment ("UN PRI"), which ensures that Environmental, Social, and Governance ("ESG") criteria are integrated into the investment process.

For investment-grade corporate bond portfolios, as an added measure, we require that managers maintain an average MSCI ESG rating equivalent to or higher than that of the ESG-weighted reference index each portfolio is managed against.

We have set ourselves the target of achieving Net Zero emissions from the investment portfolio by 2050 as part of our alignment with the Race to Zero campaign on climate change.

In addition to our SBTs, we are keeping our target of reducing the greenhouse gas ("GHG") emissions intensity of our corporate bond portfolio by 50% by 2030 versus a 2020 baseline as a backward looking indicator, to ensure emissions are reducing at the required pace over time to achieve our longer-term Net Zero goal.

We also require the below exclusions and preferences:

- The exclusion of any companies with a low MSCI low-carbon transition score, indicating assets could be economically stranded.
- The exclusion of companies involved in thermal coal activity, either mining or power generation, at greater than 5% of revenues.
- Preference for investments in green bonds where the risk return characteristics are similar to conventional bonds.

Energy efficiency measures¹

In 2023, we made progress in reducing our footprint, investing in energy efficient measures to help us work towards meeting our SBTs. Compared to last year, we have:

- expanded the use of hydrogenated vegetable oil ("HVO") in our repair centres as an alternative fuel for our recovery trucks. This initiative has now been implemented at 95% of our auto services sites, resulting in an estimated saving of 2,025 tCO₂e in 2023;
- removed gas from all paint spray booths in one of our auto services sites, providing an estimated saving of 277 tCO₂e per year;
- completed the installation of LED lights across all 23 auto services sites; and
- been awarded a silver SKA rating for the fit out of our new Riverbank House office. An SKA rating is a recognised means of assessing the refurbishment of existing buildings to ensure the retrofit is carried out in an environmentally considerate way.

Supply chain sustainability programme

We continue to make headway with our supply chain sustainability programme, liaising with and influencing suppliers so we can make the transition to a pathway consistent with a 1.5°C scenario. We have now engaged with our managed supply chain, of which 20% have signed up to SBTi targets or an equivalent, and have updated our processes to ensure we are continuously engaging with our key suppliers to understand their plans to reduce emissions and set targets.

During the year, we also worked on reviewing our sourcing processes, communicating to our key managed suppliers our intention to increase the weighting on sustainability questions from 5% to 10% for contracts over £1 million from January 2024.

While we work towards our internal emissions reduction target, we also look forward to the final publication of the Financial Institutions Net-Zero Standard from the SBTi, which is expected in 2024.

Note:

1. Data is reported in compliance with the SECR requirements (see page 85).

"It's been great switching our paint booths from gas to electric, helping to reduce our footprint."

Elliott Henry-Hughes | Technical Engineering Graduate 2022



Group emissions

We believe accurate measurement and transparency can guide the business in making targeted interventions as part of our carbon reduction strategy. During the year we implemented a number of test and learn activities, and continue to innovate and explore a range of solutions such as the electrification of the paint spray booths at our auto services sites.

We have provided a comparison of emissions data for Scope 1, 2 and 3 which includes our Investment emissions for the first time. We are reporting on the temperature rating of our corporate bonds and private placements for 2023. Due to the practicalities of obtaining data from our external asset managers ahead of the release of the Group's annual reporting, emissions for commercial property and real estate loans will be reported with a one-year time lag. This approach was agreed with the SBTi when our targets were approved in 2022.

100% of the emissions reported in the table on page 64 relate to our operations, all of which are based in the UK. The data is reported in compliance with the Streamlined Energy and Carbon Reporting ("SECR") requirement to disclose annual global GHG emissions.

Definitions

Scope 1: This covers direct emissions from owned or controlled sources. For example, our office sites throughout the UK using gas boilers, the paint booths in our auto services sites currently relying on gas powered processes, and our fleet vehicles.

Scope 2: These are indirect emissions. They are emissions associated with the production and transmission of energy we eventually use as a company across our office and auto services sites. For example, the production of the electricity we buy to heat and cool our buildings generates emissions.

Scope 3: These are indirect emissions that occur in our investments and the value chain to support our company operations. For example, employee commuting, activities related to the disposal of waste, and the goods and services we purchase to fulfil customer claims as part of our supply chain.

Group greenhouse gas emissions reporting

Scope 1	2023	2022	2021	2019 (Baseline)				
Office sites	671	1,023	1,220	1,418				
DLG Auto Services ¹	3,829	5,506	5,812	6,506				
Total (tCO₂e)¹	4,500	6,529	7,032	7,924				
Scope 2	Location-based	Market-based ²	Location-based	Market-based ²	Location-based	Market-based ²	Location-based	Market-based ²
Office sites	642	33	1,089	0	1,372	0	4,516	0
DLG Auto Services	1,824	0	1,364	0	1,783	0	2,093	0
Total (tCO₂e)	2,499	33	2,453	0	3,155	0	6,609	0
Total Scope 1 and 2 (tCO₂e)¹	6,999	33	8,982	0	10,187	0	14,533	0
Of which: Office sites (tCO ₂ e)	1,346		2,112		2,592		5,934	
Of which: DLG Auto Services (tCO ₂ e) ¹	5,653		6,870		7,595		8,599	
Scope 3	2023	2022	2021	2019 (Baseline)				
Purchased goods and services ³	242,364	244,316	268,696	294,080				
Fuel and energy-related activities (not included in Scope 1 and 2)	1,354	1,518	2,586	2,459				
Upstream transportation and distribution	1,641	1,890	655	4,173				
Waste generated in operations	1,762	2,523	1,990	3,358				
Business travel	1,287	475	91	1,807				
Employee commuting ⁴	7,100	7,227	5,962	3,176				
Of which: homeworking emissions ⁵	5,256	5,583	5,501	–				
Upstream leased assets ⁶	131	189	110	514				
Downstream leased assets ¹⁷	2,878	1,552	964	1,658				
Total Scope 1, 2 and 3 excluding investments (tCO₂e)	265,516	268,672	291,241	325,758				
Investments ^{8,9,10}	2023	2022	2021	2019 (Baseline)				
Corporate bonds and private placements Scope (1 and 2)	2.02°C			2.44°C				
Corporate bonds and private placements Scope (1, 2 and 3)	2.31°C			2.80°C				
Real estate investments (tCO ₂ e)	–	4,630		5,197				
Real estate investments – intensity (kCO ₂ e/m ²)	–	54		67				
Real Estate Loans (tCO ₂ e)	–	10,011		13,769				
Real Estate Loans – intensity (kCO ₂ e/m ²)	–	72		81				
Intensity metrics	2023	2022	2021	2019 (Baseline)				
Scope 1 and 2 emissions (tCO ₂ e) per £ million of net insurance revenue ¹¹	2.2	2.9						
Scope 1 and 2 emissions (tCO ₂ e) per average number of employees for the year	0.7	0.9	1.0	1.3				

Notes:

- The 2019 reported Scope 1 emissions baseline differs from our previously reported baseline following a review of courtesy car fuel, by Accenture. As a result, 1,658 tCO₂e has been reclassified from Scope 1 emissions to downstream leased assets (Scope 3, Category 13), which represents the emissions from any additional fuel used by customers in courtesy cars. An additional 183 tCO₂e has been included within Scope 1 emissions to account for the initial on-site refuelling of courtesy cars.
- Figures for Scope 2 use standard location-based methodology. We follow the GHG Protocol to disclose both location and market-based figures; and as we have secured our energy from 100% renewable sources since 2014, our Scope 2 market-based results are nil prior to 2023. From 2023, emissions from electric and plug-in hybrid vehicles in the company car fleet have been reported within Scope 2 market-based for the first time. Prior period data for these emissions is not available.
- In accordance with the GHG Protocol under which we report, the following are excluded from the total: operational control activities already detailed under Scope 3 emissions; cash payments to customers or other insurance companies/legal firms as compensation; intragroup transfers between our operating companies for financial accounting purposes as the actual purchase of goods and services to our third-party suppliers is already captured; and reinsurance costs to third-party reinsurers as this is a financing transaction.
- Employee commuting is based on estimated UK national averages, not actual individual methods of transport of Direct Line Group employees commuting.
- Homeworking emissions are reported under the employee category in line with the GHG Protocol.
- Upstream leased assets refer to (1) leased office space locations where Direct Line Group does not directly control the energy provision (2) auto services pods in retail car park locations.
- Downstream leased assets includes DLG Auto Services courtesy cars emissions as referenced in footnote 1.
- The investment portfolio emissions are being reported for the first time where available. The corporate bonds emissions and corresponding temperature ratings relate to 2023 performance. Due to the practicalities of obtaining data from our external asset managers ahead of the release of the Group's annual reporting, emissions for commercial property and real estate loans will be reported with a one-year time lag. This approach was agreed with the SBTi when these targets were approved in 2022.
- Investment emissions for the corporate bonds portfolio are expressed as temperature scores (°C). The temperature scores have been generated using the Carbon Disclosure Project temperature rating tool.
- Investment emissions for the commercial property and real estate loans portfolio are emissions-based expressed as emissions intensity per m² of floor area (kCO₂e/m²). The underlying emissions are calculated in accordance with Partnership for Carbon Accounting Financials for accounting and reporting emissions generated from investment activities.
- Following adoption of IFRS 17, the Group restated its 2022 results. As such, we now calculate this intensity metric using net insurance revenue (previously calculated using net earned premium) and the 2022 metric has been re-presented accordingly. Analysis for periods prior to 2022 is not available. For historic reporting, see previous publications, including page 70 of the 2022 Annual Report and Accounts.

Reporting methodology

We apply the relevant greenhouse gas reporting requirements contained within Schedule 7, Part 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and apply the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) to calculate our emissions, which includes emissions associated with electricity consumption. We use the operational control method to define the boundary for consolidating GHG emissions.

Our carbon emissions are calculated by an external third party and reviewed internally. The calculation method used for our 2023 emissions reporting remains consistent with prior periods and with the reporting standards stated above. For the year ended 31 December 2023, Accenture provided limited assurance for Scope 1, 2 and partial Scope 3 emissions reporting. This verification exercise was performed to the ISO 14064-3 standard.

Scope 3 emissions

The GHG Protocol defines Scope 3 emissions as all other indirect emissions that occur in a company's value chain. These include Scope 3, Category 1: Purchased Goods and Services (or 'supply chain') and Scope 3, Category 15: Investments (or 'financed emissions').

In estimating the emissions from our supply chain, we use the GHG Protocol's spend-based approach. This involves using supplier spend data and multiplying these values by a relevant emissions factor to estimate the amount of emissions associated with purchased goods or services.

We have applied the Partnership for Carbon Accounting Financials ("PCAF") methodology to calculate emissions associated with our investment activities, in line with industry best practice. We have included our corporate bonds, commercial property and real estate loans within our financed emissions calculations.

Our Net Zero ambition

We aim to become a Net Zero business across all scopes by 2050, with external near-term targets and plans that cover our operational emissions (Scope 1 and 2) and our investments. At present, we have not set an external target for our supply chain emissions while we await the publication of the Financial Institutions Net-Zero Standard from the SBTi, which is expected in 2024. We expect this new standard to enable us to set targets that are consistent with our ambition of achieving Net Zero across all scopes by 2050. For more information on our supply chain sustainability programme, please see page 63.

Energy consumption (kWh)^{1,2}

	2023	2022
Electricity	11,906,788	12,686,882
Gas	19,779,732	21,485,898
Total	31,686,520	34,172,780

Notes:

- 100% of GHG emissions and energy consumption reported relates to operations, all of which are based in the UK.
- Data is reported in compliance with the Streamlined Energy and Carbon Reporting ("SECR") requirements (see page 85).

Our approach to offsetting

Our primary focus is on reducing absolute emissions as quickly as possible in line with our Science-Based Targets and we recognise that using carbon credits to offset residual emissions in reaching Net Zero is a last resort. As we decarbonise our business, we currently choose to support projects that help to offset our remaining Scope 1 and 2 emissions.

Working with Climate Impact Partners, an organisation that develops and delivers high quality carbon financed projects, we supported a new afforestation initiative in Uruguay from November 2023. We have selected this project as it is a verified carbon removal project to offset our Scope 1 and 2 emissions for the next 3 years. Our support contributes to the reforestation of land where eucalyptus plantations have been established, helping to develop a sustainable approach to wood production, provide employment opportunities for the local community and enhance biodiversity and carbon sequestration opportunities.

Biodiversity

Globally, nature is declining at an unprecedented rate and the UK is one of the most nature-depleted countries in the world. This degradation affects society as a whole and while our sector may not have the same degree of direct impacts and dependencies on biodiversity as some others, it is a crisis that demands the attention of all businesses. We also recognise that conserving and restoring nature, and the biodiversity it contains, is essential for limiting emissions and adapting to climate impacts.

We are a supporter of the Get Nature Positive movement, a UK initiative founded by the Council for Sustainable Business and supported by Defra, which seeks to build momentum on nature and biodiversity. In 2023, we continued to fund a tree planting project on a flood prevention scheme in Yorkshire, replacing the trees we removed when home insurance policyholders make subsidence claims. Working in partnership with nature recovery charity Heal, we also provided a loan to acquire a 460 acre site in Bruton, Somerset where rewilding is in progress and wildlife is flourishing.

The publication of the Taskforce on Nature-related Financial Disclosures ("TNFD") final framework on nature-related risk management and disclosure in September 2023 provides welcome guidance for businesses to report and act on evolving nature-related dependencies, impacts, risks and opportunities. We will continue to review our practices and approach against these new standards.

Governance

Good governance is the foundation of our approach to sustainability and our ability to operate ethically and responsibly.

This starts with a clear commitment from the Board to align sustainability goals across the Group, supported by our Committee structure including the work of our dedicated Customer and Sustainability Committee, whose role it is to challenge and scrutinise the Group's approach and performance in the pursuit of our goals.

While we report on our approach and progress in our priority governance-related issues in this section, the corporate governance section incorporates information on the role and activities of the Board and our Committees in relation to sustainability in 2023, including:

- Board leadership and company purpose (page 102)
- The role of the Board in the Company's culture (page 103)
- How the Board engages with stakeholders (pages 107 to 108)
- Colleague engagement (pages 108 to 109)
- The Board's approach to inclusion and diversity (page 112)
- The Customer and Sustainability Committee (pages 127 to 128)
- Responsible investment (page 130)

For further information on how we're embedding sustainability considerations into Senior Management performance and long-term incentive plans, please see page 141 and 143 of the remuneration report.

Business ethics

We are committed to the highest possible standards of professional and ethical conduct across the Group as a prerequisite to building a sustainable business for the future that serves all our stakeholders. Our Code of Conduct sets out the ethical standards that are required of all those working for or on behalf of our business – our people, contractors and partners – in relation to areas including discrimination, harassment or bullying, treating customers and suppliers fairly, diversity and inclusion, fair competition and contributing to society and the environment.

This is underpinned by a comprehensive policy framework, each of which outlines our commitments and expectations of our people and partners in relation to specific areas.

All of our Group policies and statements including our Code of Business Conduct, Ethical Code for Suppliers, Prevention of Financial Crime and Whistleblowing policies, and our latest modern slavery statement can be found at www.directlinegroup.co.uk



Anti-bribery, anti-corruption and financial crime prevention

We are committed to the detection, prevention and reporting of financial crime which includes:

- bribery and corruption;
- money laundering;
- terrorist financing;
- fraud; and
- sanctions.

Our approach is based on maintaining robust systems and controls with clearly defined policies and minimum standards to promote compliance with all applicable legislation, as well as regulation and industry-approved guidance. These are regularly reviewed to ensure they remain fit for purpose and align to the Group risk framework which includes a robust financial crime governance framework and internal reporting and escalation channels.

Mandatory financial crime awareness training (which covers anti-money laundering, counter-terrorist financing, financial sanctions, fraud and the prevention of the facilitation of tax evasion) is undertaken by all employees at induction and annually thereafter, including an assessment element that must be passed. In 2023, 96% of our employees completed our annual programme of mandatory financial crime awareness training.

In addition, mandatory anti-bribery and whistleblowing training is undertaken by all employees at induction and annually thereafter, again including an assessment element that must be passed. In 2023, 97% of our employees completed our annual programme of mandatory anti-bribery training.

These and other related policies are supported by our whistleblowing policy and approach which sets out the controls within which the Group promotes a culture of openness and creates a positive working environment in which anyone can raise any concerns without fear of reprisals. All employees and contractors can raise concerns via their people manager or utilise the services provided by an independent third party that provides a free, confidential 24/7 telephone helpline and web-based service for disclosures to be made.

Responsible procurement

As a financial services business, many of our social and environmental impacts manifest through the operations and activities of our suppliers. Our relationships with and the performance of our suppliers is therefore critical to our business and our ability to operate sustainably, responsibly, and ethically. As such, our aim is always to maximise supply chain opportunities by proactively seeking and building strong, value-focused relationships with our suppliers.

Our approach to working with our suppliers is underpinned by our Ethical Code for Suppliers which outlines both our commitments to our suppliers and our expectations of suppliers including areas such as human rights and labour standards, people and society, environment, and governance. This Code was refreshed in 2022 and rolled out to all managed suppliers in Q1 2023. All suppliers that we work with are required to confirm that they agree to this Code and we encourage them to ensure their own upstream supply chain adheres to the spirit of our business principles.

We maintain a centralised procurement and supply chain function that operates the processes designed to ensure we select and manage our suppliers appropriately to support the given service provision and potential risk exposure to our business. These processes, which include supplier segmentation based on multiple factors including risk exposures, due diligence on new suppliers, on-boarding, ongoing management and assurance, are reviewed and refreshed on an annual basis to ensure they remain relevant and aligned with the potential exposures faced by the business.

When selecting new suppliers, our sourcing teams conduct an open and transparent sourcing and assessment process during which potential suppliers are assessed against a wide range of criteria including commitment to and practices relating to the wider ESG agenda such as reducing environmental impacts, with a sustainability score being applied during the sourcing process. Through ongoing monitoring of our supply chain we are able to assess their contribution to our scope 3 emissions and work with them on initiatives that will support the delivery of our strategic objectives.

For more information on our supply chain sustainability programme, please see page 63.

Human rights and modern slavery

Although as a general insurer, we may be seen as within a lower risk industry, we recognise the importance of understanding and managing the areas within our supply chain that can be more vulnerable to potential human rights risks. Our Ethical Code for Suppliers expects our suppliers to adhere to:

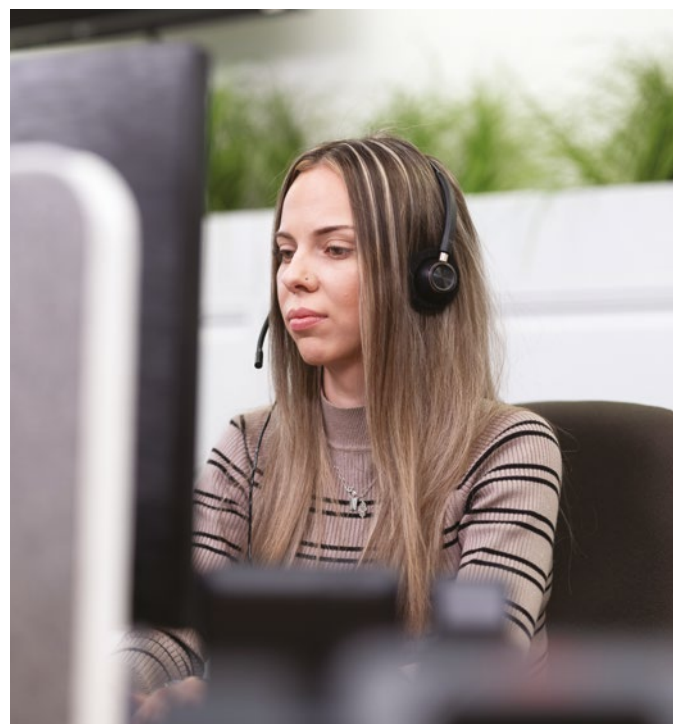
- a. The core International Labour Organisation (“ILO”) standards which ban the use of child labour and forced compulsory or bonded labour.
- b. The non-core ILO standards which include statements that workers should have safe and hygienic working conditions, a living wage should be paid, working hours are not to be excessive, and abuse and intimidation are prohibited.

In addition, we expect our suppliers to comply with the UK Modern Slavery Act (2015) and provide assurances of compliance through a published statement which outlines the steps that are being taken to support the Act, where applicable.

The processes we follow across our procurement and supply chain function are key to supporting our adherence to the Act, with modern slavery considerations fully integrated across our sourcing process, ongoing assurance activity and mandatory annual training. In 2023, this training was enhanced through the trialling of a government-sponsored module.

Prompt Payment Code

We have always had a strong commitment to engage with and treat our partners in the right way being longstanding signatories to the Prompt Payment Code, a voluntary code of practice for businesses to ensure payments are made to suppliers on time. In 2023, for the second year in a row, we were awarded a Fast Payer Accreditation Award by Good Business Pays acknowledging our role in supporting our suppliers in this way.



“We know how important it is to support our suppliers, playing our role in being a responsible corporate citizen and it’s fantastic to be recognised with the fast payer accreditation award.”

Darren Braham,
Results Production Analyst



Data ethics

Consumers are becoming more aware of their data rights and the industry is gathering more data than ever before as it increasingly explores more sophisticated processing capabilities, such as artificial intelligence (“AI”) and machine learning. Against this backdrop, we have continued to embed ethical considerations as a foundation of our approach to the use of data so we can both protect our customers and use more advanced technology to drive better customer outcomes.

We have established and embedded a holistic data ethics framework to enable ethical data-driven decision-making across the business and drive a culture of transparency, accountability and data literacy. At the heart of the framework are eight principles which act as guardrails to ensure that we meet the core tenets of fairness, transparency, accountability and lawfulness:

1. Respect the person behind the data.
2. Ethics will be designed into data processes and solutions from the outset.
3. Understand and document the purpose for any data collected, used and/or shared.
4. Comply with applicable laws and regulations in connection with data, its collection and use.
5. Understand limitations and quality of the data we use and how this may impact the decisions we make.
6. Actively pursue a fair, explainable and transparent approach to algorithmic and statistical decision-making.
7. Ensure accountability and appropriate governance for any automated decision process.
8. Provide appropriate guidance and training to support and encourage responsible data use.

Data privacy and security

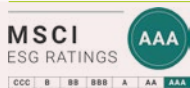
We have implemented and maintain an extensive privacy and security framework to effectively manage privacy and security risks and to meet our responsibilities under the UK’s General Data Protection Regulation (“UK GDPR”) and the Data Protection Act 2018. All business areas within the Group and our subsidiaries are required to meet the standards set out in the framework and are required to evidence compliance with UK GDPR obligations, including implementing privacy by design, fulfilling data subjects rights and reporting and resolving potential incidents.

Our cyber security programme is led by the Chief Information Security Officer who has responsibility for cyber security, first line technology risk and operational resilience. We employ sophisticated tools designed to protect information and prevent data breaches and routinely perform self-assessments against regulatory frameworks such as the NIST (National Institute of Standards and Technology) cyber security framework. Our internal controls are validated through the use of security monitoring and rigorous internal audits, with external independent audits conducted at least once every two years.

All staff, including temporary staff and contractors, are provided with training on their data protection and security responsibilities as part of our annual programme of mandatory training.

External ratings, memberships and benchmarks

We actively support a variety of membership organisations, and disclose information to ratings and benchmarking authorities, as well as receive ESG performance ratings.



MSCI

In 2023, we received a rating of AAA (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment



Sustainalytics

As of October 2023, we received an ESG Risk Rating of 23.2 and were assessed by Sustainalytics to be at a medium level of risk^{1,2}



Ecovadis

We were awarded a silver medal in 2023



Carbon Disclosure Project

We were awarded a C score in 2023



Science Based Targets initiative

In 2023, we made progress in working towards our Science-Based Targets, after having our targets approved in November 2022



Race to Zero

As part of our Race to Zero pledge, we have signed the Business Ambition for 1.5°C



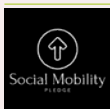
Get Nature Positive

We are a supporter of the Get Nature Positive campaign, focused on restoring nature and biodiversity



Inclusive top 50 employers

We ranked 17th on the Inclusive Top 50 UK Employers List 2022/23



Social Mobility Pledge

We support the Social Mobility Pledge and have focused on helping students with their careers through our Community Fund



Women in Finance

We are a signatory to HM Treasury's Women in Finance Charter



Race at Work Charter

We support the Race at Work Charter to take positive action towards supporting ethnic minority representation and inclusion



The Faith & Belief Forum

We are a signatory of the Charter for Faith & Belief Inclusion which aims to help create understanding between people of different faiths and beliefs and a society which is fair to people of all backgrounds – religious and non-religious

Notes:

1. Assessed to be at a medium level of risk of experiencing material financial impacts from ESG factors.
2. Copyright © 2023 Morningstar Sustainalytics. All rights reserved. This section contains information developed by Sustainalytics (www.sustainalytics.com). Such information and data are proprietary of Sustainalytics and/or its third-party suppliers (Third Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at <https://www.sustainalytics.com/legal-disclaimers>

Task Force on Climate-related Financial Disclosures

Introduction

The Group's 2023 disclosure against the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") reflects continued action to further develop our understanding and management of climate-related risks and opportunities. Our report also provides an update on the progress we are making towards our Science-Based Targets and includes the steps we have taken in the year to further assess and develop our disclosures against the TCFD's recommendations.



The Group, as at the time of publication, has complied with the requirements of Listing Rule 9.8.6R by including climate-related financial disclosures consistent with 9 of the 11 TCFD Recommendations and Recommended Disclosures for all sectors ('Section C Guidance for All Sectors'), including the supplemental guidance for insurance companies ('Section D Supplemental Guidance for the Financial Sector') within the 2021 TCFD Annex. The Group has reported against all 11 recommended disclosures and believes its disclosure against 9 of the 11 recommendations meets the objectives of the TCFD framework, with further detail regarding the two remaining recommendations explained below.

For Metrics and Targets disclosure recommendations (a) and (b), which includes sector-specific guidance for insurance companies, we continue to work towards developing our disclosure against the relevant components of these two recommendations, as outlined below.

Metrics and Targets disclosure recommendation (a):

- to provide additional metrics, including cross-industry metrics, within our disclosure to support measurement and management of transition risks and opportunities; and
- to describe the extent to which our insurance underwriting activities, where relevant, are aligned with a well below 2°C scenario.

Metrics and Targets disclosure recommendation (b):

- to disclose, where data and methodologies allow, the weighted average carbon intensity or GHG emissions associated with commercial property and specialty lines of business.

In the year, we have assessed the actions required to improve the level of disclosure across these areas in future reporting. On page 83, we set out the details of this assessment and the activities undertaken, with further plans in place across 2024.

Companies (Strategic Report) (Climate-related Financial Disclosures) Regulations 2022

The climate-related financial disclosures made by the Group, within the following pages, comply with the requirements of the Companies Act 2006 as amended by the Companies (Strategic Report) (Climate-related Financial Disclosures) Regulations 2022. The Non-Financial and Sustainability Information Statement, on page 49, outlines where disclosure against each of these requirements can be found.

Governance

Our approach

The Group's approach to the governance of its sustainability strategy is underpinned by our Vision and Purpose (see page 22) and a clear commitment from the Board and senior management to align sustainability goals with the Group's strategy, and to encourage accountability across the business.

Our five-pillar sustainability strategy, endorsed by the Board, aims to foster the highest standard of Environmental, Social and Governance practice and deliver long-term sustainability for all our stakeholders. The Planet pillar takes the lead on climate-related issues.

Boards and Committees

The potential and actual impact of climate change on the business ("inbound"), as well as the Group's impact on the environment ("outbound"), are issues requiring robust governance to empower business areas in the management of climate-related risks and opportunities.

It starts with the Group's Board, which seeks to underpin all of the Group's activities with the highest standards of corporate governance. The Board has oversight on two key aspects of the Group's approach:

- Each year, the Board assesses the strategic plan (the "Plan") in conjunction with the Group's Own Risk and Solvency Assessment ("ORSA"), which considers material risks to the Plan, including climate change-related risks.
- The Board oversees the Group's sustainability activity through its Committees, which scrutinise and provide appropriate challenge on the Group's five pillar sustainability strategy, including the establishment and monitoring of Science-Based Targets and the Group's development of a climate-related risk management roadmap (see page 71). The Chair of each Committee reports to the Board after each Committee meeting.

Committees

- The **Audit Committee** meets a minimum of four times a year and is responsible for overseeing the Group's financial statements and non-financial disclosures, including climate-related financial disclosures.
- The **Board Risk Committee** oversees all aspects of financial, regulatory and operational risk, including the risk to the Group from climate change. It meets a minimum of four times a year and receives reports on stress testing of long-term climate change scenarios, discusses strategies for managing the associated risks and receives updates on emerging risks throughout the year, with deep dives as appropriate. During the year, the Committee played a key role in monitoring the Group's climate-related risk management roadmap and identifying areas of opportunity for improvement.
- The **Investment Committee** meets a minimum of three times a year and considers the strategy for incorporating ESG factors into the Group's investment management, which has seen our credit portfolios tilted to issuers with higher sustainability weightings. In 2023, additional items relating to climate and sustainability oversight were introduced into the Committee's Terms of Reference.

- The **Nomination and Governance Committee** meets a minimum of two times a year, monitoring the Board's overall structure, size, composition and balance of skills. This Committee is also responsible for monitoring the Group's observance of corporate governance best practice.
- The **Customer and Sustainability Committee** scrutinises progress against the sustainability strategy to ensure that we continue to make progress under our Customer, People, Society, Planet and Governance pillars. The Committee meets a minimum of four times a year. During 2023, it has reviewed progress against the Group's Science-Based Targets, approved by the Science Based Targets initiative ("**SBTi**") in 2022; and reviewed performance and approach on key stakeholder matters, including the PRA's expectations regarding climate risk. It continues to monitor the Group's progress towards its Net Zero aims.
- The **Remuneration Committee** meets a minimum of four times a year and considers how executive remuneration can be used to drive progress on climate-related matters. An emissions metric has been applied to long-term incentive plan ("**LTIP**") awards made since 2022 and makes up a 10% weighting of the total award made under the LTIP. The emissions performance condition includes a targeted reduction in emissions and temperature score and is based on the Science-Based Targets that were approved by the SBTi in 2022.

More information on the structure of the Board and Board Committees can be found within the Corporate Governance report on page 111.

Management's role

There are three primary management roles designed to assign responsibility for the delivery of the Group's assessment and management of climate-related matters:

- the Chief Executive Officer ("**CEO**") has overall responsibility for climate change and environmental matters;
- the Chief Financial Officer ("**CFO**") is responsible for overseeing the implementation of the Group's investment strategy and is advised by the Investment Committee on the application of ESG weightings, including those related to climate change, to the relevant portfolios. The CFO is a member of the Investment Committee and the Director of Investment and Capital Management is a regular attendee; and
- in the year, the Chief Risk Officer ("**CRO**") was responsible for overseeing the identification, assessment and management of climate change-related risk. The CRO role also has responsibility for assessing and monitoring climate-related financial risk. In that capacity, the role oversees the work of the Risk Function which analyses the potential future impact of climate change on the business. The results of these analyses are submitted to the Risk Management Committee, the Board Risk Committee and the Board, including as part of the ORSA. In addition, a CRO report is submitted to every meeting of the Board Risk Committee and to the Board meetings held throughout the year.

Further information relating to our climate risk identification process can be found on page 80.

To support the Customer and Sustainability Committee's oversight, and in recognition of the Group's increased focus on climate-related activity, the Group has an established **Climate Executive Steering Group ("CESG"** or the "**Steering Group**") which reports into the Customer and Sustainability Committee, and meets a minimum of six times a year.

Note:

1. Ongoing operations – see glossary on page 263.

The CESG consists of members representing various teams from across the organisation and includes members of the Executive Committee. It assesses the potential impacts of climate change on the business, along with the business' impact on the environment, with the aim of ensuring risks are identified in a timely manner and managed effectively.

The CESG also oversees input to the Group's business development and strategic processes to make sure climate is given appropriate consideration in long term strategy and planning. This includes the ongoing identification and oversight of climate-related opportunities. For example, progress against our electric vehicle strategy, and the opportunities considered as part of our Auto Services Sustainability Programme, are regular agenda items. More information on the key performance indicators used to assess, monitor and manage climate-related risks and opportunities can be found on pages 81 to 85.

The CESG monitors progress against the Group's **climate-related risk management roadmap**. The roadmap, also overseen by the Customer and Sustainability Committee and Board Risk Committee, sets out a range of actions, planned across a number of years, to further integrate climate risk management across the business and to build additional capabilities in areas such as climate risk modelling and scenario analysis.

The Steering Group's responsibilities further include:

- monitoring, and driving performance against, the Group's Science-Based Targets, in support of our Net Zero aims;
- considering the risk management challenges presented to the business by climate change, including financial risk related to underwriting and investments; and
- overseeing the Group's disclosure of climate within the context of broader ESG and financial disclosures.

The CESG will provide oversight on the Group's implementation of the International Sustainability Standards Board's ("**ISSB**") Sustainability Disclosure Standards, IFRS S1 and S2. Issued in June 2023, the Standards are currently subject to UK endorsement, which is expected later in 2024.

Further information relating to the processes by which management are informed about climate-related issues can be found on page 80.

Group Audit

Group Audit provides an independent and objective view of the adequacy and effectiveness of the Group's risk management, governance and internal control framework. In the year, Group Audit were represented at the CESG.

Strategy

The effects associated with climate change are far reaching and have the potential to cause significant economic and societal impact. We know that through the actions we take as a business we can contribute to a more sustainable future and as an insurer with over 9.4 million in-force policies¹, we recognise our role in supporting – and accelerating – the transition to a low-carbon economy.

Our strategy focuses on mitigating against, and adapting to, climate change. This involves driving change across our underwriting activities, our operations and our investments, and includes the actions we are taking to progress against our Science-Based Targets and Net Zero ambitions.

The following pages examine this strategy alongside the actual and potential impacts of climate change on the Group, in line with the TCFD recommendations, and outline how we continue to develop our approach to climate-related risks and opportunities across the business.

Climate change risks and opportunities

The potential impacts of climate change on organisations are classified into the following three categories by the TCFD:

- **physical risks** – resulting from the physical effects of climate change;
- **transition risks** – resulting from the transition to a lower-carbon economy; and
- **opportunities** – arising from efforts to mitigate and adapt to climate change.

We also recognise that litigation risk, which includes risks arising when parties who have suffered losses from climate change seek to recover them from those they believe may have been responsible, could also cause adverse impact. This could include direct climate-related litigation against the Group or insurance risk arising from the underwriting of liability products. The Group considers the risks associated with this to be low due to low exposure in high-risk industry sectors. Following the sale of the brokered commercial business we expect our exposure to liability insurance risk to reduce further as this business runs off over time.

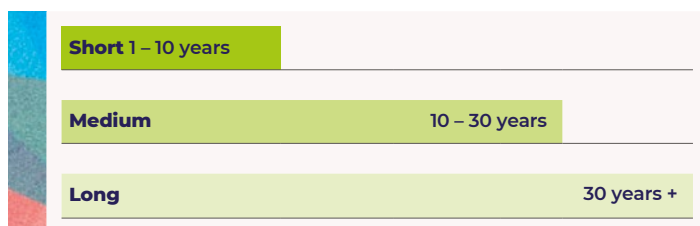
Materiality

A greater level of estimation and assumption is required when assessing materiality in the context of climate change and this, combined with the longer term and forward-looking nature of climate-related risks and opportunities, makes the assessment inherently uncertain. As a result, we have chosen not to quantify a materiality threshold for the purposes of our climate-related financial disclosures.

Our approach to determine where information is material is supported by quantitative assessment, such as the findings of our scenario analysis activities where we consider the potential financial impact of climate change over the longer term. Our approach means we disclose relevant information that focuses on the areas of our business that could be most affected by climate change, which we identify as our underwriting activities, our operations and our approach to investments. The key physical and transition risks and opportunities that could impact these areas are outlined on page 77.

We will continue to review emerging best practice associated with assessing climate-related materiality and we expect this to evolve over time. More information on our current approach to measuring the impact of climate-related risk, and the integration of climate change into the Group's overall risk management processes, can be found below and on page 80.

Defining the short, medium and long-term time horizons



As in previous years, our approach to defining the time horizons associated with climate-related risks and opportunities is to align closely with the scenarios considered in the Group's quantitative analysis of climate-related risk, which typically considers scenarios that span thirty years or longer (see page 73).

When defining the time horizons, the useful life of assets was considered. However, the Group's assets are primarily depreciated or amortised over a period of up to 10 years. As such, from a climate-related risk perspective, this falls into our short-term time horizon and therefore climate-related risk is not a significant input into determining asset useful economic lives.

The time horizons over which specific climate-related issues will manifest themselves vary significantly. However, in general, transition risks are likely to materialise more rapidly than physical risks, which are likely to be gradual and materialise over the longer term. The timing of climate-related litigation risk is less certain due to the nature of the exposure.

The key physical and transition risks and opportunities that could significantly impact the Group, as well as the time horizons over which they could manifest, is available further into our disclosure on pages 77 to 80.

Financial planning, performance and position

Without appropriate management, the risks posed by climate change could adversely impact the Group's financial performance and financial position.

To help quantify the potential impact of climate change we:

- perform scenario analysis, which enhances our understanding of the financial risks associated with the longer-term impacts of climate change and provides an indication of strategic resilience (see pages 73 to 76);
- undertake climate risk modelling to assess the most predominant physical drivers of risk in our property insurance products, enabling us to evaluate the potential impact to the Group's capital position (see page 81); and
- integrate climate risk into the Group's overall approach to risk management. This includes measuring the relative significance of climate-related risks to other risks in the Group Risk Taxonomy (see page 80).

Financial planning

We acknowledge that limitations exist in aligning climate change and financial planning. A key issue relates to the modelling of the impact of climate change, which typically extends out to thirty or more years, a significantly longer period than our current financial plan.

Although limitations and uncertainties associated with the longer-term impacts of climate change exist, we continue to embed climate-related considerations into our planning. This includes within the Group's Plan, which reflects the strategic planning that is ongoing across the business and covers any climate-related initiatives that are embedded within. These include:

- the actions we are taking to progress against our Science-Based Targets and Net Zero ambitions, such as the initiatives we are implementing to reduce the carbon footprint of our accident repair centres and the associated costs. More information on these initiatives can be found on pages 78 and 79;
- the use of reinsurance in our property insurance business, acknowledging that the cost to obtain catastrophe reinsurance could be impacted by an increase in the frequency and severity of major weather events; and
- the development of propositions and channel expertise to support the transition to a low carbon economy, such as our electric vehicle offer.

We also monitor losses from major weather events, which include inland and coastal flooding, storm surge, freeze events and subsidence. We use sophisticated modelling techniques to estimate the expected losses from major weather events in our property book to set an annual expectation for major weather-related claims. The impact of major weather relative to this annual expectation for 2023 can be found within Metrics and Targets on page 82.

Financial performance and position

In preparing the financial statements, the Group has assessed the impact of climate change. While the risks associated with climate change remain uncertain looking forwards, the impact of major weather events is reflected in the Group's historical performance and position as at 31 December 2023. The potential impact of climate change on insurance risk is also discussed in further detail within note 3 to the consolidated financial statements (see page 196).

Areas of physical and transition risks the Group could be exposed to are outlined in the table on page 77. The financial impact of these risks can, if realised, be grouped broadly into the following:

- Adverse impacts to revenue and market share due to a failure to understand, and adapt to, the scale of change in market demand for products and services due to climate-related policy, technology and consumer preference.
- Increased climate-related operating costs and capital expenditure due to the investments we make to progress against our emission reduction targets, or higher operating costs due to carbon cost increases or regulatory requirements designed to limit carbon emissions.
- Changes in the value of our financial investments due to the influence of physical and transition risk impacting the wider economy.
- An increase in the frequency and severity of natural catastrophes and other weather-related events adversely impacting insurance liabilities.

We also recognise that our access to capital can be materially affected by factors including, but not limited to, financial performance and investment decisions, which have their own associated climate-related risks. In addition, our performance is assessed externally by ESG rating agencies, to which investors and other stakeholders are giving increasing prominence. Adverse impacts to our debt rating could negatively affect cost and access to sources of debt finance and subsequent interest rates.

In our approach to acquisitions and divestments, any climate-related risks and opportunities are expected to form part of our usual due diligence process.

Scenario analysis

Our most comprehensive climate scenario analysis activity took place during 2021, followed by a smaller round of analysis in early 2022.

During 2023, we updated the physical risk section of the underwriting liabilities element of the original analysis to account for portfolio and modelling changes. The findings from the updated analysis can be found on pages 75 and 76.

The analyses were designed to enhance our management of climate-related financial risk and the scenarios used expanded on the Network for Greening the Financial System's ("NGFS") Net Zero 2050, Delayed Transition and Current Policies scenarios by including additional risk transmission channels and adding additional variables.

The exercise considered the financial impacts from these three distinct climate scenarios at a ten- and thirty-year time horizon, capturing a range of different combinations of transition and physical risks. Two of the scenarios represent routes to net zero greenhouse gas emissions and primarily explore transition risk from climate change:

- **Early Action** The transition to a net zero emissions economy started in 2021, so carbon taxes and other policies intensify relatively gradually over the scenario horizon. Global carbon dioxide emissions are reduced to net zero by around 2050. Global warming is limited to 1.8°C by the end of the scenario (relative to pre-industrial levels). Some sectors are more adversely affected by the transition than others, but the overall impact on GDP growth is muted, particularly in the latter half of the scenario, once a significant portion of the required transition has occurred and the productivity benefits of green technology begin to be realised.
- **Late Action** The implementation of policy to drive transition is delayed until 2031 and is then more sudden and substantial. Global warming is limited to 1.8°C by the end of the scenario (relative to pre-industrial levels). The more compressed nature of the transition results in material short-term macroeconomic disruption, which is particularly concentrated in carbon-intensive sectors. Output contracts sharply in the UK and international economies. The rapid sectoral adjustment associated with the sharp fall in GDP reduces employment and leads to some assets being stranded, with knock-on consequences for demand and spending. Risk premiums rise across multiple assets. An important indicator of the level of transition risks in these scenarios is the carbon price, reflecting that policymakers can induce the transition by increasing the implicit cost of emissions.

The third scenario primarily explores physical risks from climate change in the event that there are no new climate policies introduced beyond those already implemented:

- **No Additional Action** The absence of transition policies leads to a growing concentration of greenhouse gas emissions in the atmosphere and, as a result, global temperature levels continue to increase, reaching 3.3°C relative to pre-industrial levels by the end of the scenario. This leads to chronic changes in precipitation, ecosystems and sea level. UK and global GDP growth is permanently lower and macroeconomic uncertainty increases.

The scenario specification builds upon a subset of the NGFS climate scenarios. NGFS climate scenarios aim to provide central banks and supervisors with a common starting point for analysing climate risks under different future pathways. They are produced in partnership with leading climate scientists, leveraging climate-economy models that have been widely used to inform policymakers, and have been used in key reports.

For each of the three scenarios, variable paths were provided for the underlying physical and transition risks and for mapping these risks onto macroeconomic and financial variables:

- Physical and transition risks: pathways for climate variables to represent the impact of climate risks and opportunities at the global and regional level.
- Macroeconomic and financial market conditions: impact of climate-related risks and opportunities at a global level, and at the level of key countries, regions, and sectors – reflecting the impacts of physical and transition variables in each scenario. Financial market conditions reflect the direct financial market consequences of the paths of the macroeconomic variables.

Our 2021 analysis focused on changes in invested assets and insurance liabilities, and the variables provided formed the basis for the modelling. The stress assumed an instantaneous shock, effectively bringing forward the future climatic environment to today's balance sheet, with no allowance for changes in future premiums, asset allocation, expenses, reinsurance programmes and other future changes in business models.

The original analysis was applied to the Group's Solvency II balance sheet as at 31 December 2020 and assumed fixed balance sheets, premiums, exposures and reinsurance arrangements.

As the scenario impacts for investments have not been updated from the original analysis, any impact comparisons between investments and liabilities outlined in the following section are based on the analysis undertaken in 2021.

Summary of results – 2021 analysis

The main results of the comprehensive climate scenario analysis from 2021 are included below for illustrative purposes. Whilst the Group's business and risk profile have changed since this exercise has been undertaken, the overall high-level conclusions outlined below remain relevant. In terms of the investment portfolio, updated modelling of climate impacts commenced in Q4 2023 with this work expected to continue throughout 2024 (see page 80). For the underwriting liabilities, the results of an updated exercise undertaken in 2023 are outlined on pages 75 and 76.

The results from our 2021 analysis show the most material impact on the Group's Solvency II own funds arises in the No Additional Action Year 30 scenario, in which transition risk on the investment portfolio dominates the overall impact. These large impacts reflect the cumulative downward trend in asset values, with no stabilisation effects observed (unlike the other two scenarios) as extreme weather events increase in frequency and intensity, and continue to affect economic growth beyond the thirty-year horizon considered by the analysis.

The No Additional Action Year 30 scenario also shows the largest increases in insurance liabilities, in absolute terms, which is consistent with estimated increases in Gross Average Annual Losses ("AAL") of around 150% for inland flooding and around 390% for coastal flooding. This could result in a material increase in weather load, reinsurance costs and capital load.

While the short-term nature of the business, the ability to re-price annually and the risk mitigation provided by reinsurance arrangements are likely to limit the impact on general insurance liabilities, the modelling has illustrated that the increased physical effects of climate change could potentially result in some risks and perils becoming either uninsurable or unaffordable.

Relative Impact – No Additional Action to Early Action

The following graph illustrates the potential adverse impact to the Group's Solvency II balance sheet value of investment assets and insurance liabilities at Year 30 under the Early Action, Late Action and No Additional Action scenarios, based on the original analysis.

The most adverse financial impact was from the No Additional Action scenario, which is set at 100% in the graph. When compared to the total impact under the No Additional Action scenario, the impact of the Late Action scenario was around 54% of the value and the impact under the Early Action scenario was around 39% of the value.

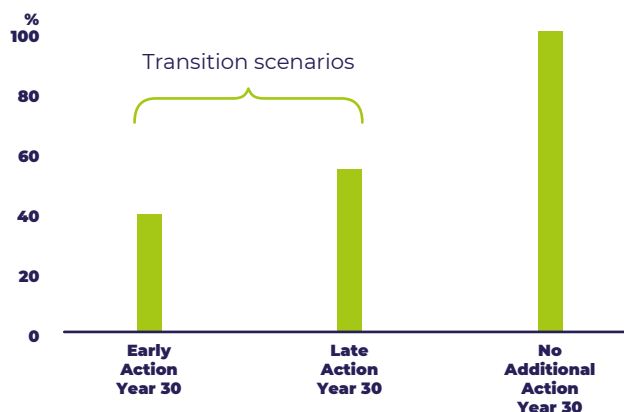


Figure 1: Year 30 impacts of scenarios relative to the largest No Additional Action scenario

In the Late Action scenario, the delay in policy implementation to transition to a low-carbon economy means there are no transition impacts over the initial ten-year time horizon. However, accelerated transition from 2031 results in greater impacts versus the Early Action scenario over the thirty-year time horizon. Whilst both of these transition scenarios saw material impacts on the investment portfolio, the most significant impacts on both investments and insurance liabilities arose from the physical risk effects of no transition in the No Additional Action scenario (where no additional actions are taken beyond those already announced).

At the thirty-year time horizon, financial impacts in the No Additional Action scenario are nearly double those in the Late Action scenario, and physical risks also drove the largest impact on investment results in absolute terms. However, these impacts do not take into account the Group's long-term commitments within its investment strategy, which includes the ambition of holding a net zero emissions investment portfolio by 2050 (see pages 79 to 80 and 84 to 85).

All three scenarios would lead to a breach in risk appetite, and the No Additional Action Year 30 scenario would also lead to a breach in SCR based on the Solvency II balance sheet as at year-end 2020. However, a set of clearly defined management actions could be deployed in each scenario to address the risks and allow the business to recover to above risk appetite (see page 75).

Comparison of impact – insurance liabilities and investments

The following graph shows the potential adverse impact on the Solvency II balance sheet value of investment assets and insurance liabilities under the Early Action, Late Action and No Additional Action scenarios at Year 10 and Year 30, based on the original analysis.

The graph outlines how the impact for each scenario (set at 100%) is split between the impact on investments and insurance liabilities to illustrate their relative materiality. For example, in the No Additional Action Year 10 scenario, impacts are split broadly evenly, while in the corresponding Year 30 scenario, the impact on investments dominates.

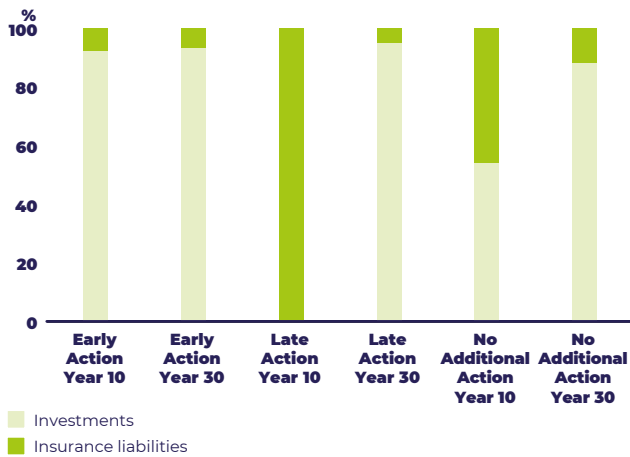


Figure 2: Share of impact – insurance liabilities and investments

Except in the Late Action Year 10 scenario, where there is no transition risk due to the assumed delay, in all scenarios the impact on investments is more material than on insurance liabilities.

Additionally, insurance liabilities were considered gross of reinsurance and, in practice, factors such as the short-term nature of the business, the ability to re-price annually and the risk mitigation provided by reinsurance arrangements is likely to limit the impact on general insurance liabilities further.

Management actions

Undertaking this analysis provided us with a framework to identify and assess the climate-related transition and physical risks that the business could be exposed to.

Taking into account the level of impacts that we have observed as part of this climate-related modelling, we identified a number of management actions that would be effective to mitigate these risks and respond to new opportunities.

Our Management Action Framework consists of three broad categories based on the purpose and nature of the action:

- **Contingent Management Actions** – These follow the Group's existing Contingent Management Actions framework and would be deployed to mitigate the scenario impacts, assuming these arise as instantaneous shocks on the balance-sheet; potential action could include restricting capital distributions, for example.
- **Pre-emptive Management Actions** – These have been developed assuming that the business can observe the scenarios unfolding in real time and begin to adapt the business model in response to these emerging impacts; they cover areas such as repricing, de-risking of investments and reinsurance.
- **Strategic Management Actions** – These actions are aligned to the Group's ongoing strategic activity as part of our contribution to the transition to a lower-carbon economy. They include: taking action to progress against our Net Zero ambitions and Science-Based Targets; understanding how we can support in improving the flood resilience of UK properties in flood-prone areas; and evaluating the impact of climate change on our underwriting footprint. Progress against these actions is overseen by the Climate Executive Steering Group.

CBES second round

In early 2022, we participated in the second round of the Bank of England's CBES exercise. The initial CBES exercise, that took place in 2021, was designed to test the resilience of the UK financial system to physical and transition risk from climate change to assist banks and insurers in enhancing their management of climate-related financial risk.

For general insurers the second round focused on management responses to the CBES scenarios and resulting challenges to the business models. More specifically, it probed how responses would change if losses were higher; encouraged additional thinking about dependencies and actions required by the Government and other associated stakeholders; and further explored opportunities in the climate scenarios.

In response, the Group concluded that the climate-related management actions identified in the initial analysis would remain appropriate. However, the pre-emptive management actions of repricing and reinsurance would be accelerated after considering a scenario under which physical losses from climate change were materially higher.

The second round of analysis was based on the modelling outputs from the initial exercise, as in the short term re-running the CBES scenarios is unlikely to produce materially different results.

2023 physical risk modelling

In 2023, we updated the physical risk section of the underwriting liabilities element of the original analysis to account for portfolio and modelling changes. In the updated analysis, the original temperature scenarios were applied to the Group's Solvency II balance sheet exposure, as at the end of Q2 2023.

As part of the updated exercise, we took steps to improve our model to enhance our view of risk. This included applying an adjustment for storm surge to account for more accurate flood defence data and the data used in the analysis was enriched to incorporate the floor level of each insured property.

The updated analysis also took into account the sale of the brokered commercial business, to reflect a view of exposure that was representative of the ongoing Group.

The following graph presents a view of the potential adverse impact to insurance liabilities at Year 30 under the Early Action, Late Action and No Additional Action scenarios, based on the updated 2023 analysis. The graph illustrates the contribution of each peril to the change in total impact (set at 100%), for example in the No Additional Action scenario around 70% of the change in total impact is driven by inland flooding.

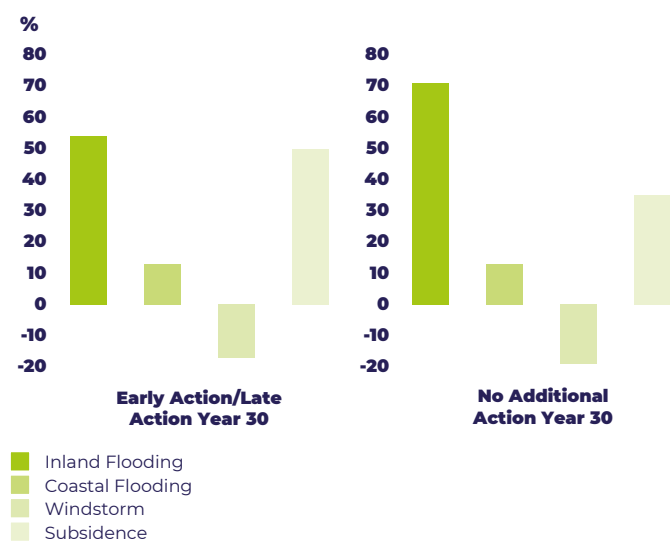


Figure 3: Split of physical risk impacts on insurance liabilities by peril

Figure 3 shows that, on a gross basis, the physical risk to insurance liabilities across all three scenarios was largely driven by inland flooding and subsidence. Windstorm was assessed to have a small positive benefit over all scenarios as a result of changing atmospheric conditions driven by complex interactions of a number of variables, ultimately caused by rising temperatures.

Applying the original climate scenarios to the Q2 2023 portfolio showed that the risk related to inland flooding and coastal flooding has significantly decreased compared to the Q4 2020 portfolio across all scenarios, which may indicate greater climate resilience. For example, under the Year 30 No Additional Action scenario, the reduction in AAL for inland flooding and coastal flooding was approximately 20% and 60%, respectively, when compared to the original analysis. This favourable change can be attributed to modelling improvements, as discussed above, as well as portfolio changes including increased ceding to Flood Re, and other underwriting actions. The results continue to show that AAL for flooding perils accelerate after the Flood Re scheme ends in 2039.

Risk for subsidence and windstorm is broadly unchanged from the original analysis, although due to the significant reduction in AAL from coastal flooding, the proportion of impact from subsidence was greater across the scenarios, when compared to the original analysis.

The findings continue to highlight the importance of the Group’s existing Management Action Framework (page 75), which includes a range of actions that could mitigate against the risks identified through our climate-related modelling. The updated analysis supports future developments in our physical risk modelling of insurance liabilities, as we evolve our understanding of the physical risks associated with the longer-term impacts of climate change.

Reverse stress test – electric vehicle adoption

In 2023, we conducted a reverse stress test to establish whether the long-term future for motor insurance, specifically, the adoption of electric vehicles, poses a threat to the viability of our current business model. While not commonly covered by transition risk scenarios, changes in consumer behaviour form a significant part of the transition to a net zero emissions economy.

Changes in the motor market linked to the rate of electric vehicle adoption could include: change in ownership models,

such as the use of subscription services and shifting trends from car ownership to car usership; disruptors entering the market; and reductions in accident frequencies which could reduce the size of the personal lines motor market premium pool. Supported by changes in technology and policy, such as Government plans to end the sale of new petrol and diesel cars in the UK by 2035, the speed of this transition to electric continues to increase.

The reverse stress test considered a range of variables across three potential outcome ranges (Base, Best and Worst case) and three time periods (2025, 2030 and 2040) to reflect the high degree of uncertainty associated with these risks. In general, as transition risks are likely to materialise more rapidly than physical risks, the time periods examined in this exercise form part of our short- and medium-term time horizons, as defined on page 72.

The Best case assumed a slow pace of EV adoption and less movement from ownership to usership, meaning the size of the personal lines market share remains stable. This case also assumed the Group’s market share, from both electric and internal combustion engine vehicles, increases and there is a small impact from disruptors entering the market. The Worst case scenario considered all of those elements moving in the opposite direction.

The analysis considered the following variables across the time periods and scenarios:

- the Group’s share of the electric vehicle market;
- the impact of disruptors on market share;
- the impact to the size of the personal lines market that a move from vehicle ownership to usership could have; and
- the rate of electric adoption.

The findings showed that in the short term, to 2025, there are only minor differences between the scenario impacts, with more significant movements unfolding over a longer timeframe. Over the longer term, the results varied considerably across the different scenarios and included possible adverse impacts to the Group’s business model or market share. Conversely, at the favourable end of the range, the findings represented a possible growth opportunity. The analysis also identified that the outcomes are sensitive to assumptions which are largely outside of the Group’s control, such as the rate of adoption of electric vehicles in the UK, which is supported by changes in technology and policy designed to limit carbon emissions.

The analysis supports our assessment of transition risk and highlighted the importance of enhancing capabilities, particularly around the Group’s ability to identify and respond to the emerging electric vehicle and mobility landscape. More information on how we are evolving our strategic response to the adoption of electric vehicles can be found on page 78.

Future developments

Going forward, we will continue to work towards developing scenarios specific to our own risk profile that focus on the most material aspects of our business and explore the sensitivity of potential impacts to key uncertainties. These actions form part of our climate-related risk management roadmap and will enable the Group to make use of scenario-testing output more effectively to further inform our strategic approach to mitigating climate-related impacts.

During the year, we acquired climate scenario modelling capability to support the future assessment of climate change impact on the investment portfolio and this capability will continue to be embedded throughout 2024. See page 80.

Our strategic response

Developing our understanding and management of climate-related risks, whilst seeking out opportunities that may arise from efforts to mitigate and adapt to climate change, are important aspects for maintaining the longer-term resilience of our strategy.

Our approach focuses on driving change across key areas of our business: our underwriting activities; our operations; and our approach to investments. The actions we are taking across these areas are considered in turn on pages 78 to 80.

In the following table, we outline the key physical and transition risks and opportunities that could significantly impact these areas and include the time horizons over which we believe these could become manifest. Additional focus on the operating segments that could be most affected by climate change can be found on page 78. More information on how we define the time horizons can be found on page 72.

Category	Description	Examples of potential impact on the Group	Time horizon	Key area of impact
Physical risks	Acute – event driven risks such as flooding and storm surge. Chronic – longer-term shifts in climate patterns, such as a continued rise in average temperatures, changes in, and extreme variability of, precipitation and weather patterns and rising sea levels.	An increase in the frequency and severity of natural catastrophes and other weather-related events could adversely impact insurance liabilities, particularly those from our property insurance products.	(S)(M)(L)	(U)
		Disruption to our direct operations, which could include damage to our estate, impacting our ability to serve customers.	(S)(M)(L)	(O)
		Chronic risks could lead to significant changes in our underwriting criteria to maintain risk appetite, and/or higher costs to obtain catastrophe reinsurance to protect us against an accumulation of claims arising from a natural perils event.	(M)(L)	(U)
		Reduced returns from investments in companies whose operations are impacted by physical climate risks, and real asset investments directly impacted by physical climate risks.	(S)(M)(L)	(I)
Transition risks	Risks arising from the transition to a lower-carbon economy. These are categorised by the TCFD as: – policy and legal risks; – technology risks; – market risks; and – reputational risks.	A failure to understand the scale of change in market demand for products and services due to climate-related policy, technology and consumer preference could impact revenue and market share. This could include risks from the transition to electric-powered vehicles, for example.	(S)(M)	(U)(O)
		Costs associated with the transition to a lower-carbon economy may increase over time and the adoption of new lower emission technologies may be unsuccessful.	(S)(M)	(O)
		Insufficient progress against our net zero ambitions could cause stakeholder concern and reputational damage.	(S)(M)(L)	(U)(I)(O)
		Reduced returns from investments in high carbon intensity companies that are not taking action to transition to a low carbon economy, and real asset investments that are not compatible with the transition to a low carbon economy.	(S)(M)(L)	(I)
Opportunities	Efforts to mitigate and adapt to climate change can also produce commercial opportunities. These could allow us to help accelerate the transition and continue contributing to a sustainable economy.	Accelerating the speed of transition to a lower-carbon economy by, for example, supporting the move to greener transport solutions, particularly electric-powered cars, allows us to develop new insights and capabilities to help us build insurance solutions that best meet our customers' evolving needs.	(S)(M)	(U)
		Investment in energy-efficient features and equipment across our office estate and accident repair centres could save on energy consumption and operating costs, reduce our footprint and improve operational and resource efficiencies.	(S)(M)(L)	(O)
		Potentially enhance risk-adjusted returns from our investments by aligning the investment portfolio with the transition to a low carbon economy whilst also enhancing our reputation as a responsible investor. Ensuring the investment portfolio is resilient against the physical effects of climate change.	(S)(M)(L)	(I)

Key

- (S) Short-term (1 – 10 years) (M) Medium-term (10 – 30 years) (L) Long-term (30 years +)
(U) Underwriting (I) Investments (O) Operations

Underwriting

Property

The physical risks from climate change are most likely to manifest themselves as an insurance risk on our property insurance products, where we protect millions of our customers' properties against devastating weather events, such as flooding and windstorms.

These natural catastrophes, and other weather-related events in the UK, are key drivers in the Group's solvency capital requirements and we recognise that climate change could cause the frequency and severity of these events to increase. The short-term nature of the business we underwrite, the ability to re-price annually, and the risk mitigation provided by reinsurance arrangements are all important factors in how we manage our exposure. In addition, we further limit our exposure by making extensive use of Flood Re to cede high flood risk residential properties.

However, in general, the physical risks from climate change are likely to intensify over the longer-term. To assess the effects of this, we perform scenario analysis to measure the potential impact of climate change on our insurance liabilities over a thirty-year period. This analysis helps us to quantify the financial implications of physical risk under different possible future climate scenarios, with the outputs providing an indication of the Group's resilience.

The analysis provides a framework to understand and assess the potential future risks associated with climate change in greater detail and the findings aid our strategic planning. This has included the development of our Strategic Management Actions (see page 75), which span across business areas and include action on:

- engaging with policymakers on the importance of flood defences in the UK to protect properties located in flood-prone areas;
- exploring how we can help shape the thinking around resilient repairs of properties affected by flooding; and
- further evaluating the impact of climate change on our underwriting footprint and risk appetite.

The analysis further supported us in developing our contingent and pre-emptive management actions, which could be deployed to mitigate against the risks identified. These cover areas such as pricing, de-risking of investments and reinsurance (see page 75).

Findings from our scenario analysis activities can be found on pages 73 to 76.

Motor

As one of the largest personal motor insurers in the UK, the move to electric-powered vehicles is particularly pertinent and, supported by changes in technology and policy, the speed of transition to electric continues to increase. Whilst this presents new challenges, we also recognise this as an opportunity to support the move to a lower-carbon economy, through the insurance products we offer.

In response, we have already expanded our propositions to support our Motor customers who are making the switch to electric, and we have established a dedicated Electric Vehicle Distribution and Strategy team, focused on evolving the Group's strategic response to the electric shift.

Actions we have taken include:

- developing an electric vehicle package, offered to all new and renewing Direct Line Motor customers, which provides access to electric vehicle essentials, discounted access to public and community charging, discounted home charger installation and insurance that covers batteries and charging cables;
- entering into new strategic partnerships which can help grow our data, such as with Motability Operations from September 2023, where we expect the number of electric vehicles we insure to increase over the course of the partnership; and
- building further capabilities in our accident repair centres, where an increasing number of our technicians are now accredited in repairing electric vehicles, supporting the development of insight into the future of vehicle technology and repair.

During the year, we also performed a reverse stress test to assess how the adoption of electric vehicles could impact the Group's business model, which considered a range of variables across three time periods and scenarios. More information can be found on page 76.

Operations

Operating in a sustainable way not only supports the planet but is also a part of how we can mitigate against the potential climate risks that could cause disruption to our operations.

We have a history of taking action to reduce the environmental impact of our business. This has included investing in our estate to integrate new energy-efficient features and equipment, launching a carbon reduction strategy in our network of accident repair centres and since 2014, purchasing the electricity for all our offices and accident repair centres from renewable sources.



Science-Based Targets

Our aim is to become a Net Zero business by 2050 and this covers our direct operations. To make progress against this, we set Science-Based Targets which were approved by the SBTi in 2022. These targets, aligned to a 1.5°C pathway, mean we have ambitious carbon reduction plans which support our journey towards Net Zero.

One of these targets covers the emissions generated from our direct operations, where we are aiming for a 46% reduction in absolute Scope 1 and 2 emissions from our office estate and accident repair centres by 2030, from a 2019 baseline. Reporting against this target can be found within Metrics and Targets on page 83.

More information on the plans to progress against our targets and ambitions can be found within the Sustainability section on pages 61 and 62.

Operational emissions

The steps we have taken in recent years mean we understand where the most carbon-intensive areas of our operations are, allowing us to prioritise carbon reduction activity across these areas in support of our targets. Our 23 accident repair centres remain a key area of focus and we continue to embed a range

of solutions as part our carbon reduction strategy, with this work being led by colleagues in the Auto Services Sustainability Programme. In the year, we have:

- expanded the use of hydrogenated vegetable oil in our accident repair centres as an alternative fuel for our recovery trucks. This initiative has now been implemented at 95% of our repair centres, resulting in an estimated 2,025 tCO₂e saved in 2023;
- delivered the removal of gas from all of the paint spray booths at one of our sites, providing an estimated saving of 277 tCO₂e in the year. We continue to use this experience to explore expanding the move from gas powered paint booths to electric in more of our repair centres; and
- completed the installation of LED lighting at all 23 accident repair centres.

Elsewhere, in 2023, we reduced our office footprint when moving our head office from Bromley to a newer and smaller Central London property, Riverbank House, where we obtained an SKA Silver Rating for the fitting out of the office space. An SKA Rating is a recognised means of assessing the refurbishment of existing buildings to ensure the retrofit is carried out in an environmentally considerate way.

Emissions reporting

We calculate and report our GHG emissions annually and our most recent carbon emissions reporting can be found on page 64. Further disclosure on the progress we have made in reducing our operational footprint to date can be found within Metrics and Targets on pages 83 and 84.

Carbon offsetting

Our aim is to become less reliant on carbon offsetting and, although our journey to net zero emissions continues to gain momentum, we acknowledge that it will take time to facilitate the transition. For this reason, we offset our remaining Scope 1 and 2 emissions. Further information on the offsetting projects we pledge support to can be found on page 65.

Supply chain

Through our Supply Chain Sustainability Programme, we are engaging with suppliers to encourage them to sign up to SBTi targets or an equivalent, so we can make the transition to a pathway consistent with a 1.5°C scenario. During the year, this work also included reviewing the weighting of sustainability factors in our sourcing processes.

Further information on the activities undertaken in the year as part of our Supply Chain Sustainability Programme can be found on page 63 and the GHG emissions from our supply chain are reported on page 64.

Investments

In recent years, we have begun integrating more ESG considerations into our investment strategy, recognising this is a long-term process which will require assessment and challenge to inform future decision making.

We know that the impacts of potential physical and transition climate-related risks arising in the wider economy will have an impact on our investment portfolio, through their influence on the value of assets. For example, our portfolio is exposed to physical risks through our investment in companies that are exposed to disruption from adverse weather events across their

supply chain. It is also exposed to transition risks, where companies that we are invested in are not adapting their strategy to a low-carbon future. However, the transition to a low-carbon economy also creates significant investment opportunities.

We have the long-term goal of our entire investment portfolio being net zero emissions by 2050 and in support of our aims we continue to implement key climate initiatives into our investment strategy. During 2023, we:

- began work towards meeting our approved Science-Based Targets for GHG emissions reduction for in scope asset classes;
- remained a signatory to the CDP’s science-based targets campaign; a collective engagement campaign supported by over 350 financial institutions and multinationals which encourages high emitters to set science-based emissions reduction targets; and
- continued to reduce the carbon intensity of our corporate bond portfolio in line with our aim of a 50% reduction by 2030 from a 2020 base year.

The actions detailed above form part of the ongoing development of the wider ESG framework underpinning investments. In terms of holding investments in other companies, those with higher reported ESG credentials have more sustainable practices which better align to our investment, environmental and social goals. As such, a requirement of all investment-grade corporate bond portfolios is that each portfolio must maintain an MSCI ESG rating at least as high as the corresponding ESG weighted reference index or benchmark.

Science-Based Targets

In support of our long-term goal of ensuring our entire investment portfolio is net zero emissions by 2050, in line with the aims of the Race to Zero campaign, we set four science-based GHG emission reduction targets in our investment portfolio.

Approved by the SBTi in 2022, the targets cover corporate bonds, commercial property and real estate loans which, as at the end of 2023, covered 65% of AUM.

More information on the targets, and our 2023 reporting against them, can be found within Metrics and Targets on pages 84 and 85 and on pages 61 and 62.

Looking through the climate lens, we also have in place the following current initiatives:

- Thermal coal screen whereby we restrict investment in firms generating more than 5% of revenues from either thermal coal mining or thermal coal power production unless the company is taking positive climate action¹.
- We actively encourage our investment managers to invest in green bonds. Green bonds are designated bonds intended to encourage sustainability and to support climate-related or other environmental projects. All our relevant corporate bond mandate guidelines now direct the portfolio manager to purchase a green bond where the risk return characteristics are similar to those of a comparable non-green bond.

Note:

1. Companies taking positive climate action are defined as those that are committed to setting Science-Based Targets or have a 2°C or better carbon performance alignment from the transition pathway initiative.

- Within our investment property portfolio all assets must have an Energy Performance Certificate of 'D' or better, or a plan and funds in place to achieve that level. The property portfolio also has a tailored set of ESG targets covering areas such as carbon, energy, water and waste.

Scenario analysis

During the year, we acquired climate scenario modelling capability to support our assessment of the impact climate change could have on the investment portfolio.

This will enable us to measure and quantify the potential financial impact of climate-related physical and transition risk on our investments, whilst also providing a better understanding of the opportunities that may arise from the transition to a lower-carbon economy. The modelling uses different possible future climate scenarios, including those issued by the Network for Greening the Financial System and the Intergovernmental Panel on Climate Change.

This capability will continue to be embedded throughout 2024.

Using our influence

We are committed to using our influence to drive wider change. For example, all of our investment managers are signed up to the UN Principles for Responsible Investment. We also talk regularly to our external asset managers to understand (and where necessary, challenge) how they are using their global presence, size and leverage to engage and encourage corporations to tackle climate change. This year we have also signed up to the CDP's science-based targets collective engagement campaign which encourages high emitters to set science-based emissions reduction targets.

Risk Management

Enterprise Risk Management Strategy and Framework

The Enterprise Risk Management Strategy and Framework ("ERMF") sets out, at a high level, the Group's approach to setting risk strategy and managing risks to the strategic objectives and day-to-day operations of the business, including climate change. The ERMF is supported by the Internal Control Framework ("ICF") which sets out the key elements, roles and responsibilities of the Group's system of internal control. Further information can be found in the Risk management section of the Strategic report on pages 86 and 87.

Risk taxonomy

The effects of climate change are wide-ranging, affecting many risks across the risk universe. To allow for better recognition of internal and external drivers of climate-related risk and to provide a focal point for the reporting of risks relating to climate change, the Strategic Risk category includes Climate Risk within Environmental, Social and Governance Risk.

Risk impact

The impacts of all risks, events and action plans are rated using the Impact Classification Matrix which facilitates a consistent approach to the sizing and categorisation of risk across the Group by using Financial, Regulatory, Customer, Reputation, Operational disruptions and Economic, Social and Governance factors (including Climate Change) inputs. This includes those risks relating to climate change, including climate-related litigation risks, and allows the Group to determine the relative significance of climate-related risks in relation to other risks.

Climate-related risk identification process

Annual risk identification process

Each year, the business is required to review all current and developing risks which could impact on the achievement of strategic objectives. This process includes assessing risk drivers, at a Group level, such as those due to climate change, and their potential impact and likelihood of risk crystallisation on both an inherent and residual basis, in addition to identifying the position which aligns with risk appetite.

We also use a variety of indicators across our product segments to assess, monitor and manage climate-related risks. A number of these key metrics can be found on pages 81 to 85.

Regulatory monitoring

The Group monitors and reviews relevant outputs from the FCA, the PRA, and His Majesty's Treasury ("HMT"), to consider existing and emerging regulatory requirements.

During 2023, this included reviewing:

- HMT's update to the Green Finance Strategy for the UK to become the world's first Net Zero Aligned Financial Centre;
- the Bank of England's report on climate-related risks and the regulatory capital frameworks; and
- the FCA's discussion paper on Finance for positive sustainable change.

We continue to monitor future developments. Reviews are summarised and distributed to relevant stakeholders, and, where necessary, responses are coordinated and overseen by Second Line of Defence subject matter experts.

Emerging risk process

In addition to the annual risk review process, the Group has in place an emerging risks process which facilitates the identification, management and monitoring of new or developing risks which are difficult to quantify or are highly uncertain. The Group records emerging risks within an Emerging Risk Register. Updates on emerging risk and the actions being taken to address them are presented to the Risk Management Committee and the Board Risk Committee regularly, supplemented by deep dives on selected emerging risks. In 2023, a deep dive was conducted on the transition to electric vehicles (see page 76). Each emerging risk is owned by an Executive sponsor to help ensure alignment of how it is managed to the strategic objectives and priorities; as well as a senior business leader who is responsible for day-to-day management of the risk.

Climate change, including climate-related physical and transition risk, is one of the Group's most prominent emerging risks, with regular oversight provided by the Climate Executive Steering Group, consisting of First Line of Defence subject matter experts from around the business where the impact of climate change is the highest, in addition to Second Line of Defence subject matter experts who provide oversight and challenge of risk management activity relating to this.

Both physical and transition risks could manifest themselves through a range of existing financial and non-financial risks, including insurance, market, operational and strategic risks. For more information on emerging risk and climate change see page 92.

Climate risk modelling

The predominant direct physical drivers of risk to the Group's capital position are major UK floods and windstorms and these are modelled together with less material perils such as freeze and subsidence within the Group's Internal Economic Capital Model and reviewed at least biennially.

The influence of climate change is difficult to isolate from the complex oceanic and atmospheric processes driving UK weather. The Group uses catastrophe models to capture these factors, and in turn these models are regularly reviewed against specific criteria including how they have considered latest scientific thinking, to ensure they appropriately capture the Group's risk profile. Responsibility for this work sits within the Capital Management function.

The majority of our policies renew annually and are priced according to risk. Pricing algorithms use sophisticated rating engines to account for recent trends and are supplemented with views of catastrophic risk to seek to ensure sufficient pricing. These prices will evolve as climate change influences manifest themselves through changing loss patterns, and views of catastrophic risk develop because of rising sea levels, changes in precipitation rates and urban resilience.

Risk pricing models are built using historical data covering a multi-decadal time period for perils most likely to be influenced by climate change. This allows us to understand and incorporate long-term signals and past trends into our modelling. These models benefit from considerable amounts of internal and externally purchased data. External data is reviewed and updated regularly, and we maintain a relationship with data suppliers to understand the methodologies and assumptions in their work. Nevertheless, the underlying trends can be difficult to measure as they emerge through infrequent one-off catastrophe events and may have additional contributory factors (for example, deforestation increasing the pace of rainwater run-off upstream of a flood). Furthermore, future trends are likely to differ from past projections. As such, we recognise a range of uncertainty as to current and future impacts.

Increases in frequency and severity of large catastrophe weather events are mitigated by the Group's use of catastrophe excess of loss reinsurance. This reinsurance covers property (Personal Lines and Commercial Direct) and Motor physical damage losses; in addition to significant capital benefits, it transfers the volatility of low-frequency, high-severity natural peril events away from the Group. The reinsurance purchase decision is a combination of catastrophe modelling, capital analysis, the Group's risk appetite, cost of cover and the overall income statement impact. Cover is typically purchased with an upper limit equivalent to a 200-year modelled loss and the retention will be based upon the amount that the Group is willing to sustain from such a loss. In addition, we make extensive use of Flood Re to cede high flood risk residential properties.

Metrics and Targets

We use a variety of key performance indicators across the different lines of our business to assess, monitor and manage climate-related risks and opportunities. In the table below, we summarise the key metrics used across the three areas of activity, as identified earlier in our disclosure: our underwriting activities; our operations; and our approach to investments. Further detail on these, and our targets, can be found within the pages that follow.

Area	Metric	Description	Category	Page
Underwriting	Total weather-related loss impact	Track actual performance against our annual expectations for major weather-related claims and monitor the impact of claims associated with severe weather on the Group's net insurance margin.	Physical risk	82
	Flooding	Monitor our market share for risks to be deemed in the high- or very high-risk segments and track the volume and proportion of policies we are ceding to Flood Re.	Physical risk	83
	Subsidence	Monitor our subsidence market share by geo risk classification.	Physical risk	83
	Electric vehicles	Monitor the number and proportion of electric vehicle policies we underwrite and track the number of new electric vehicles registered in the UK.	Transition risk and opportunities	83
Operations	Operational emissions	Calculate and report our operational emissions (Scope 1 and 2), to monitor progress towards our science-based operational emissions target.	Physical risk and transition risk	62, 64, 83, 84
	Measuring progress within our repair centres	Quarterly oversight of: <ul style="list-style-type: none"> – GHG emissions and gas consumption metrics associated with vehicle repair; – the delivery of carbon reduction plans; and – opportunities for innovating and using new solutions within repair centres, in support of plans and targets. 	Transition risks and opportunities	84
Investments	Investment portfolio emissions	Measure and report the temperature score of our corporate bond portfolio, and GHG emissions from commercial property and real estate loans, to track progress against our science-based investment targets to ensure we are delivering against our aims.	Physical risk and transition risk	62, 64, 84, 85

The Group has disclosed a number of metrics consistent with the cross-industry categories recommended by the TCFD. These include:

- **GHG emissions:** our Scope 1, 2 and 3 emissions and emissions intensity metric reporting can be found on page 64.
- **Remuneration:** our LTIP awards have an emissions performance condition which covers the targeted reductions in emissions and temperature scores that form part of our Science-Based Targets. More information can be found in the Directors' Remuneration Report on page 143.
- **Physical risks:** the results of our scenario analysis activities, which assesses the potential impact of climate-related physical risk on the value of insurance liabilities, can be found on pages 73 to 76. Analysis of the actual impact of severe weather claims can be found in the underwriting section, below.
- **Transition risks:** the results of our scenario analysis activities, which assesses the potential impact of climate-related transition risk on the value of investment assets, can be found on pages 73 to 76.

Our aim is to explore further how we incorporate additional cross-industry metrics, including those to enhance the measurement and management of transition risks and opportunities, in future reporting.

Underwriting

Weather-related loss impact

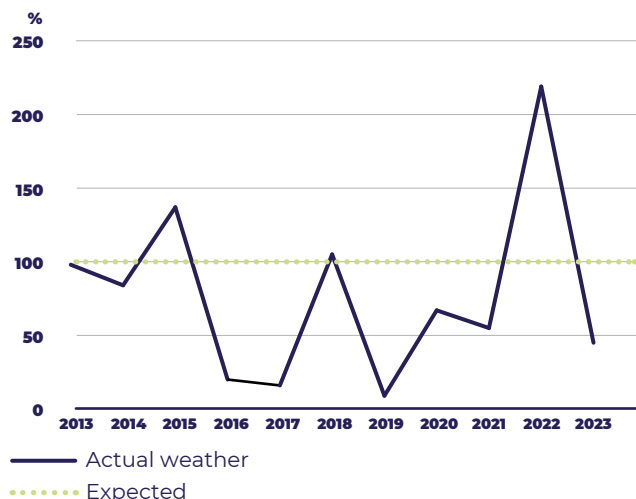
The predominant direct physical drivers of catastrophe weather risk from a capital perspective are major UK floods and windstorms. The last peak of windstorm activity was in the late 1980s and early 1990s; the last decade being particularly benign in comparison. By contrast, flood has seen more elevated activity.

Catastrophe reinsurance is purchased annually to protect against event losses greater than £100 million (see page 39). Use of the Flood Re scheme mitigates against the highest individual residential flood risks.

The cost of claims relating to major weather can found within the management view statement of profit or loss (see page 270).

Severe weather claims¹ (actual % of expected loss)

The Group uses sophisticated modelling techniques to estimate the expected losses from severe weather events and uses these to set an annual expectation for major weather-related claims.

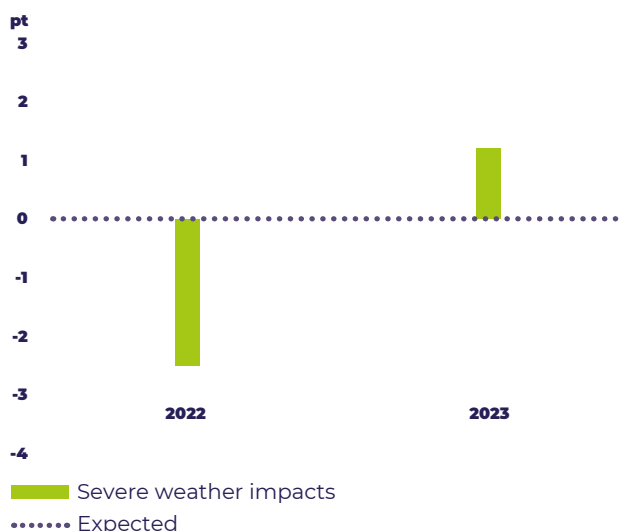


The previous graph shows the impact of severe weather claims relative to this annual expectation. In 2023, claims associated with severe weather were below our 2023 severe weather assumption, which is set at 100% in the graph.

As shown in the graph, the trends are reflective of relatively benign activity, although there is significant variability.

In 2022, claims from weather-related events were more than double our annual assumption following three significant storms in Q1, a rise in subsidence claims from extremely high temperatures in the summer and the December freeze event. The 2018 peak was driven by the 'Beast from the East' freeze event and the 2015 peak was a result of a number of weather events in December, which caused severe flooding across the UK.

Impact of severe weather on net insurance margin^{1,2} (pt)



Both these graphs reflect the number of major weather events in the year that the Group responded to. The frequency and severity of extreme weather events could be affected by climate change, which in turn will affect our view of risk, how we price severe weather risk, and the type and level of reinsurance we purchase to protect our balance sheet.

Home

Key risk indicators are produced by the underwriting function and reviewed quarterly through relevant business forums. The key climate change-related activities are flood, subsidence and other weather incidents. For flood and subsidence perils, we monitor the Group's market share for risks deemed to be in the high- or very high-risk segments. We also monitor and review the proportion of policies ceded to Flood Re. Each peril is monitored against set tolerances, with movements in amber or red ratings generating investigation and action as required.

Notes:

1. Data used within this analysis is for ongoing operations (see glossary on page 263).
2. Following adoption of IFRS 17, the Group restated its 2022 results and the 2022 analysis within this graph has been represented accordingly. The Group has moved to net insurance margin as a key performance indicator, replacing the previously used combined operating ratio, which is reflected in this analysis of severe weather impact. Analysis for periods prior to 2022 is not available. For historic reporting, see previous publications, including page 83 of the 2022 Annual Report and Accounts.

We maintain a view of trends and look to take action where a trend is likely to result in a breach of tolerance.

Flooding

Governments have been working with insurers since 2000 to help make flood risk insurance more affordable and in 2016 Flood Re was introduced. Every insurer that offers home insurance in the UK, the Group included, must pay into the Flood Re scheme and this levy is used to cover the flood risks in home insurance policies.

To ensure the Group and its customers benefit from the levy and guard against the highest of flood risks, we monitor the volume and proportion of policies we are ceding to Flood Re. Properties are eligible to be ceded to Flood Re when they meet certain criteria. Since early 2019, the cost to cede policies to Flood Re has dropped, driving an increase in ceded volumes.

Subsidence

We monitor exposure to this physical risk via our subsidence market share by geo risk classification. This risk classification aims to give a market view of geographic risk, within the UK, of having a subsidence claim. This enables us to understand the proportion of subsidence risk that we write compared to our estimate of the total in the market.

Motor

The Group's motor market is diversified throughout the UK, and although weather-related factors will influence claims frequency it is a relatively small influence compared with other factors, such as used car prices. As such we do not currently consider there to be any valuable climate-related physical risk indicators that can be tracked for this portfolio.

In order to track the transition towards electric vehicles we monitor both the number and proportion of policies we underwrite for these types of vehicles as well as the number of electric vehicles and alternatively fuelled vehicles registered in the UK. This supports us in estimating our market share and helps inform our electric vehicle strategy.

Progress against the supplemental guidance for insurance companies

The Group believes that its disclosure against certain components of the sector-specific guidance, within Metrics and Targets recommendations (a) and (b), does not meet the objectives of the TCFD.

Below, we outline the activities we have undertaken during the year to improve our disclosure against these areas in future reporting, as well as the activities planned for 2024.

The extent to which insurance underwriting activities, where relevant, are aligned with a well below 2.0°C scenario The Group recognises that measuring underwriting emissions remains a developing area, with the frameworks and methodologies to support insurers in calculating these emissions continuing to evolve. An area of limitation that is particularly pertinent to personal lines and small commercial business insurers is the practicalities of obtaining data with sufficient accuracy and reliability to determine the emissions associated with these portfolios.

During the year, the Group has embedded plans to further assess its disclosures relating to underwriting emissions, through the development of a climate-related risk management roadmap (see page 71). In 2024, the actions that are currently

Note:

- 1. We are required to use Scope 1 and Scope 2 market-based emissions for SBTi operational target setting and reporting. When including Scope 2 location-based emissions this reduction is equivalent to a 52% reduction.

planned include reviewing issued guidance related to measuring and reporting underwriting emissions, in order to further inform the Group's approach.

The weighted average carbon intensity or GHG emissions associated with commercial property and specialty lines of business, where data and methodologies allow
Following the sale of our brokered commercial business earlier in the year, we expect our underwriting exposure to commercial property lines to significantly reduce as this business runs off over time.

We continue to remain active in the direct small business commercial insurance market, which includes providing insurance for small commercial properties, however, we view our exposure to carbon intensive sectors through these underwriting activities to be low, due to the type and size of the businesses we insure.

Whilst we will continue to review emerging best practice, at present, we do not believe available methodologies have sufficient maturity to meaningfully measure the weighted average carbon intensity or GHG emissions associated with small business commercial property lines. For example, current frameworks recommend collecting emissions data from companies' own disclosures or official filings, or use of physical or economic activity data, to determine emissions associated with commercial lines portfolios. Such recommendations are not currently pragmatic for insurers with commercial small business customers, such as the Group.

The Group does not underwrite any specialty lines of business.

Operational

We calculate and report our operational GHG emissions annually. Our most recent reporting can be found on page 64 where we continue to break out our Scope 1 and Scope 2 emissions into separate performance figures across our office sites and accident repair centres. We also disclose our Scope 3 footprint, which includes emissions from our supply chain.

Science-Based Targets

In support of our net zero ambitions, we have set five Science-Based Targets, in line with a 1.5°C pathway, focused on the most carbon intensive areas of our business, one of which covers our operational emissions. These targets were approved by the SBTi in 2022.

Scope	Target	2023 update
Operational	We target reducing absolute Scope 1 and 2 GHG emissions by 46% by 2030 from a 2019 base year.	As at the end of 2023, absolute Scope 1 and 2 GHG emissions reduced by 43% ¹ , from a 2019 base year.

Our 2023 reporting shows a 43%¹ reduction in Scope 1 and 2 emissions, when compared to the 2019 baseline. This reflects the actions we have taken in recent years, which has included reducing our office footprint, investing in our estate to integrate new energy-efficient features and equipment and the carbon reduction initiatives we are implementing across our network of accident repair centres.

More information on our Science-Based Targets, including the actions we have taken in the year against them and our future priorities, can be found on pages 61 and 62.

Operational emissions performance

With hybrid working well embedded across the business, large numbers of our people continue to work from home regularly. In recognition of this we have again calculated and reported homeworking emissions under the Scope 3 'Employee Commuting' category (see page 64).

Overall, when compared to 2022, our Scope 1 and 2 GHG emissions decreased to 6,999 tCO₂e. In the year, our office footprint reduced following the move of our head office from Bromley to a newer and smaller Central London property, contributing to lower Scope 1 and 2 emissions from our office estate.

Within our repair centres, we continued to see a reduction in Scope 1 emissions through the use of hydrogenated vegetable oil as an alternative fuel for our recovery trucks, with this initiative now implemented at 95% of our Auto Services sites (see page 79). These reductions were partly offset by an increase in Scope 2 emissions from our repair centres as we continue to switch to electric from gas to power spray paint booths, where possible.

Auto Services Sustainability Programme

Our Auto Services Sustainability Governance Forum, held quarterly, is responsible for the oversight, accountability and coordination of all activity that forms part of the Auto Services Sustainability Programme. The Forum oversees progress against the activities to deliver towards the carbon reduction strategy within our accident repair centres and tracks key Programme milestones.

This includes monitoring the delivery and performance against GHG emissions reduction targets, where metrics, such as gas consumption and emissions associated with vehicle repair, are tracked. The Forum also assesses the risks that could impact the delivery or prioritisation of planned activity, coordinating the actions required to mitigate against these. It also considers metrics relating to opportunities from innovating and using new solutions in support of plans and targets, such as assessing the feasibility and benefits of adopting new lower emission technologies or equipment in repair centre sites.

Supply chain

While we wait for the publication of the Science-Based Net Zero Targets for Financial Institutions from the SBTi, which is expected in 2024, we have chosen to set an internal emissions reduction target for our supply chain. This target forms part of our Supply Chain Sustainability Programme, where we continue to encourage our largest emitting direct suppliers to sign up to SBTi targets or an equivalent (see page 63).

Investments

In 2018, the SBTi launched a project to help financial institutions align their lending and investment portfolios with the ambitions of the Race to Zero campaign. The project audience includes universal banks, pension funds, insurance companies and public financial institutions.

Science-Based Targets

Our long-term goal is for our entire investment portfolio to be net zero emissions by 2050, in line with the aims of the Race to Zero campaign. To support this, we have set Science-Based Targets for our investment portfolio covering corporate bonds, commercial property and real estate loans, these were approved by the SBTi in 2022.

As at the end of 2023 our investment portfolio targets covered 65% of AUM.

Asset Class	Target	2023 update
Corporate Bonds	Align the Scope 1 and 2 portfolio temperature score by invested value from 2.44°C in 2019 to 2.08°C by 2027.	As at the end of 2023, the Scope 1 and 2 portfolio temperature score by invested value was 2.02°C.
	Align the Scope 1, 2 and 3 portfolio temperature score by invested value from 2.80°C in 2019 to 2.31°C by 2027.	As at the end of 2023, the Scope 1, 2 and 3 portfolio temperature score by invested value was 2.31°C.
Commercial Property	Reduce GHG emissions by 58% per square metre by 2030 from a 2019 base year.	Agreed first reporting in 2024 ¹ .
Real Estate Loans	Reduce GHG emissions by 58% per square metre by 2030 from a 2019 base year.	Agreed first reporting in 2024 ¹ .

Further details on the emissions from our investments are reported on page 64.

Note:

1. Due to the practicalities of obtaining data from our external asset managers ahead of the release of the Group's annual reporting, progress against our commercial property and real estate loan targets is reported with a one-year time lag. This approach was agreed with the SBTi when these targets were approved in 2022.

The temperature score for corporate bonds is the implied level of warming above pre-industrial levels to which our portfolio is aligned based on the CDP's temperature rating data set. For an individual company the temperature rating is the level of warming to which a company's publicly stated emission reduction targets align. The targets are set on a linear pathway for the portfolio to reach 1.5°C by 2040 as is required by the SBTi.

We aim to achieve our corporate bond target by directing investment to companies with lower temperature scores as these are the ones taking most serious action to reduce emissions. We will also expect our external investment managers to engage with portfolio companies to encourage them to act by setting robust emissions reduction targets. We also continue to target an interim 50% reduction in weighted average carbon intensity by 2030 from a 2020 base year for corporate bonds in order to ensure emissions are reducing over time.

Carbon intensity is the GHG emissions intensity per \$1 million of sales. Normalising by sales allows the investor to compare carbon efficiency of different-sized firms within the same industry and has become a standard metric used in the investment industry.

For commercial property and real estate loans, targets were set using the SBTi sectoral decarbonisation approach for real estate which uses the IEA ETP 2017 Beyond 2°C scenario. Emissions for real estate relate to the energy use of buildings which is largely emissions from electricity and heating use. Work towards our real estate targets will require improving the energy efficiency of buildings, engaging with tenants to share energy use data and encouraging them to set their own emissions reduction targets.

More information on our Science-Based Targets, including the actions we have taken in the year against them and our future priorities, can be found on pages 61 and 62.

Streamlined Energy and Carbon Reporting (SECR) regulations

The following table highlights where information can be found that supports the requirement to disclose how the Group manages its energy consumption and carbon emissions.

Requirement	Pages
Annual global GHG emissions (CO ₂ e):	
– from activities for which the Company is responsible	64
– from buying electricity, heat, steam or cooling by the Group for its own use	64
Annual global energy consumption in kWh, being the aggregate of:	
– energy consumed from activities for which the Company is responsible	65
– energy consumed resulting from buying electricity, heat, steam or cooling by the Group for its own use	65
The proportion of GHG emissions and energy consumed relating to the UK and offshore area ¹²	63, 65
Methodology used to calculate emissions and energy consumption	65
At least one intensity metric in relation to emissions	64
Description of energy efficiency actions taken	63
Notes:	
1. The offshore area is broadly defined as the sea adjacent to the UK, including the territorial sea, plus the sea in any designated area under section 1(7) of the Continental Shelf Act 1964 and section 41 (3) of the Marine and Coastal Access Act 2009.	
2. 100% of the Group's GHG emissions and energy consumption reported relates to operations, all of which are based in the UK.	

Risk management

Our aim is to make risk management simple, effective, well understood and deeply embedded. The Risk Function will provide oversight which is pro-active, proportionate and commercial to help the business make informed risk-based decisions and to move quickly whilst understanding the risks.

Managing risk in line with our strategy

Our management team, with oversight from the Board, and Board Risk Committee, is responsible for developing our strategy. Our strategic planning process aims to ensure we have developed clear objectives and targets, and identified the actions needed to deliver them, including the management of risks arising from the strategic plan.

A key aspect of any effective strategic planning process is to understand and manage those risks appropriately. To achieve this, the Risk Function works closely with the rest of the business to help it to identify and assess risks, which is done through setting and achieving targets as well as through its review and challenge of business plans in the strategic planning process.

The Group's risk strategy is aligned with the Group strategy and supports business decision-making through the proactive identification, assessment and management of risks.

Our risk governance framework

The Risk Function continues to lead significant cultural change to drive ownership of risks across the Group. The Group has a strong risk culture, and a mature and embedded Enterprise Risk Management Framework ("**Risk Management Framework**") with clear accountabilities and risk ownership designed to ensure that we identify, manage, mitigate and report on all key risks and controls through the three lines of defence model:

First line: Management is responsible for embedding risk management into business as usual and change processes whilst creating transparent reporting of risks and management actions.

Second line: The Risk Function is responsible for the design and recommendation to the Board Risk Committee of the risk management framework, its implementation across the Group and the provision of proportionate oversight of risks, events and management actions throughout the Group.

Third line: Group Audit is responsible and accountable for providing an independent and objective view of the adequacy and effectiveness of the Group's risk management, governance and internal control framework.

See page 110 for governance structure.

Risk appetite

Our risk appetite statements define the opportunities and associated level of risk the Group is prepared to accept to achieve its business objectives. The statements are used to drive risk-aware decision making by key business stakeholders.

Our risk appetite statements are documented in our Policies and include:

- monitoring whether the business remains within risk appetite, among other information, using key risk indicators;
- deriving the key risk indicators from the risk appetite statements to drive and monitor risk-aware decision-making; and
- both qualitative and quantitative risk statements which are forward- and backward-looking. We review our risk appetite statements and key risk indicators annually.

Overarching risk objective

The Group recognises that its long-term sustainability is dependent on having sufficient economic capital to meet its liabilities as they fall due, thus protecting its reputation and the integrity of its relationship with policyholders and other stakeholders. As part of this, its appetite is for general insurance risk, focusing on personal lines retail and small and medium-sized enterprise insurance in the United Kingdom. The Group has appetite for non-insurance risks, as appropriate, to enable and assist it to undertake its primary activity of insurance.

Three strategic risk objectives

1. Maintain capital adequacy

The Group seeks to hold capital resources in the range of 140% to 180% of the partial internal model solvency capital requirement.

2. Stable/efficient access to funding and liquidity

The Group aims to meet both planned and unexpected cash outflow requirements, including those requirements that arise following a 1-in-200 year insurance, market or credit risk event.

3. Maintain stakeholder confidence

The Group has no appetite for material risks resulting in reputational damage, regulatory or legal censure, poor customer outcomes, fines or prosecutions and other types of non-budgeted operational risk losses associated with the Group's conduct and activities. The Group's objective is to maintain a robust and proportionate internal control environment.

Our Risk Management Framework

The Risk Management Framework sets out, at a high level, the Group’s approach to setting risk strategy, and managing risks to the strategic objectives and day-to-day operations of the business. The Risk Management Framework is designed to manage the Group’s risk proactively and to enable dynamic risk-based decision making.

Aligned to the three lines of defence model, not only does the Risk Management Framework articulate the high-level principles and practices needed to achieve appropriate risk management standards, but it also demonstrates the inter-relationships between components of the Risk Management Framework.

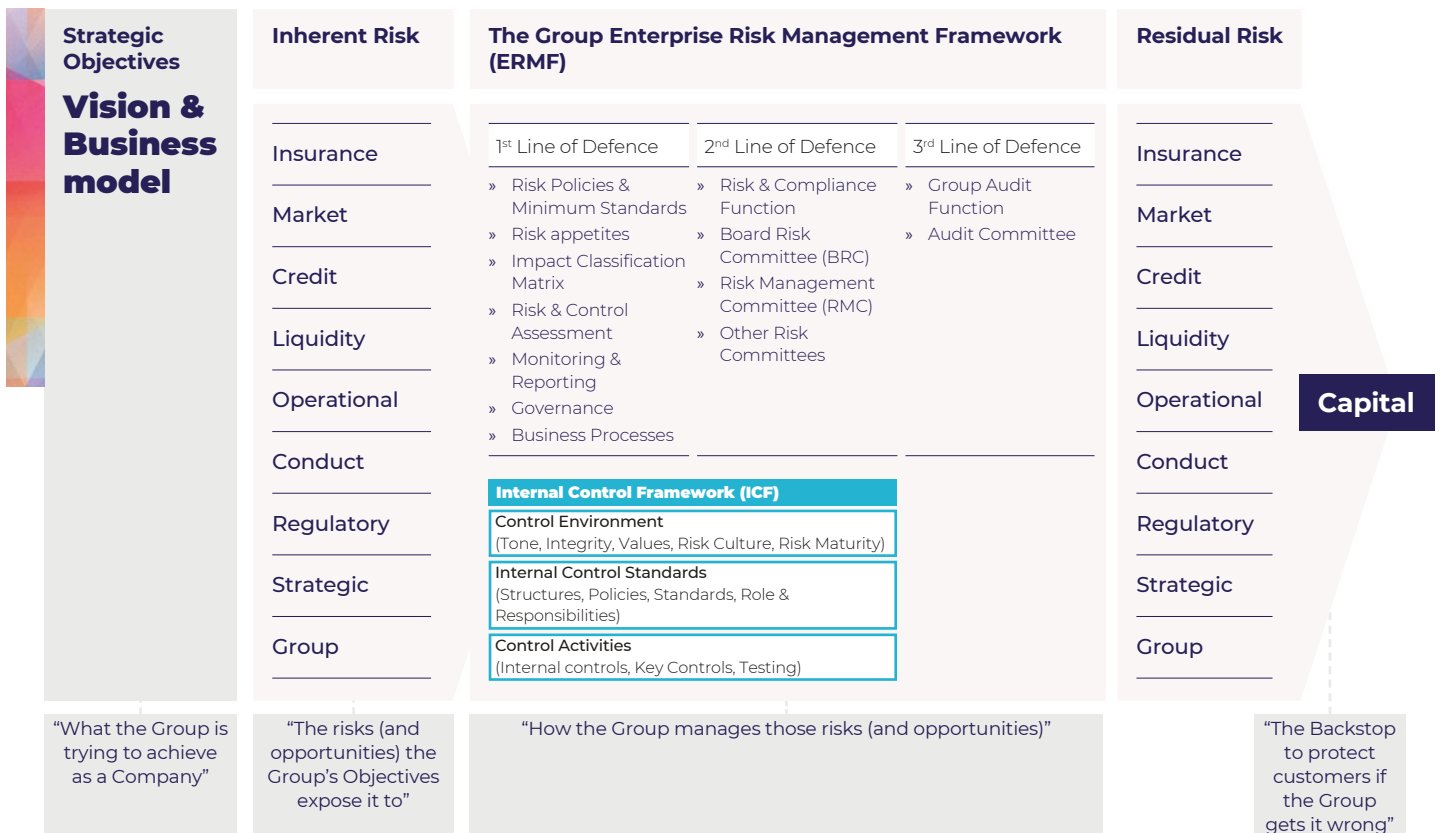
Within this, the risk management process is a key element in the development and on-going maintenance of an accurate risk profile. The objective of the risk management process is to identify, assess, manage, monitor and report on the risks that the Group is exposed to. See pages 80 and 81 for specific information on how the business identifies and assesses the risks associated with climate change.

Within the Risk Management Framework, Policies address specific risk areas and are aligned to the Group’s risk appetite. Policies, where appropriate, are supported by underlying Minimum Standards which interpret Policies into a set of risk and control requirements to be implemented across the Group.

Our risk culture

Our risk culture underpins our business and decision-making and helps us maintain a robust and disciplined approach to managing risk. Our Risk Function drives ownership of risks in the business, ensures that risk consideration is integral to decision-making and that activities within the business are aligned with the Risk Management Framework. Risk also provides expert advice and guidance to business areas, including challenging the effectiveness of controls to manage risk and compliance, to support the business in demonstrating the right mindset to achieve its strategic objectives. The Board is committed to promoting a culture of high standards of corporate governance, business integrity, ethics and professionalism in all our activities.

The Risk Function continues to work collaboratively across the Group to engender a positive risk culture, in particular developing a consistent approach to assessing and reporting on risk culture maturity, to ensure risk is fully integrated within the Group’s wider cultural ambitions and aligned on values and behaviours that we expect our people to demonstrate.







Principal risks and uncertainties

We carefully assess the principal risks facing us. Principal risks are defined as having a residual risk impact of £30 million or more, taking into account customer, financial and reputational impacts. During 2023 the Group revised its financial materiality threshold down from £40 million to £30 million. This was driven by wanting to bring the materiality closer to that of the audit materiality, along with a desire to consider a wider range of quantitative (such as Solvency) and qualitative factors to ensure the level of materiality does not fluctuate significantly year on year.

Our principal risks are under continuous review and assessment and, with the introductions of the FCA's PPR regulations and Consumer Duty, Conduct Risk is now deemed a principal risk to the Group.

Principal risk	Description	Risk commentary
<p>Insurance Risk</p> <p>Relative size of risk</p>  <p>Trend – stable</p> 	<p>The risk arising from insurance obligations, in relation to the perils covered and the processes used in the conduct of business. It takes account of the uncertainty related to the Group's existing insurance and reinsurance obligations as well as to new business expected to be written. It includes the risk of loss, or of adverse change in the value of insurance liabilities resulting from:</p> <ul style="list-style-type: none"> – fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements; and – significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events (for example catastrophe risk). 	<p>Key drivers of the outlook for insurance risk across our business plan include reserve, underwriting, distribution, pricing and reinsurance risks. Issues relating to claims inflation, the cost of living crisis, the impact of the FCA's PPR regulations, and the global political situation compounding supply/demand issues which arose following Covid-19 and Brexit have been key areas of focus for the Group in 2023.</p> <p>Claims trends have been significantly impacted by persistent claims inflation, particularly in the motor market, leading to uncertainty in claims reserving and pricing in 2023 and beyond. However, our reserving processes reflect improved insight in claims experience and inflation trends resulting from extensive work undertaken across the business over the past year. In addition, the Group has begun its pricing and underwriting transformation journey aimed at delivering best market practice in our Motor business.</p> <p>Key risk themes relating to this category include the macroeconomic environment, motor profitability, organisational resilience and agility, and sales risk post implementation of the FCA PPR regulations.</p> <p>We have used scenario testing to understand the potential financial impacts of these risks and continue to monitor them closely.</p>
<p>Market Risk</p> <p>Relative size of risk</p>  <p>Trend – stable</p> 	<p>The risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.</p>	<p>Key drivers of market risk are the sensitivity of the values of our assets and investments to changes in credit spreads, our exposure to losses as a result of changes in interest rate term structure or volatility, and the key risk theme of the impact from the macroeconomic environment.</p> <p>Market risk remains at a heightened but stable level over the term of the Group's Financial Plan (the "Plan"). In the United Kingdom inflation has been coming down from the high levels in 2022 and interest rates have reached their peak in Q4 2023. The sustained high interest rates, continued economic uncertainty and low productivity levels are likely to lead to minimal economic growth. Recession in the United Kingdom would be likely to add to market volatility.</p>

Finally, climate change presents a risk of more frequent extreme events and we are looking to enhance key risk indicators to monitor related risks across Home and Commercial. The Group manages its current exposure to weather events through the use of reinsurance and our participation in the Flood Re initiative.

Principal risk	Description	Risk commentary
<p>Operational Risk</p> <p>Relative size of risk</p>  <p>Trend – stable</p> 	<p>The risk of loss due to inadequate or failed internal processes or systems, human error or from external events.</p>	<p>Key risks relating to this category include Technology and Infrastructure, Change, Cyber, Supply Chain & Outsourcing and People & Culture.</p> <p>The trend in operational risk is driven by ongoing risk exposure as the Group continues to implement and embed changes in its technology systems, data flows, pricing models, and processes, whilst operating within a volatile external environment.</p> <p>Our approach is to manage our operational risks proactively, to mitigate potential customer harm, regulatory or legal censure, and financial or reputational impacts. The Group is also undertaking various initiatives to reduce its operational risk through the strengthening of the control environment.</p> <p>The Group's exposure to technology risk is materially impacted by the need to enhance digital capabilities, simplify our technology estate and mitigate IT resilience risk.</p> <p>The Group is well placed to respond to new regulations and develops technology with a resilience by design approach. Continuous monitoring and maintenance of the currency and technology estate, along with disaster recovery testing, mitigates the likelihood of system failures. The Group maintains and tests critical end-to-end business and continuity plans in the event of a material system outage.</p>
<p>Conduct Risk</p> <p>Relative size of risk</p>  <p>Trend – stable</p> 	<p>The risk of failing to put the customer at the heart of our business, failing to deliver on our commitments and/or failing to ensure that fairness is a natural outcome of what we do and how we do it.</p>	<p>The introduction of Consumer Duty represents a significant shift in the FCA's expectations of firms and applies to all of the Group's regulated products.</p> <p>A comprehensive implementation plan has been put in place to address the requirements arising from the new Duty, which has been approved by the Board.</p> <p>Finally, the Group is aware of the impact of the rising cost of living on our customers and we are taking measures to help support customers during this period, including the launch of Direct Line Essentials to adapt to changing customer needs.</p> <p>The FCA placed two regulatory requirements on Direct Line Group in 2023. In June 2023, the Group was required to carry out a past business review of Motor total loss claims settled between 1 September 2017 and 17 August 2022 to identify policyholders who received unfair settlements and provide them with appropriate redress. In September 2023, the Group was required to carry out a past business review of renewal prices charged since 1 January 2022 to identify any that did not comply with the rules relating to use of tenure and provide policyholders with appropriate redress. The Group is running remediation programmes for affected customers.</p>

Principal risk	Description	Risk commentary
<p>Regulatory Compliance Risk</p> <p>Relative size of risk</p>  <p>Trend – increasing</p> 	<p>The risk of reputational damage, regulatory or legal censure, fines or prosecutions and other types of losses arising from non-compliance with regulations and legislation.</p>	<p>The outlook for regulatory compliance risk is increasing as financial institutions embed multiple regulatory changes, alongside a challenging external environment referred to in strategic risk and insurance risk.</p> <p>Further, regulators are increasingly expecting financial institutions to play a broader role in resolving societal issues, such as income inequality, climate change, and diversity and inclusion; creating challenges for insurers to balance commercial and societal outcomes in decision-making, as they seek to meet the needs of different stakeholders.</p>
<p>Credit Risk</p> <p>Relative size of risk</p>  <p>Trend – stable</p> 	<p>The risk of loss resulting from default in obligations due from, and/or changes in the credit standing of, issuers of securities, counterparties or any debtors to which the Group is exposed.</p>	<p>The outlook for credit risk is stable. The Group monitors its key counterparties, namely the security of the issuers within its investment portfolio, and its reinsurance exposures are mainly held with reinsurers with high credit ratings. To manage credit risk, we set credit limits for each material counterparty and actively monitor credit exposures, whilst also considering new future exposures.</p>
<p>Strategic Risk</p> <p>Relative size of risk</p>  <p>Trend – stable</p> 	<p>The risk of direct or indirect adverse effects resulting from strategies not being optimally chosen, implemented or adapted to changing conditions.</p>	<p>The outlook for strategic risk is influenced by internal and external developments, including the potential impacts of: cost of living; persistently high inflation; an increased level of regulatory concern and focus including Consumer Duty, the potential for new and ongoing geopolitical conflicts and climate-related financial risks impacting the Group's strategic position. These factors are driving a high level of uncertainty in the market and subsequent impact on consumer behaviour and engagement models and will continue to challenge the delivery of the Group's Plan, although the Group has put itself in a stronger capital position following the sale of the brokered commercial business.</p>

We have maintained an ongoing dialogue with our regulators, and we have continued to engage with the regulators and HM Treasury regarding the future regulatory framework within the UK.

We remain focused on key areas of regulatory attention, including embedding the FCA's PPR regulations and Consumer Duty, and regulatory requirements under the Green Finance Strategy, climate-related risks and the regulatory capital frameworks, and finance for positive sustainable change.

We have also continued our focus upon operational resilience in accordance with the increased regulatory requirements.

Finally, we have a governance and accountability framework in place as part of the Senior Managers and Certification Regime, and carry out an annual declaration process to ensure the ongoing fitness and propriety of the Group's Senior Managers and Certified Functions.

In addition, we only enter material reinsurance contracts with reinsurers with at least an A- rating and, for liabilities with a relatively long period of time to settlement, the majority of reinsurance is arranged with reinsurers with a rating of A+ or above and a maximum of 10% of reinsurers rated between A- and A+.

Finally, we also have well defined criteria to determine which customers and brokers are offered and granted credit.

The Group is in a place of transitional leadership, with an outgoing Acting CEO having only recently handed over to the new permanent CEO who joined at the beginning of March 2024. This has impacted the Group's ability to reformulate the longer strategy, which is being offset through preparatory work, progression of no-regret actions, and continuation of our existing strategy.

Effects of macroeconomic and trading environments on the Group

The UK is facing into a cost of living crisis and a UK recession, driven by the challenging macroeconomic environment. This, in conjunction with a challenging trading environment, could lead to or exacerbate existing risks for the Group and we remain alert to possible developments across our risk universe.

Emerging risks

Emerging risks are defined by the Group as newly developing or changing threats or opportunities, external to the Group, that are subject to a high degree of uncertainty but have the potential to materially impact the Group.

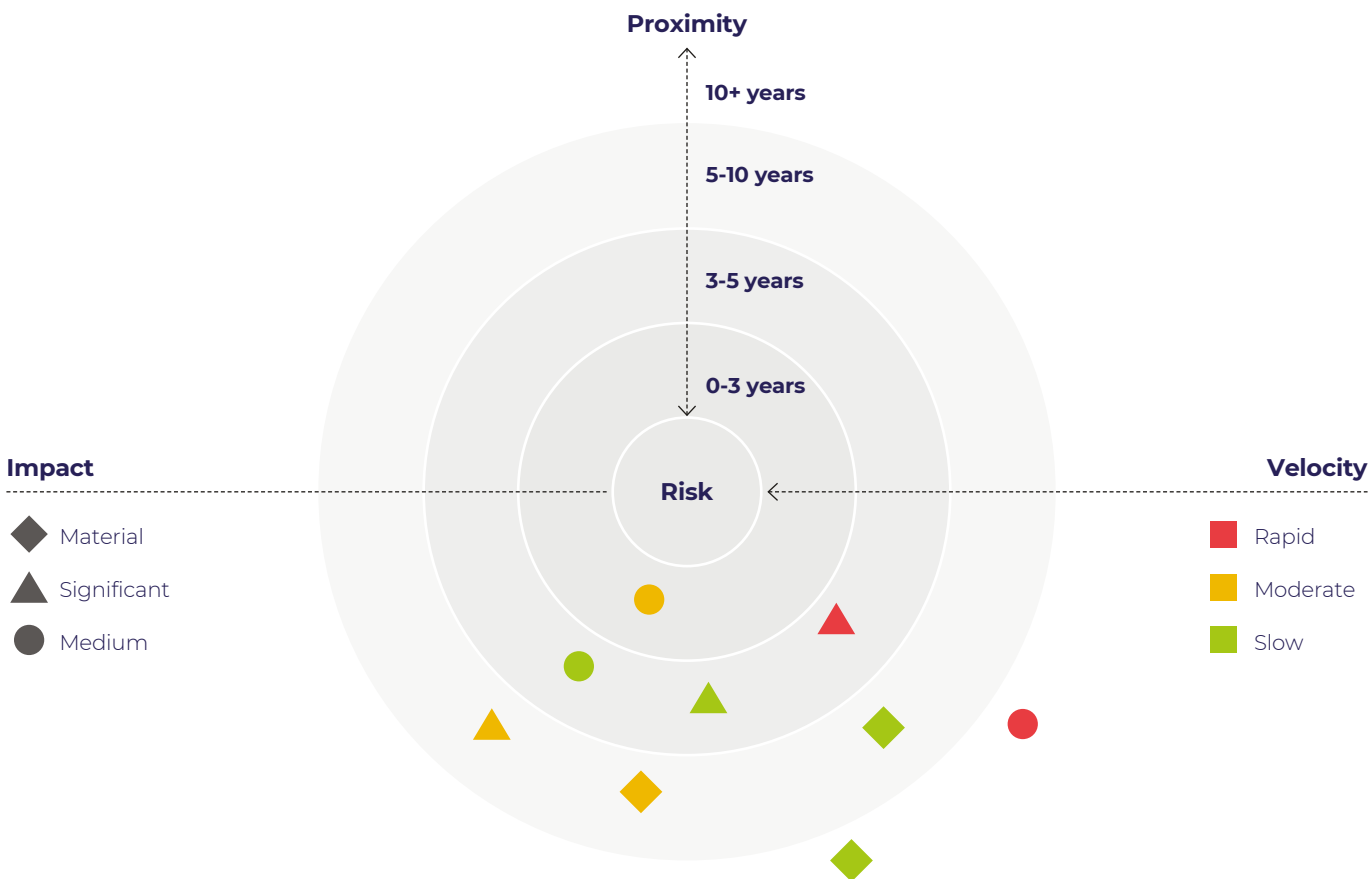
The Group has in place an emerging risks process designed to enable it to:

- have a proactive approach to emerging risk management;
- identify, manage and monitor a broad range of potential emerging risks; and
- mitigate the impact of emerging risks which could impact the delivery of the Plan.

The Group records emerging risks within an Emerging Risk Register. An update on emerging risks is presented to the Board Risk Committee annually and is supplemented by deep dives on selected emerging risks.

The most notable emerging risk themes currently being monitored via the emerging risks process are outlined below.

Emerging Risk Radar



The Group's Emerging Risk Radar classifies each risk by its theme, proximity (time), velocity (speed of development) and likely impact (on strategic objectives). This allows for active monitoring and prioritisation of management actions. The radar is used for illustrative purposes only.

Transition to a low carbon economy, including climate change

The Group recognises that transition to a low-carbon economy, including climate change, potentially poses material long-term financial risks to the business and is receiving increased scrutiny from investors and regulators. Climate change risk can be divided into physical and transition risks. Both of these categories can manifest themselves through a range of existing financial and non-financial risks, including insurance, market, operational, strategic and reputational risks. The Group is also aware of the liability risks due to climate change when parties who have suffered loss or damage from physical or transition risk factors seek to recover losses from those they hold responsible.

During 2023, the Group has continued to embed further controls, targets and reporting around climate change, overseen by its Climate Executive Steering Group. The Group's Risk Taxonomy has also been expanded to include additional reference to climate related risks.

We continue to monitor these risks closely and to develop our climate change modelling capability. Further details on our risk management approach to climate change are included on pages 80 to 81, within the Task Force on Climate-related Financial Disclosures ("TCFD") report.

Changing customer needs

As consumers face intense pressure on their finances and time, coupled with generational changes, this is expected to generate a rapid structural shift in customer demand, requiring the Group to innovate and adapt its product offerings in order to remain relevant.

In 2023, the Group has implemented and embedded the Consumer Duty principles, along with continuing to review and understand customers' needs.

Keeping up with digital advancements

Developments in technology and changes in market, regulatory and consumer trends are creating opportunities for new entrants to profitably exploit new distribution channels, business models and niches. Failure to keep up with such developments could lead the Group to fall behind.

To mitigate this, we are delivering multiple programmes to provide the Group with the capabilities to enable our offerings to compete with new entrants, for example: InsureTech.

Geopolitical tension

Due to heightened global tensions, there is a risk that measures are implemented by governments that decrease political stability, erode countries' relationships and contribute to increasing protectionism. This could lead to multiple impacts including on investment performance and supply chains. The Group conducts ongoing analysis to monitor exposure to the developing geopolitical environment (for example, the Middle East, Russia/Ukraine and China/Taiwan), while maintaining a close eye on the political risk landscape.

Automotive technology

New car technologies, such as autonomous vehicles and hydrogen power, are in development which, once on UK roads, are expected to be transformative. Traditional motor policies may no longer serve the needs of customers, requiring changes to the Group's pricing models and policy wordings to remain relevant. The repair networks' capabilities will also need to be upgraded to serve this demand effectively. The Group will focus on launching new products that will better serve customer needs in the future while engaging with regulators to help shape policies and understand potential impacts for the Group.

Data ethics

Consumers are becoming more aware of their data rights and regulators more interested in how firms use customer data. The industry is also gathering more data than ever before and increasingly exploring more sophisticated processing capabilities, such as artificial intelligence ("AI") and machine-learning. These trends together could lead to data being used in ways that customers or regulators find unacceptable, or which result in unfair customer outcomes.

The Group has embedded a Data Ethics Framework and Data Ethics principles which are now well established and have been tested via the Data Ethics committee.

Viability statement

In accordance with Provision 31 of the 2018 UK Corporate Governance Code, the Directors have assessed the prospects of the Group for a period longer than the minimum 12 months required by the going concern statement. The Strategic report, on pages 1 to 94, sets out the Group's financial performance, business environment, outlook and financial management strategies. It covers how the Group measures its regulatory and economic capital needs and deploys capital. You can find discussion about the Group's principal risks and risk management on pages 88 to 90. Note 3 to the consolidated financial statements starts on page 194 and sets out financial disclosures relating to the Group's principal risks. This covers insurance, market and credit risk, and the Group's approach to monitoring, managing and mitigating exposures to these risks.

Every year, the Board considers the strategic plan ("the **Plan**") for the Group. The Plan makes certain assumptions in respect of the competitive markets in which the Group operates. By its nature, a strategic plan comprises a series of underlying assumptions which can be uncertain in nature and rely on judgement. Each year, the Group's Risk Function assesses the Plan and provides a report to the Board which supports the Board in concluding on the Group's viability.

When reviewing the Plan, the Board considered the Group's prospects over the period that the Plan covered and the conclusions of the Risk Function's review, based on the Group's anticipated activities as set out in the Plan. The Board has assessed the principal risks of the Group over the duration of the planning cycle. All of the Group's principal risks, as outlined on pages 88 to 90, were reviewed as part of the Risk Function review of the Plan, and the outlook of those risks over the period covered by the Plan was taken into account (i.e. whether the outlook for each risk was increasing, broadly static or decreasing over the period of the Plan). In addition, the Risk Function's review defined a set of key risk themes, known as top risks, grouped around the themes of financial resilience, operational resilience and future strategic fit in the context of the Plan. The Plan did not introduce any new material risks other than those already contained within the Group's Material Risk Register. Whilst outcomes for the later years in the Plan are less certain, the Plan provides a robust planning tool for strategic decisions. The Board recognises that, in a strategic plan, uncertainty increases over time and, therefore, future outcomes cannot be guaranteed or accurately predicted. As the Plan is used for planning over a timeframe of four years, to 31 December 2027, this has been selected as the most suitable period for the Board to review the Group's viability.

The Group's Risk Function has carried out an assessment of the risks to the the Plan and the dependencies for the success of the Plan. This included running adverse scenarios on the Plan to consider the downside risks to the Plan and subsequent impact on forecast profit. The key scenarios applied to the Plan were in relation to the impact of adverse claims inflation, failure to achieve motor pricing initiative benefits, delay to delivery of expense reductions and a fall in asset values. The key judgements and assumptions applied in these scenarios were as follows:

- Adverse claims inflation: the Group's Plan includes a scenario for inflation being higher than expected, leading to claims costs increasing by 3% to 6% with the Group and market response delayed by six months.
- Failure to achieve motor pricing initiative benefits: planned benefits from future motor pricing initiatives are not achieved.
- Delay to delivering expense reductions: there is a delay of 12 months in delivering planned expense reductions.
- Fall in asset values: an increase in credit spreads of 75 basis points, with a partial recovery of 25 basis points over 2025.

It is unlikely that all risks would materialise at the same time. None of the scenarios individually were concluded to present a threat to the Group's expected viability across the duration of the Plan.

The CFO review describes the Group's capital management strategy, including the capital actions taken in the last 12 months designed to ensure the continued strength of the balance sheet, and sets out management actions that the Group continues to pursue to improve capital strength. The Group's financial position is also covered in that section, including a commentary on cash and investment levels, reserves, currency management, insurance liability management, liquidity and borrowings.

The Risk Function has also carried out an assessment of the risks to the Group's capital position over 2024 and 2025. Two specific macroeconomic combination stresses, a moderate and a severe, have been updated to include not only a review of Group financials but also a review of assumptions to reflect the latest internal and external environment and trends. The stresses have been run to assess the possible impact on own funds in the period to 31 December 2024 and 31 December 2025. The stresses are updated and repeated regularly. The macroeconomic assumptions for key parameters such as Consumer Price index, GDP and bank base rate for the moderate scenario reflect the adverse end of the Bank of England November Monetary Policy Committee forecast range. The severe scenario adopts the key parameters from the 2022 Bank of England Banking Stress Test, which is described as "severe but plausible", updated for changes in the macroeconomic environment.

In the moderate and severe scenarios, it was concluded that the Company's solvency capital requirement would not be breached.

Additionally, the Risk Function conducted a reverse stress test to establish whether the long-term future for motor insurance, specifically, the adoption of electric vehicles, poses a threat to the viability of the Company's current business model. The findings showed that over the duration of the planning cycle, the scenarios considered did not present a risk to the viability of the business model.

Further information in relation to the sensitivity of key factors on the Group's financial position are included in the CFO review. This sets out the impact on profit before tax of an increase and a decrease in claims inflation of 200 basis points for two consecutive years. The market risk note in the consolidated financial statements sets out the impact on profit before tax of a 100 basis points increase in spreads on financial investments and the impact of a 100 basis points increase in interest rates on financial investments and derivatives.

Transition to low carbon economy including climate change

In 2023, while the stress and scenario tests that were initially performed in 2021 were not revisited, the Risk Function updated the physical risk section of the underwriting liabilities element of the original analysis to account for portfolio and modelling changes. As part of the updated exercise, we took steps to improve our model to enhance our view of risk. The updated analysis also took into account the sale of the Group's Brokered Commercial Insurance Business, to reflect a view of exposure that was representative of the ongoing Group. The tests are discussed in more detail on pages 75 and 76. In addition, in 2023, we conducted a reverse stress test to establish whether the long-term future for motor insurance, specifically, the adoption of electric vehicles, poses a threat to the viability of our current business model. This is discussed in more detail on page 76.

The overall conclusion of these tests was that there could be breaches in the Group's risk appetite in the long term, however a combination of contingent, pre-emptive and strategic management actions could be deployed to address the risks and allow the business to recover to above risk appetite. Furthermore, the Group's response to climate change underpins its sustainability strategy, and having set out its Science-Based Targets in 2022, the Group remains committed to reducing its carbon footprint.

Based on the results of these reviews, the Board has a reasonable expectation that the Company and the Group can continue in operation, meet liabilities as they fall due and provide the appropriate degree of protection to those who are, or may become, policyholders or claimants in the period to 31 December 2027.

Statement of the Directors in respect of the Strategic report

The Board reviewed and approved the Strategic report on pages 1 to 94 on 21 March 2024.

By order of the Board



Neil Manser
Chief Financial Officer

21 March 2024



Danuta Gray
Chair of the Board

Chair's Introduction

“

I believe we have entered 2024 with a more resilient business, well-positioned to achieve our mission of being brilliant for customers every day.

”

Dear Shareholders,

On behalf of the Board, I am pleased to present the Corporate Governance report for the year ended 31 December 2023. This report sets out how we have applied the principles of the UK Corporate Governance Code (the “**Code**”) throughout the year. It provides information on the activity of the Board and progress we have made in strengthening our corporate governance practices.

Board developments and effectiveness

As I set out in my statement on page 8, 2023 has seen some significant developments in respect of the Board. Following a comprehensive search process for a new CEO, Adam Winslow was identified as the preferred candidate and his appointment was announced in August 2023. He joined the Group on 1 March 2024 and his appointment to the Board is to take effect on 21 March 2024. Adam joins us from Aviva where he led Aviva’s UK and Ireland general insurance business, developing a clear strategy for both personal and commercial lines which has delivered market share expansion and improved profitability. More information about the Nomination and Governance Committee’s selection process can be found on page 125.

Jon Greenwood, who has been serving as our Acting CEO, will smooth the transition following Adam’s appointment to the Board by completing a handover and then returning to a senior executive role. Again, I would like to thank Jon for all his efforts in leading the Company over the past year.

Our review of the Board's balance of experience and skills during the year led to a search for a Non-Executive Director with a strong general insurance background and culminated in the appointment of David Neave in October 2023. David has previously held chairmanships, directorships and advisory roles in a number of insurance, InsurTech, consultancy and legal businesses including, in his executive career, serving as Chief Executive of General Insurance for Co-operative Insurance.

A further search was carried out during the year to identify a Non-Executive Director whose experience would further strengthen the Board's expertise in general insurance and customer service transformation, as well as contributing to the Board's diversity. This search resulted in the decision to appoint Carol Hagh, who will join the Board as a Non-Executive Director on 1 April 2024. Further information about Carol's career and experience can be found in my Chair's Statement on page 10.

This year, we carried out an internal Board performance evaluation with assistance from Promontory Financial Group, who provided an independent perspective to help the Board to assess its effectiveness and define an action plan. Themes emerging from the 2023 review included Board and executive succession planning, management skills and capabilities, culture, communication, meetings and materials. Information about the evaluation process and outcomes can be found on page 114.

Diversity

Changes to the Board in 2023 caused the proportion of women on the Board to fall below the FCA's diversity target of 40% (see page 101). Board diversity, including gender diversity, is a key consideration in the Nomination and Governance Committee's succession planning. We have made some progress towards addressing the Board's gender balance by appointing a new female Non-Executive Director and will continue to focus on diversity as we consider Board succession planning in 2024.

Increasing the diversity of senior leadership is an ongoing target for the Group and we have continued our work on improving the representation of women, ethnic minority and Black colleagues. In 2023 we invested in coaching and targeted development programmes for our high potential women, ethnic minority and Black talent, to support their progression into senior roles. During the year, we set ourselves ambitious new targets to continue to improve diversity in senior leadership. Our internal targets are now aligned with the definitions of senior leadership used by the FTSE Women Leaders Review and Parker Review. We are aiming, by the end of 2027, to increase representation at senior management level of women to 40%, ethnic minority talent to 16% and Black talent to 4%.

The Group has been included in the Top 50 UK Inclusive Employers List for three years running and has been placed in the Social Mobility Index for the first time this year. We continue to build on the strong foundations we have in place, addressing under-representation at senior levels in the business, whilst focusing on improving inclusion through key work programmes.

Stakeholder engagement

During a year of sustained economic pressure on all our stakeholders, including colleagues and customers, we have continued the vital work of listening to our stakeholders to ensure that their priorities are considered in our decision-making and that we hear how, as a business, we can best support them. The tables on pages 106 and 107 set out how we have engaged with our various stakeholders and how this engagement has fed into Board discussion and decision-making.

Audit and internal control

2023 will be the Group's first full year reporting under the new insurance accounting standard IFRS 17 and our Audit Committee has overseen this transition, as well as the handover of the external audit by Deloitte to KPMG. KPMG will assume the role as auditor for the financial year ending 31 December 2024, subject to shareholder approval at our 2024 AGM. More information on the work of the Audit Committee can be found on pages 117 to 121.

During the year, our Board Risk Committee has overseen a Group-wide controls improvement programme which has helped the Group in its aim to bring our oversight, monitoring and control environment into line with industry best practice and to enhance the resilience of our control framework. In addition, the Audit Committee has overseen a Control and Oversight Remediation Programme within Finance, the aim of which is to enhance the financial reporting control environment across the Group. More information on this work can be found on pages 122 to 124.

Remuneration

The Group's remuneration policy was last approved by shareholders at the 2023 AGM. During the year, the Remuneration Committee implemented changes to performance measures in respect of the LTIP and AIP in line with investors' preference for emphasis to be placed on cost management. See page 132 for more information.

In terms of remuneration outcomes for the year, whilst the Group has made good progress in restoring its capital resilience, and although there has been positive progress against some of the strategic metrics, particularly in relation to the People measure, in terms of remuneration outcomes for the year, the Committee concluded it appropriate to recognise the actions the management team has taken during the year, particularly the good progress made by taking decisive action to restore our capital resilience, improve performance in Motor insurance and maintain the performance of our non-Motor businesses, as well as robust performance in the people element of the AIP. The Committee concluded that an outcome of 15% of maximum AIP opportunity is appropriate in this context.

AGM

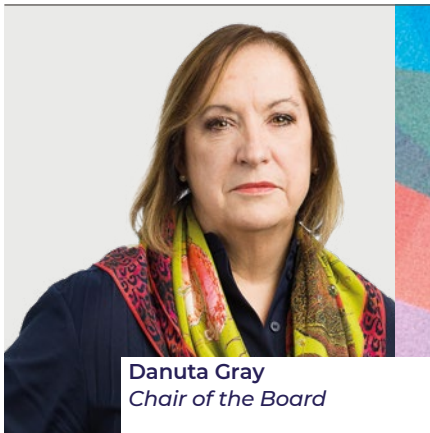
Our 2024 AGM will be held on 8 May 2023 at 10.30 a.m. Full details, including the resolutions to be proposed to our shareholders, can be found in the Notice of AGM, which will be made available on our corporate website. The outcome of the resolutions put to the AGM, including poll results detailing votes for, against and withheld, will be published on the London Stock Exchange's and the Company's websites once the AGM has concluded.

Yours sincerely,



Danuta Gray
Chair of the Board

Board of Directors



Danuta Gray
Chair of the Board



Committees

- Nomination and Governance Committee (Chair)
- Remuneration Committee

Appointed

- Independent Non-Executive Director in February 2017
- Chair of the Board since August 2020

Key Skills and Experience:

- Extensive experience leading and transforming large, consumer focused businesses.
- Deep understanding of governance and remuneration requirements affecting listed companies gained from previous Chair roles.
- Expertise in sales, marketing, and technology.

Danuta was Chair of Telefónica in Ireland until 2012. She was Chief Executive between 2001 and 2010, during which time Telefónica's customer base increased to 1.7 million from just under 1 million. Between 1984 and 2001, Danuta held a variety of senior positions within the BT Group. Elsewhere, Danuta has acted as Senior Independent Director of the Aldermore Group; Non-Executive Chair of St Modwen Properties; Non-Executive member of the Ministry of Defence Board, NED and Chair of the Remuneration Committee at both Page Group plc and Old Mutual plc; and was Non-Executive Chair of the Board of Perth Topco Limited and North Tech.

External Appointments

- Non-Executive Director, Chair of the Remuneration Committee and member of the Nomination Committee of Burberry Group plc.
- Non-Executive Director and Chair-elect of Croda International plc.
- Trustee Director of The Resolution Foundation.



Jon Greenwood
Outgoing acting CEO and
Chief Commercial Officer

Committees

- None

Appointed

- Acting CEO in January 2023 and member of the Board since August 2023

Key Skills and Experience

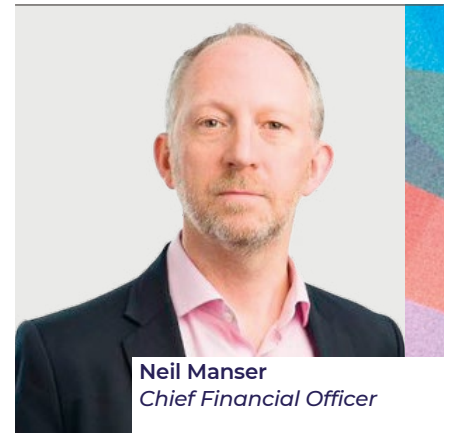
- Deep knowledge of the insurance sector and Commercial function.
- Strong leadership skills with a focus on capital resilience and own brands performance.
- Positive mindset with proven track record in efficiency delivery.

Jon joined the Group in 2000 as Product and Pricing Director for UK Partnerships and has over 30 years' experience in the insurance industry.

In 2022, he was appointed the Group's first Chief Commercial Officer and as acting CEO, he has played a key strategic role in driving the sale of NIG and the brokered commercial business in 2023. Before joining the Group, Jon held roles at HBOS, MBNA and Pinnacle.

External Appointments

- None.



Neil Manser
Chief Financial Officer



Committees

- Investment Committee

Appointed

- May 2021

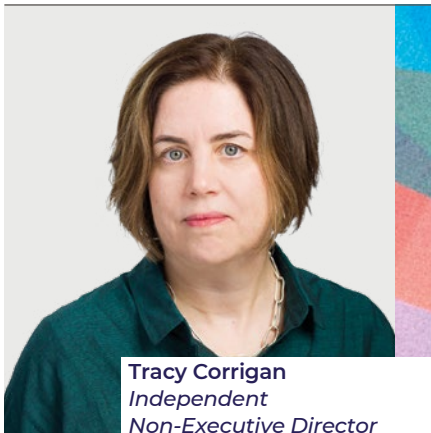
Key Skills and Experience

- Responsibility for overall direction on all financial matters and oversight of investment management and treasury function.
- Extensive corporate finance and capital markets knowledge.
- Deep understanding of the operation of strategy and culture in the insurance industry.

Neil has held several roles in Finance and Strategy since joining the Group in 2011, including Director of Investor Relations, Managing Director of NIG and Chief Strategy Officer. He was instrumental in the Group's successful IPO in 2012. He brings extensive industry and capital markets experience to the Board. Prior to joining the Group, Neil held roles at Brit Insurance, Merrill Lynch and Fox-Pitt, Kelton. He is an Associate of the Institute of Chartered Accountants in England and Wales.

External Appointments

- None.



Tracy Corrigan
Independent
Non-Executive Director



Committees

- Customer and Sustainability Committee (Chair)
- Nomination and Governance Committee
- Remuneration Committee

Appointed

- November 2021

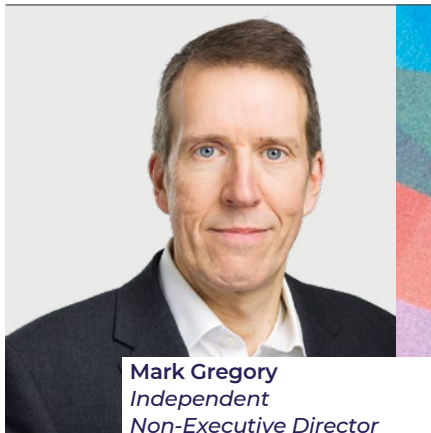
Key Skills and Experience

- Track record of driving digital growth.
- Experience in digital transformation with a focus on data, culture and customer.
- Expertise in ESG issues and communications with multiple stakeholders.

Tracy’s professional background spans financial journalism, digital media and corporate strategy in the media industry. Most recently Tracy was Dow Jones’ Chief Strategy Officer where she was responsible for global strategy, customer insight and commercial policy, and had oversight of the digital transformation of the business. Earlier in her career, Tracy was Editor-in-Chief of The Wall Street Journal Europe and Digital Editor of The Wall Street Journal. She also held various positions, including Editor of FT.com and Editor of the Lex Column, at the Financial Times.

External Appointments

- Non-Executive Director and member of the Remuneration Committee of Barclays Bank UK plc.
- Chair of the Sustainability Committee and Non-Executive Director and member of the Audit and Nomination Committees of Domino’s Pizza Group plc.
- Non-Executive Director and member of the Nominations Committee of The Scott Trust and Chair of The Scott Trust Endowment Limited.



Mark Gregory
Independent
Non-Executive Director



Committees

- Board Risk Committee (Chair)
- Audit Committee
- Investment Committee
- Nomination and Governance Committee
- Remuneration Committee

Appointed

- March 2018

Key Skills and Experience:

- Extensive experience in both general and life insurance.
- Deep understanding of capital markets.
- Strategically orientated with a detailed understanding of the retail sector.

Mark was CEO of Merian Global Investors from January 2019 to August 2020. He previously held the role of Group CFO and Executive Director at Legal & General until 2017. Mark acted in a variety of senior roles in his 19-year career at Legal & General, including CEO of the Savings business, Managing Director of the With-Profits business, and Resources and International Director. Earlier in his career, Mark held senior financial and business development roles at ASDA and Kingfisher. Mark is an Associate of the Institute of Chartered Accountants in England & Wales.

External Appointments

- Non-Executive Director and member of the Audit and Risk Committees of Phoenix Group Holdings plc.



Adrian Joseph OBE
Independent
Non-Executive Director



Committees

- Customer and Sustainability Committee
- Nomination and Governance Committee

Appointed

- January 2021

Key Skills and Experience

- Leading expertise in digital, data science and analytics.
- Track record of using data and AI to drive business transformation.
- Recognised Diversity and Inclusion leader and a passionate advocate on this topic.

Adrian is the former Managing Director, Group Data and Artificial Intelligence at BT Group and a former member of HM Government’s AI Council. He has significant industry and consultancy experience and has held senior roles at EY and Google. Between 2016 and 2020, Adrian was a NED at the Home Office where he sat on the Data Board advising on data science, digital transformation, and diversity and inclusion. A former Chair of the Race Equality Board, Adrian was appointed to the main Board of Business in the Community in 2014 and continues to act as an adviser to them. In 2018, he was announced as the most influential Black, Asian and minority ethnic technology leader in the UK by the Financial Times and Inclusive Boards. Adrian has been awarded an OBE for services to equality and diversity in business.

External Appointments

- None.

Key for Committee membership

AC Audit Committee

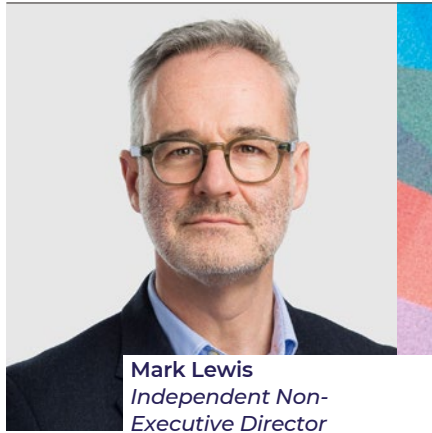
IC Investment Committee

RC Remuneration Committee  Committee chair

BR Board Risk Committee

NG Nomination and Governance Committee

CSC Customer and Sustainability Committee



Mark Lewis
Independent Non-Executive Director

NG RC CSC

Committees

- Customer and Sustainability Committee
- Nomination and Governance Committee
- Remuneration Committee

Appointed

- March 2023

Key Skills and Experience

- Strong track record of delivering digital transformation and growth.
- Highly experienced in customer-focused and regulated business environments with a focus on strategy and innovation.
- Expertise in price comparison websites.

Mark's career has spanned financial services, retail, e-commerce, management consultancy and advertising. Most recently, he was Chief Executive of the MoneySupermarket Group, overseeing a period of revenue and profit growth for the UK listed price comparison business. Mark's previous roles include the Retail and Online Director for John Lewis and the Managing Director of eBay UK.

External Appointments

- Non-Executive Director and member of the Audit, Remuneration, Risk and Responsible Banking Committees of Santander UK plc.
- Non-Executive Director of Hammer PW Topco Limited.



Fiona McBain
Independent Non-Executive Director

IC AC BR NG

Committees

- Investment Committee (Chair)
- Audit Committee
- Board Risk Committee
- Nomination and Governance Committee

Appointed

- September 2018

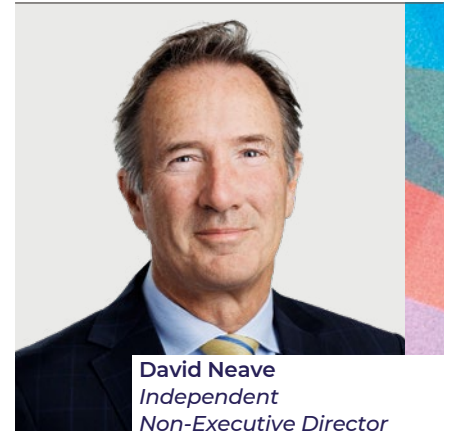
Key Skills and Experience

- Deep understanding of the development of corporate and digital strategy.
- International experience with broad perspective of business and capital markets.
- Expertise in digital transformation, customer analytics and stakeholder communications.

Fiona's experience in retail financial services, both in the industry and as an auditor, was gained in the UK and the USA. Fiona qualified as an accountant early in her career at Arthur Young (now EY). Until January 2019, she was Vice-Chair of Save the Children UK and a Trustee Director of the Humanitarian Leadership Academy. Previously, Fiona served as CEO of Scottish Friendly Group for 11 years, before which she was Scottish Friendly Group's Finance Director. Between February 2009 and June 2023 she served as Chair and Non-Executive Director of the Scottish Mortgage Investment Trust plc. Fiona is a Fellow of the Institute of Chartered Accountants in England & Wales.

External Appointments

- Chair of the Audit Committee and Non-Executive Director of Currys plc.
- Senior Independent Director, Chair of the Audit Committee and Non-Executive Director of Monzo Bank Limited.



David Neave
Independent Non-Executive Director

AC BR NG

Committees

- Audit Committee
- Board Risk Committee
- Nomination and Governance Committee

Appointed

- October 2023

Key Skills and Experience







- Deep understanding of general and life insurance markets.
- Extensive experience in senior management and non-executive roles.
- Proven record of delivering general insurance business modernisation.

David is a Chartered Insurer and former Chief Executive of General Insurance for Co-operative Insurance. Following his executive career, spanning over twenty years in senior management roles in general insurance, David has held chairmanships, non-executive directorships and advisory roles in a number of insurance, InsurTech, consultancy and legal businesses, including Slater and Gordon UK Limited, The Solicitors Indemnity Fund, Liverpool Victoria Friendly Society, LV General Insurance Limited and Accenture UK Limited.

External Appointments

- Chair of the Advisory Board of the Common Automotive Platform Standard.

Key for Committee membership

-  Audit Committee
-  Board Risk Committee
-  Investment Committee
-  Nomination and Governance Committee
-  Remuneration Committee
-  Customer and Sustainability Committee
-  Committee chair



Gregor Stewart
*Independent
Non-Executive Director*



Committees

- Audit Committee (Chair)
- Board Risk Committee
- Nomination and Governance Committee

Appointed

- March 2018

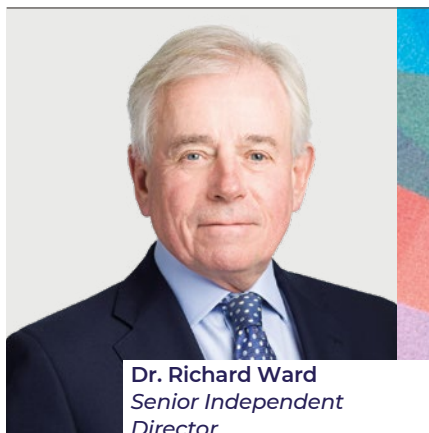
Key Skills and Experience

- Strong audit background having worked as a partner in Ernst & Young's Financial Services practice.
- Extensive experience in the insurance and investment management industry.
- Deep knowledge and understanding of financial services regulation and practice.

Gregor worked at Ernst & Young for 23 years, 10 of which were as partner in the financial services practice. Between 2009 and 2012, he was Finance Director for the insurance division of Lloyd's Banking Group plc which included Scottish Widows. Gregor previously served as Chair and Non-Executive Director of Alliance Trust plc and FNZ (UK) Limited. Gregor is a Member of the Institute of Chartered Accountants of Scotland.

External Appointments

- Deputy Chair, Chair of the Risk Committee and Non-Executive Director of FNZ Group.



Dr. Richard Ward
*Senior Independent
Director*



Committees

- Remuneration Committee (Chair)
- Board Risk Committee
- Nomination and Governance Committee

Appointed

- January 2016

Key Skills and Experience

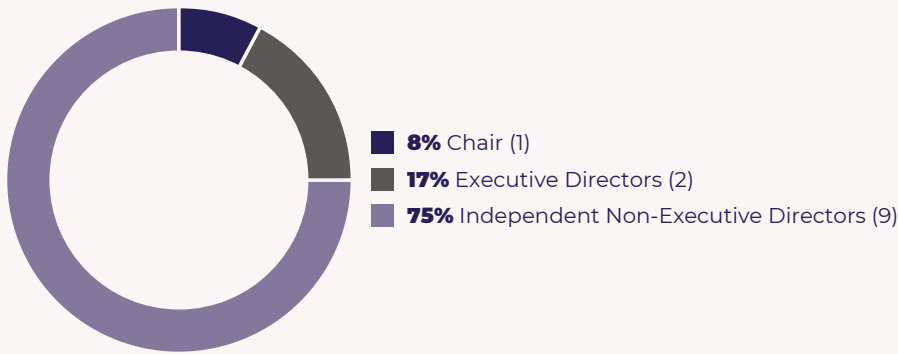
- Highly experienced financial services professional with expertise in dealing with complex stakeholder groups.
- Extensive knowledge of the insurance industry with deep insight into prudential regulation.
- Background of delivering business transformation and change in challenging circumstances.

Richard was previously Executive Chair of Ardonagh Specialty, Chief Executive of Lloyd's of London, and CEO of the International Petroleum Exchange. He also held the roles of Non-Executive Chair at Brit Syndicates Limited and Executive Chair of Cunningham Lindsey. Richard also held NED roles at the Partnership Assurance Group plc and the London Clearing House. Earlier in his career he held a range of senior positions at British Petroleum and was a research scientist for the Science and Engineering Council. Richard has also been a member of the PwC Advisory Board, the PRA Practitioner Panel and the Geneva Association.

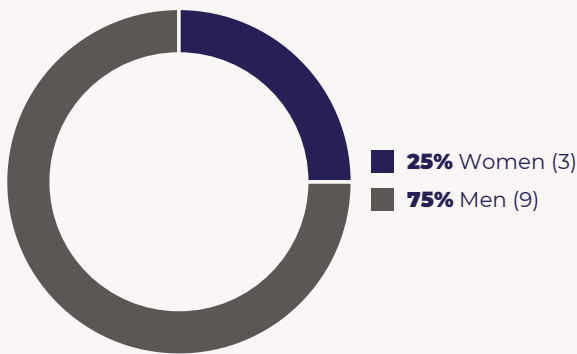
External Appointments

- Non-Executive Chair of CFC Group Limited.
- Non-Executive Chair of Mrald Limited.

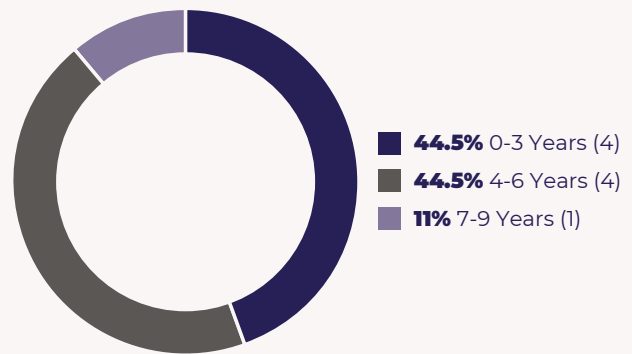
Board independence¹



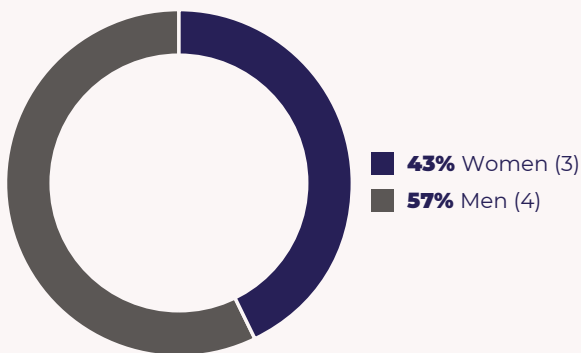
Board gender²



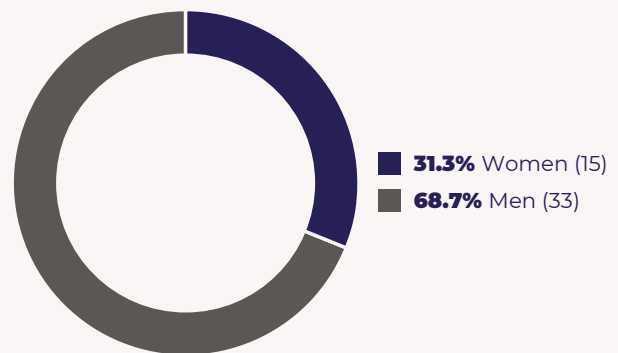
Chair and NED tenure



Gender diversity of our Executive Committee³



Gender diversity of Senior Management⁴



Notes:

- As at 31 December 2023. Following Sebastian James' retirement from the Board, Board independence is 9% Chair (1), 18% Executive Directors (2) and 73% Independent Non-Executive Directors (8).
- As at 31 December 2023. Following Sebastian James' retirement from the Board, the Board gender is split 38% Women (3) and 72% Men (8).
- As at 31 December 2023.
- Senior Management in this context is defined as the Executive Committee, Company Secretary and direct reports (where direct reports are members of the Group's Enterprise Leadership Network) as at 31 December 2023.

Corporate Governance

This report explains the Board's role and activities, and how corporate governance operates throughout the Group.

Corporate Governance Statement

This Corporate Governance Statement explains key features of Direct Line Insurance Group plc's (the "**Company**") governance structure and how it measures itself against the standards set out in the UK Corporate Governance Code 2018 (the "**Code**"). The Code, set by the Financial Reporting Council (the "**FRC**"), applied to the financial year ended 31 December 2023.

For more information about the Code, visit the FRC's website at www.frc.org.uk. This Corporate Governance Statement fulfils the requirements of the FCA's Disclosure Guidance and Transparency Rule 7.2 ("**DTR 7.2**"). For full details refer to the Directors' report on pages 157 to 160.

The Company complied with the principles and provisions of the Code throughout the financial year and up to the date of this Annual Report and Accounts.

Board leadership and company purpose

Pages

- The role of the Board 102
- The role of the Board in the Company's culture
- Board activity and meeting attendance
- Consideration of section 172(1) factors
- How the Board engages with stakeholders

Division of responsibilities

110

- Governance framework and structure
- Structure of the Board, Board Committees and executive management
- Roles and responsibilities of the Board

Composition, succession and evaluation

112

- Board composition
- Induction, training and support
- Board's approach to diversity, inclusion and succession planning
- Board and Committee effectiveness review

Audit, risk and internal control

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- Preparation of the Annual Report and Accounts
- Assessing emerging and principal risks
- Risk management and internal control systems
- Audit Committee report
- Board Risk Committee report

Remuneration

131

- Directors' Remuneration report

Board leadership and company purpose

The role of the Board

The Board seeks to promote the long-term sustainable success of the Company for the benefit of its shareholders and stakeholders, establishes the Company's purpose, values, culture, and strategy, while contributing to wider society. The Board aims to create shared vision for the organisation and role-models the values and standards that are expected from all of our people. The Board and its Committees are comprised of individuals with an appropriate mix of skills, industry experience and knowledge.

This is supported by a formal Schedule of Matters Reserved for the Board, which contains items that are reserved for the Board's consideration and approval. These matters relate to strategy and management, material contracts, financial reporting and controls, internal controls and risk management, Board membership and succession planning, corporate governance, structure and capital, and delegation of authority.

The matters reserved for the Board are kept under review to ensure they remain appropriate. Throughout 2023, the Board acted in accordance with the Schedule of Matters Reserved for the Board.

The Board discharges some of its responsibilities through its Committees, each of which expands the work of the Board and enables deeper focus on particular areas. Each Board Committee has written Terms of Reference defining its role and responsibilities. The Terms of Reference of the Board Committees can be found on our corporate website.

Further details regarding the role, responsibilities and activities of the Board and its Committees can be found below and in the Directors' Remuneration report which begins on page 131. Whilst some of the key areas of the Board's responsibility are summarised in the following paragraphs, these are not intended to be an exhaustive list.

Leadership

The Board provides leadership within a framework of prudent and effective controls. The Board has clear divisions of responsibility and seeks the long-term sustainable success of the Group. Information on how opportunities and risks to the future success of the business have been considered and addressed, and about the sustainability of the Company's business model, is set out in the Strategic report which begins on page 22.

Operations

The Board oversees the implementation of a robust control framework to allow effective management of risk. The Board supervises the Group's operations, with a view to ensuring they are effectively managed, that effective controls are in place, and that risks are assessed and managed appropriately.

Financial performance

The Board sets the financial plans, annual budgets and key performance indicators and monitors the Group's results against them.

Strategy

The Board oversees the development of the Group's strategy, the sustainability of the business model and considers how the Group's governance supports the delivery of strategy.

The Board monitors management's performance and progress against the Group's strategic aims and objectives.

Further details of how the Company applied the Code's principles and complied with its provisions can be found in the following sections of the Annual Report and Accounts:

The role of the Board in the Company's culture

Our Mission:

To be brilliant for customers every day.

Our Vision:

To create a world where insurance is personal, inclusive and a force for good.

Our Purpose:

To help people carry on with their lives, giving them peace now and in the future.

Our culture informs the way we work, the way we interact with stakeholders and how we provide value for our customers and underpins our mission, vision and purpose.

The Board recognises that evolving and enhancing the Group's culture is critical to its future success in a rapidly changing world. Therefore during 2023, the Board oversaw a dedicated programme to review the Group's culture and bring together various activities in the Group aimed at instilling a customer focused, high performance and risk-positive culture.

The 'Tone from the Top'

The Board and the Executive Committee participated in a series of interviews which helped identify the positive elements of the Group's culture they felt should be protected, as well as areas that could be dialled up.

Following this, the Group established a Culture Steering Committee, to meet on a quarterly basis to co-ordinate and lead activity on culture. The Steering Committee is made up of key individuals from across the business who influence culture, including the Chief People Officer and representatives from Business Change, Human Resources, the Conduct Centre of Excellence, Trading, Customer Sales and Service, Corporate Communications, Risk and Compliance.

Cultural messaging

The Group has reviewed and enhanced the way it communicates on culture internally with a view to ensuring the tone from the top is cascaded clearly and effectively by using consistent messaging.

Monitoring culture

A dashboard has been developed to help the Board monitor culture that includes key metrics in respect of: Customer (for example; NPS and complaints); People (e.g. performance management; grievances; diversity; hiring trends; and engagement); and Risk (e.g. colleague compliance training completion levels; completion of internal audit actions; and speaking up and whistleblowing reports). The dashboard will be regularly reviewed by the Board.

The Future

Looking ahead in to 2024, we aim to continue evolving our culture by focusing on:

– Performance

The Group aims to improve individual and team performance through embedding the high-performance framework. People managers will be upskilled in the key behavioural traits and capabilities of giving and receiving feedback, coaching others, aligned to themes of positive risk management and consumer outcomes.

– Leadership

We will drive improved leadership capability and evidence this through leadership assessments, performance assessments, and the strength of succession planning.

– Customer

The Group will continue to embed Consumer Duty requirements throughout the organisation.

– Governance and Risk

Improved governance across the organisation will be intended to lead to quick and clear decision-making, allowing us to resolve issues at pace when they are identified. Our Risk maturity will be improved and measured by the Risk and Controls Self-Assessment ("RCSA"). More information on the RCSA can be found on page 122 and 123.

Board meetings and activity in 2023

Scheduled Board meetings focused on four main themes, as detailed below:

Themes	Description
Strategy and execution Strategic alignment ① ② ③ ④ ⑤	<ul style="list-style-type: none"> Approving and overseeing the Group's key strategic targets and monitoring the Group's performance against those targets; reviewing customer experience and trends and monitoring the Group's performance against external brand metrics; reviewing and approving key projects aimed at developing the business or rationalising costs; considering growth opportunities; and reviewing the individual strategy of key business lines.
Financial performance and investor relations Strategic alignment ① ④ ⑤	<ul style="list-style-type: none"> Setting financial plans, annual budgets and key performance indicators, and monitoring the Group's results against them; considering the Group's reserving position, approving the Solvency II narrative reports and approving financial results for publication; approving reinsurance programmes and renewals; reviewing broker reports on the Group, alongside feedback from investor meetings; and considering the appropriateness or otherwise of possible surplus capital distributions.
Risk management, regulatory and other related governance Strategic alignment ① ② ④ ⑤	<ul style="list-style-type: none"> Reviewing and agreeing the Group's policies; setting risk appetite; approving the Own Risk and Solvency Assessment ("ORSA"); seeking to ensure that the Group complies with its regulatory obligations; reviewing the Group's solvency position and forecast; overseeing the Control and Oversight Remediation Programme; reviewing the Group's ESG initiatives; reviewing and approving the Group's Task Force on Climate-related Financial Disclosures ("TCFD"); and reviewing and approving the Group's Consumer Duty implementation programme.
Board and Board Committee governance Strategic alignment ① ②	<ul style="list-style-type: none"> Receiving reports from the Board's Committees; updating the Schedule of Matters Reserved for the Board; updating terms of reference for the Board's Committees; receiving corporate governance updates; overseeing Board and executive succession planning; conducting the annual review of the Board and Board Committees' performance and conducting an annual review of the Group's governance framework.

In addition to its scheduled Board meetings, the Board held a number of ad hoc meetings to deal with urgent or arising matters.

In June 2023, the Board held a strategy day to set and monitor progress against the Group's strategy and to discuss the Group's future opportunities.

Link to core strengths and capabilities driving our strategy

- ① Innovating for success
- ② Customer focus
- ③ Claims expertise
- ④ Pricing sophistication
- ⑤ Efficient cost base

Board and Committee meeting attendance

The Board and its Committees held a number of scheduled meetings in 2023, which senior executives, external advisers and independent advisers were invited to attend and to present on business developments and governance matters. The Company Secretary attended all Board meetings and he, or his nominated deputy, attended all Board Committee meetings.

The table overleaf sets out attendance at the scheduled meetings in 2023. Attendance is expressed as the number of scheduled meetings attended out of the number of such meetings possible or applicable for the Director to attend. In circumstances where a Director is unable to attend a meeting, the Director receives papers in advance and has the opportunity to raise issues and give comments to the Chair in advance of the meeting.

Additional Board and Committee meetings were convened during the year to discuss current issues, ad hoc business development, governance and regulatory matters.

	Board	Audit Committee	Board Risk Committee	Customer and Sustainability Committee	Investment Committee	Nomination and Governance Committee	Remuneration Committee
Chair							
Danuta Gray	9 of 9	–	–	–	–	3 of 3	4 of 4
Senior Independent Director							
Richard Ward	9 of 9	–	5 of 5	–	–	3 of 3	4 of 4
Non-Executive Directors							
Tracy Corrigan	9 of 9	–	–	4 of 4	–	–	4 of 4
Mark Gregory	9 of 9	7 of 7	5 of 5	–	4 of 4	–	4 of 4
Sebastian James	9 of 9	–	–	4 of 4	–	3 of 3	4 of 4
Adrian Joseph OBE ¹	8 of 9	–	–	2 of 4	–	–	–
Mark Lewis ²	7 of 7	–	–	3 of 3	–	–	2 of 2
Fiona McBain	9 of 9	7 of 7	5 of 5	–	4 of 4	–	–
David Neave ³	2 of 2	–	–	–	–	–	–
Gregor Stewart	9 of 9	7 of 7	5 of 5	–	–	–	–
Executive Directors							
Jon Greenwood ⁴	3 of 3	–	–	–	–	–	–
Neil Manser	9 of 9	–	–	–	4 of 4	–	–
Former Executive Directors							
Penny James ⁵	2 of 2	–	–	–	–	–	–

Notes:

1. Adrian Joseph was unable to attend meetings due to conflicting commitments.
2. Mark Lewis was appointed to the Board, the Remuneration Committee and the Customer and Sustainability Committee on 30 March 2023.
3. David Neave was appointed to the Board on 19 October 2023.
4. Jon Greenwood was appointed to the Board on 31 August 2023.
5. Penny James resigned as CEO on 27 January 2023.

Consideration of section 172(1) factors by the Board

The Group's section 172(1) statement can be found in the Strategic report on page 17.

The table below sets out how factors under section 172(1) of the Companies Act 2006 and engagement with stakeholders have fed into Board discussion and decision making on key topics. More information about Board engagement with stakeholders can be found in the table on page 106 and 107.

Section 172(1)

The Directors must act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- (a)** the likely consequences of any decision in the long term;
- (b)** the interests of the company's employees;
- (c)** the need to foster the company's business relationships with suppliers, customers and others;
- (d)** the impact of the company's operations on the community and the environment;
- (e)** the desirability of the company maintaining a reputation for high standards of business conduct; and
- (f)** the need to act fairly between members of the company.

Topic	Section 172(1) considerations	Outcomes
Return of capital to shareholders The Board considered the distribution of surplus capital to shareholders during the year.	<p>(a) Considered the Group's capital position, taking into consideration regulatory and policy holder requirements and the long-term investment needs of the business.</p>	<p>In January 2023, the Board took the decision not to recommend a final dividend for 2022. In September 2023 the Group announced that no interim dividend was proposed for the half year 2023.</p> <p>The Board set two conditions under which dividends would be restarted – the first being a return to capital coverage at the upper end of the agreed range and secondly a return to organic capital generation in Motor. The Board took the view that these conditions had been met and recommended a final dividend for 2023 of 4.0 pence per share. For more information on the Board's recommendation of a final dividend, please see the Chair's statement on page 8.</p>
	<p>(a) Considered 2023 results and trading performance in Motor.</p>	
	<p>(a) Considered the macro-economic environment.</p>	
Consumer Duty implementation The Board considered the implementation of the FCA's new Consumer Duty rules, which came into effect in July 2023.	<p>(c) Considered how the Group could embrace and embed Consumer Duty requirements to ensure good outcomes and fair value for customers.</p>	<p>The Board oversaw the implementation of its Consumer Duty framework ahead of the 31 July 2023 implementation date. Progress against the approved Consumer Duty implementation plan was closely monitored.</p> <p>Pre-implementation, the Group engaged with a wide range of suppliers to set expectations on consumer duty. In cases where suppliers could materially affect customer outcomes, the Group engaged with them on the required changes to customer journeys. Suppliers were also issued questionnaires on their approach to consumer duty.</p> <p>Resource risk was monitored throughout the implementation period and was mitigated through the addition of key supporting resources and subject matter expertise in various workstreams.</p> <p>There is continued oversight of the embedding of Consumer Duty across the Group, the implementation of a customer conduct culture framework and the transition of Consumer Duty into business as usual activity while ensuring that the Group is resourced to an appropriate level to prioritise the right customers at the right time.</p>
	<p>(c) Considered how suppliers could support implementation where they may have a material impact on customer outcomes.</p>	
	<p>(b) Considered the resources needed to ensure successful implementation and to ensure that customers are prioritised appropriately.</p>	
Cost of living crisis The Board considered how to respond to the continuing strain on real disposable incomes.	<p>(b) Considered feedback received via the ERB about how the cost of living crisis was affecting colleagues, the benefits of financial wellbeing, and what could be done to support our people.</p>	<p>During the year, we introduced initiatives focused on supporting colleagues' financial well-being, including a free mortgage advisory service, a platform which enables debt to be re-paid through salary and providing access to shopping discounts. See page 133 for more information on these measures.</p> <p>Following the success of the Churchill Essentials product, we launched the Direct Line Essentials product (see page 52 for more information.)</p>
	<p>(a) Considered how to adapt the Group's motor products to provide customers with the choice of a stripped-back insurance policy.</p>	
Sale of brokered commercial insurance business The Board considered the future of the brokered commercial insurance business.	<p>(a) Considered future strategy of the Company and ambition to focus on retail personal and direct small business commercial lines insurance customers.</p>	<p>The sale of the brokered commercial insurance business to RSA was agreed. Its specialist trading model operated in a different part of the UK insurance market to that of the rest of the Group and this, combined with the operational turnaround of the brokered commercial insurance business, meant that the Board considered it to be the right strategic decision to facilitate a sale and crystallise the value that had been created.</p> <p>The sale increased the Group's solvency by approximately 45 percentage points.</p> <p>A key consideration in the transaction was to maintain service delivery for brokered commercial insurance customers. It was considered that the sale to RSA would allow continued support and service delivery to brokered commercial insurance customers, due to their position as a multinational general insurer providing a range of personal, commercial and speciality insurance solutions through a wide network of brokers, third party partners and directly to customers.</p>
	<p>Considered the need to restore the resilience of the Group's capital position and to drive the long-term value potential for both customers and shareholders.</p>	
	<p>Considered the interests of commercial customers and of colleagues who would be transferred as a result of a sale and the buyer's reputation in respect of customers and as an employer.</p>	

How the Board engages with stakeholders

The table below sets out how the Board has engaged with various stakeholders or received information about engagement with stakeholders throughout the year.

Our Shareholders

The Investor Relations team runs a comprehensive programme of engagement covering a broad range of the Company's shareholders and debt investors, which includes meetings with the Chair and Executive Directors, presentations and conference calls to discuss performance and strategy.

The Remuneration Committee Chair engages with shareholders on remuneration-related matters (see page 132 of the Directors' Remuneration report for more information).

The AGM provides both institutional and retail shareholders with the opportunity to ask the Board questions either live or by submitting questions in advance.

Our People

Executive Directors host interactive sessions with colleagues throughout the year to receive feedback and answer questions.

These sessions are held in various formats, e.g. town halls and live Q&A sessions, in order to encourage maximum participation from colleagues, allowing them to have a more informal discussion with senior managers.

During the year, Non-Executive Directors visited the Group's operations in Birmingham, Bristol, Glasgow, Doncaster, Leeds, Manchester and Bristol. All of the visits included informal Q&A sessions with colleagues.

In addition, the Chair of the Board delivered keynote talks at the Chief Risk Officer's 'The Future of Risk and Compliance Conference', and at an afternoon session of the Group's 'Young Professionals Conference'.

We have several methods by which the Board engages with our people as stakeholders. The employee voice from each of the below forums is fed back to the Board on a regular basis:

Employee Representative Body ("ERB")

The ERB meets on a quarterly basis and comprises colleagues from across the business areas and locations. Meetings are generally attended by the Group's leadership, including the Acting CEO and one or two Non-Executive Directors, to discuss issues and proposals which have (or may have) an impact on our people. Attendance and information on the work of the ERB during the year can be found on page 108 and 109.

Motability

In September 2023, the Group welcomed 585 Motability colleagues to the business. People in this area are represented by the union Unite. The business leads meet fortnightly with representatives of Unite to discuss transitional activity and other issues.

The Group is intent on building and maintaining a positive relationship with Unite based on transparency and trust throughout the duration of the Motability partnership.

DiaLoGue

The Board receives regular updates on people matters from the Chief People Officer and reviews the results and key outcomes of the Group's colleague engagement survey, 'DiaLoGue', through which all colleagues are surveyed three times a year.

Findings provide both a snapshot and trends not only of all-colleague opinion but also findings for specific teams, allowing solutions to be tailored to specific needs. Response to these surveys has consistently been high (over 80%).

Diversity Network Alliance ("DNA")

There are seven employee networks, each of which are key drivers of diversity and inclusion across the business. They focus on the following areas: Belief, Life (families and carers), LGBTQ+, Neurodiversity & Disability, REACH (Race, Ethnicity and Cultural Heritage), Social Mobility and Thrive (gender). During the year, the Chair of the Board gave an interview on the "Social Mobility Podcast by Making the Leap" hosted by Tunde Banjoko OBE, CEO of Making the Leap, which was facilitated through the Group's Social Mobility Strand.

Our Customers

The Board closely monitors customer conduct and satisfaction. It considers a Customer Outcomes report at each of its scheduled meetings, which includes data in respect of a number of customer experience metrics including Net Promoter Scores and customer complaints data relating to sales, service and claims. It also reviews data in respect of digital service interactions.

During the year, the Board received detailed updates on the impact of various key strategic matters on customers, including the implementation of the new Consumer Duty Regulation. Tracy Corrigan, Non-Executive Director, is the Consumer Duty Champion and acts as the voice of the customer in the boardroom.

The Group has invested in market-leading research capabilities, including an advanced customer engagement suite in our corporate headquarters at Riverbank House. During the year, the Board and members of the Executive Committee met one of our visually impaired customers to test the online journey to purchase a policy. This highlighted the challenges faced by visually impaired customers and the ways they could be supported by simplifying online journeys and, in turn, how these journeys can be simplified for all of our customers.

The Board seeks to utilise a breadth of methods through which to engage with customers: through complaints procedures, customer facing teams, Q&A sessions and via ERB feedback from frontline teams.

Our Suppliers

The Board receives regular updates from management on key issues with suppliers. During the year, the Acting CEO met with a number of key technology suppliers, partners and external consultants.

The Board reviewed and approved the Group's Ethical Code for Suppliers and Modern Slavery Statement. The Code states that the Company encourages and welcomes feedback from suppliers on the Group as a customer and on how policies and procedures can be improved. This feedback can be given as part of regular review meetings with management.

The Group is a long-standing signatory of the Prompt Payment Code. Key performance indicators in respect of prompt payment are reported internally, and there are mechanisms in place for any significant issues regarding prompt payment to be escalated to the Board.

Our Planet and Our Society

The Customer and Sustainability Committee is a key vehicle through which the Board receives updates on engagement with key community and environmental stakeholders. More information on the work of the Customer and Sustainability Committee can be found on pages 127 and 128.

Colleague Engagement

The Group has an established Employee Representative Body, meetings of which are attended by elected representatives from the different areas of the business and by the Acting CEO, the Chief People Officer and members of the senior leadership team, to discuss issues and proposals which have, or may have, an impact on colleagues. Non-Executive Directors also attended meetings on a rotational basis (during the year, four different Non-Executive Directors attended ERB meetings). Output from the meetings attended by Directors is reported to the full Board so they can consider relevant colleague views in their decision making.

The Board considers that this arrangement fulfils the recommendation under Provision 5 of the Code to provide a mechanism for engaging with the workforce, being an enhanced version of the "formal workforce advisory panel" method referred to in Provision 5. The Board considers this arrangement to be highly effective as it provides a formal framework through which a wide variety of views can be represented and provides colleagues the opportunity to express these views directly to both Executive and Non-Executive Directors. It also means Director attendance can be tailored so that colleagues can engage with the most appropriate Board member on a particular topic. For example, during the year, the Chair of the Remuneration Committee attended the meeting at which workforce pay was discussed, and the Chair of the Board attended the meeting at which effect of the Consumer Duty regulations were discussed.

Information about Board representation at ERB meetings can be found in the table below.

Meeting	March	June	September	December
Board Representation	Jon Greenwood (Acting CEO) Vicky Wallis (Chief People Officer) Tracy Corrigan (Non-Executive Director)	Jon Greenwood (Acting CEO) Danuta Gray (Chair of the Board) Vicky Wallis (Chief People Officer)	Neil Manser (CFO) Mark Lewis (Non-Executive Director) Vicky Wallis (Chief People Officer)	Jon Greenwood (Acting CEO) Dr. Richard Ward (Non-Executive Director) Vicky Wallis (Chief People Officer)

Examples of engagement with the ERB having resulted in business action include:

	Issue Discussed	Outcomes
Developing a high-performing culture	We discussed the new high-performing culture with the ERB. This was an iterative process of feedback and update during which the ERB challenged the business on new performance objectives.	Objectives have been set to reflect the most important priorities for us as a business and have been developed to help all of our colleagues understand how they contribute. Performance against these objectives will form part of individual performance ratings. People leaders have been given training on how to apply these performance objectives in year-end reviews.
Our Values	The ERB was consulted on a refreshed set of values: Win Together, Be Yourself, Speak Up and Own It. (More information on our values can be found on page 54.)	With ERB support, our values have evolved to represent the best of the Group, and to guide the way we work together to perform as a business and deliver for our customers. Our values help us make good decisions, support each other in the right way and draw on diverse perspectives. We use our values to assess 'how' our colleagues deliver, alongside 'what' they deliver, when considering individual and team performance across the Group..

DiaLoGue

DiaLoGue is our employee engagement tool that we use to survey our colleagues three times a year. In 2023, we also used DiaLoGue to carry out a 'pulse' survey to understand how our people were feeling during a challenging year. Examples of outcomes resulting from DiaLoGue feedback include:

	Issue Raised	Outcome
The Future	Colleagues sought clarity on their objectives and how they support the Group's wider strategy.	In 2023 we put standardised objectives, which are aligned to our strategy, in place for all colleagues (including the Executive Committee and Enterprise Leadership Network) to support the understanding of the link between individual objectives and the Group's overall strategy.
Leadership	Colleagues sought enhanced communications from leadership, alongside a clear set of priorities for the future.	We have reviewed the approach to and impact of internal communications and have delivered a set of focused priorities. In addition, we are developing a model to understand our leadership strengths and to identify opportunities for improvement.

Division of responsibilities

Governance framework and structure

The Board oversees the system of governance in operation throughout the Group. This includes an effective Enterprise Risk Management Framework and system of internal control. The Board has established a risk management model that separates the Group’s risk management responsibilities into three lines of defence. An explanation of these responsibilities can be found on page 86.

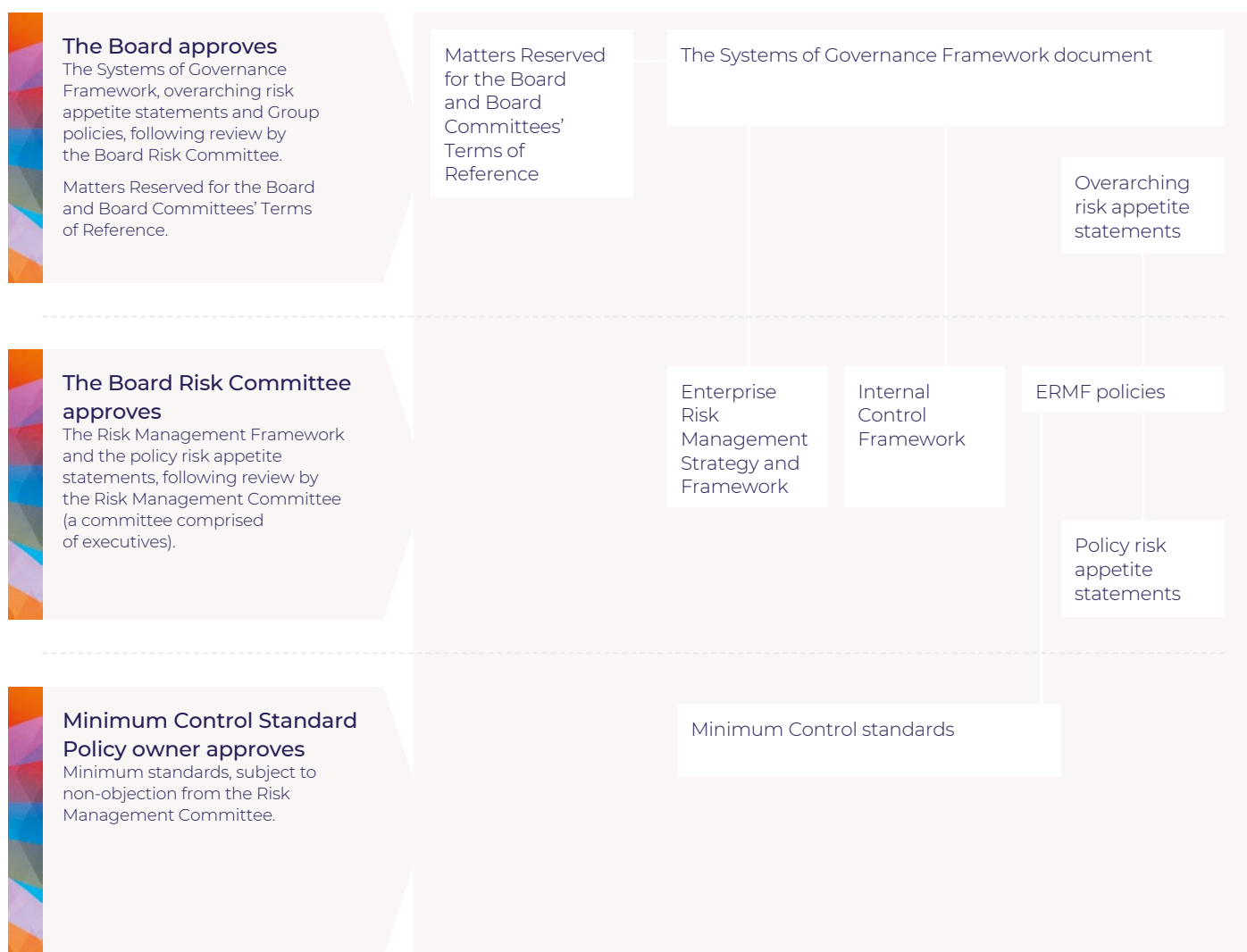
The Group’s governance framework is detailed in the Group’s Systems of Governance document. This document also details how the Group meets Solvency II and the Prudential Regulation Authority (“PRA”) requirements to identify key functions, and to have and maintain a Responsibilities Map in respect of the PRA and FCA’s Senior Managers and Certification Regime requirements. The Board reviews this document annually.

The core elements of the governance framework are the:

- Matters Reserved for the Board and the Board Committees’ Terms of Reference;
- Systems of Governance document;
- Risk appetite statements, which are described on page 86;
- Enterprise Risk Management Strategy & Framework and Internal Control Framework, which is described on page 87;
- Group policies, which address specific risk areas, are aligned to the Group’s risk appetite, and inform the business on how it needs to conduct its activities to remain within risk appetite; and

Minimum Control standards, which interpret the Group’s policies into a set of requirements that can be implemented throughout the Group.

The diagram below summarises the split of responsibilities for the different parts of the Group’s governance framework.



Structure of the Board, Board Committees and executive management

The following chart sets out the structure of the Board and its Committees and highlights the responsibilities of the Chair, the Senior Independent Director, the Non-Executive Directors, the Executive Directors, the Company Secretary and the Executive Committee. The role descriptions for the CEO and Chair are set out in writing; the profiles clearly define their respective roles and responsibilities, and ensure that no one person has unlimited powers of decision making.

The Board and Board Committees have unrestricted access to management and external advisers to help discharge their responsibilities. Each Committee plays a vital role in helping the Board to operate efficiently and consider matters appropriately.

The Board and Board Committees are satisfied that, in 2023, sufficient, reliable and timely information was received in order for them to perform their responsibilities effectively.

The reports by each Board Committee are given in this Annual Report and Accounts. The Terms of Reference for each Committee can be found on the corporate website at: www.directlinegroup.co.uk/en/who-we-are/leadership/board-committees

Roles and responsibilities of the Board

Board of Directors

Each Director brings different skills, experience and knowledge to the Company, and the NEDs contribute additional independent thought and judgement. Depending on the business needs, the NEDs and the Chair commit at least two days a month and two days a week respectively to discharging their duties effectively in accordance with their letters of appointment.

As at 31 December 2023, the Board comprised the Chair, eight independent NEDs, and two executive Directors (the CFO and the Acting CEO). Biographies of the full Board can be found on pages 97 to 100.

Board Committees

Full details of membership, responsibilities and activity of each Committee throughout the year can be found on pages 117 to 135.

Audit Committee	Board Risk Committee
Investment Committee	Nomination and Governance Committee
Remuneration Committee	Customer and Sustainability Committee

The Executive Committee

The Executive Committee is the principal management committee that helps the Acting CEO manage the Group's operations and supports the Acting CEO in:

- Setting performance targets;
- Implementing Group strategy;
- Monitoring key objectives and commercial plans to help achieve the Group's targets; and
- Evaluating new business initiatives and opportunities.

Chair

- Guides, develops and leads the Board.
- Plans and manages the Board's business.
- Oversees the Group's governance framework.

Senior Independent Director

- Acts as a sounding board for the Chair and an intermediary for the other Directors when necessary.
- Is available to shareholders if they have concerns that cannot be resolved through other channels.
- Leads the Chair's performance evaluation.

Non-Executive Directors

- Challenge management in an objective and constructive manner.
- Use their wider business experience to help develop the Group's strategy.

Executive Directors

- The Acting CEO and CFO are members of the Board, with delegated responsibility for the day-to-day operation of the Group and delivering its strategy.
- The Acting CEO delegates certain elements of their authority to the Executive Committee members to help ensure that senior executives are accountable and responsible for managing their business areas and functions.

Company Secretary

- Ensures the Directors receive accurate, timely and clear information.
- Assists the Chair in overseeing the Group's corporate governance arrangements.

Board composition

As at the date of this report, the Board comprised the Chair, who had previously served as an independent Non-Executive Director and was independent when appointed as Chair; one Executive Director; and eight independent Non-Executive Directors, including the Senior Independent Director.

Following the departure of Penny James on 27 January 2023, Jon Greenwood served as Acting CEO throughout 2023 and was appointed to the Board as an Executive Director on 31 August 2023 following regulatory approval.

Biographical details of the Directors of the Company as at the date of this report are set out on pages 97 to 100. Details of Directors who have served throughout the year can be found in the Directors' Report on page 157.

Board succession

The Nomination and Governance Committee continues to review succession plans both for the Board and at executive level each year. Further information on our approach to succession planning and Board appointments can be found in the Nomination and Governance Committee's report on pages 125 to 126.

Board induction and training

All new Directors appointed to the Board undertake an induction programme aimed at ensuring they develop an understanding and awareness of our businesses, people and processes, and of their roles and responsibilities as Directors of the Company. The programmes are tailored to suit each Director and include provision of relevant current and historical information about the Company and the Group; visits to operations around the Group; induction briefings from Group functions; one-to-one meetings with Board members, Senior Management and the Company's advisers; and engagement with the Group's ERB.

The Board is committed to the training and development of Directors to improve their knowledge of the business and the regulatory environment in which it operates. The Company Secretary is responsible for helping the Chair identify and organise training for the Directors which is tailored to individual needs.

The Company Secretary maintained the training agenda for the Board and its Committees during the year. During the year, the Board received technical briefings on the Internal Economic Capital Model. In addition, the Board attended a 'Technology Boardwalk' that focused on the role that technology plays delivering great customer experiences. This was brought to life by listening to, watching and analysing our actual customers in the Group's customer experience labs and through smaller sessions where the Board could engage with customers about their experiences.

Non-Executive Director ("NED") Independence

On behalf of the Board, the Nomination and Governance Committee assesses the NEDs' independence, skills, knowledge and experience annually. The Nomination and Governance Committee concluded that every current NED was independent, continued to contribute effectively, and demonstrated they were committed to the role. Each current Director will submit themselves for election or re-election at the 2024 AGM. You can find out more about the activities of the Nomination and Governance Committee's work during the year on pages 125 and 126.

External directorships

The Board keeps Directors' external commitments under continual review to ensure they continue to have sufficient time to dedicate to the Group. During the year, the Board reviewed and approved in advance, Danuta Gray's appointment as an Independent Non-Executive and Chair Designate of Croda International plc. The Board was satisfied that, in taking on this role, Danuta would continue to have sufficient time to dedicate to her role on the Board.

Information and support

The Board accesses assistance and advice from the Company Secretary. The Board, and each member of the Board, may seek external independent professional advice at the Company's expense, if required, to discharge its duties.

Board's approach to inclusion and diversity

The Company reports that as at 31 December 2023 the Board was partly compliant with the new Listing Rule targets, meeting the target for at least one senior Board position to be held by a woman and for at least one Board member to be from a minority ethnic background (which is also consistent with the Parker Review recommendations). However, for the majority of the year it did not meet the target for at least 40% of the Board to be women.

The Board recognises that there is more work to do in this area, and it aims to meet the targets set out by the Listing Rules, noting the challenges associated with achieving this. Diversity, including gender diversity, is a key consideration in succession planning, though as the skills and experience of the Board are refreshed over time, the gender balance will be dependent on the availability of the best candidates for Board vacancies.

In 2023 the Group set ambitious new targets to continue to improve diversity in senior leadership. Our targets are aligned with the definitions of senior leadership used by the FTSE Women Leaders Review, Women in Finance review and Parker Review. We are aiming to increase representation of women to 40%, ethnic minority talent to 16%, and Black talent to 4% at senior leadership levels (defined as Executive Committee and direct reports, excluding direct reports in support or administrative roles).

	Current representation (end Oct 2023)	Targeted representation (end 2027)
Women	31%	40%
Ethnic minority	13%	16%
Black	0%	4%

The tables below set out data about the sex and ethnicity of the Board and senior management as at 31 December 2023, in the format prescribed by the Listing Rules.

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management¹	Percentage of executive management¹
Men	9	75%	3	6	60%
Women	3	25%	1	4	40%
Not specified/prefer not to say	–	–	–	–	–

Note:

1. Executive management is the Executive Committee and Company Secretary.

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management¹	Percentage of executive management¹
White British or other White (including minority-white groups)	11	91.7%	4	7	70%
Mixed/Multiple Ethnic Groups	1	8.3%	–	–	–
Asian/Asian British	–	–	–	2	20%
Black/African/Caribbean/Black British	–	–	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/prefer not to say	–	–	–	1	10%

Note:

1. Executive management is the Executive Committee and Company Secretary.

The Group recognises the importance of understanding diverse representation and the monitoring of differential outcomes. It collects diversity representation information on the basis of self-reporting across the categories of sex, gender identity, ethnicity, religion, sexual orientation, disability and socio-economic background, collected using our HR Information Systems as part of the onboarding process.

Senior management succession planning

The Board recognises that in order to maintain and improve on diversity levels, it must ensure that senior management succession planning is focused on promoting diverse leadership, and that workforce diversity is achieved at all levels in order to secure a diverse pipeline of talent.

The 2023 Annual Incentive Plan includes targets for Executive Directors, the Executive Committee and senior management in respect of improving the gender and ethnic diversity of the workforce in the context of leadership succession planning (more information on this can be found on pages 55 and 56 and on 141).

Board appointments and Diversity Policy

The Board has in place a Diversity Policy which sets out the key principles to be followed in respect of the Board appointment process. More information on this can be found in the Nomination and Governance Committee report on pages 125 and 126.

Workforce diversity and inclusion

The Board encourages and supports equity, diversity and inclusion in the workplace and is committed to building an inclusive culture. It continues to support Group-wide diversity and inclusion activities and initiatives, many of which are outlined on pages 112 to 114. This includes the work of the Company's Diversity Network Alliance ("**DNA**") which champions diversity and inclusion in the Group through its 'DNA strands': Race, Ethnicity and Cultural Heritage ("**REACH**"); Belief; LGBT+; Life (working families and carers); Neurodiversity and Disability; Social Mobility; and Thrive (gender). More information about the work of the DNA during the year can be found on page 55 of the Strategic report.

Board skills, experience and knowledge

The Nomination and Governance Committee assesses and monitors the skills, experience and knowledge of Board members with the aim of equipping the Board to challenge and support the executive team effectively, taking into consideration the Group's evolving strategy.

Board and Committee effectiveness review: three-year Board evaluation cycle

The Board conducts an annual review of the effectiveness of the performance of the Board, its Committees, the Chair and individual Directors, with the input of an external facilitator at least every third year. In 2023, the performance review was carried out in-house with the assistance of Promontory Financial Group ("**Promontory**"), which has no other connection with the Company or any Director. The Board recognises that a continuous and constructive review of its performance is a critical factor in achieving the Group's objectives, realising potential and promoting the long-term sustainable success of the Company.

Promontory mapped themes identified during both the previous Board performance review and at a follow-up workshop with the Non-Executive Directors which they facilitated in June 2023. They conducted one-to-one interviews with Board members and senior managers who were regular attendees of Board and Committee meetings, and reviewed samples of meeting agendas and papers. Promontory's findings and recommendations were considered by the Board and its Committees in early 2024.

Evaluation process

Step 1	The thematic priorities for the review were established by Promontory in discussion with the Chair and the Company Secretary.
Step 2	Promontory interviewed members of the Board and senior managers about Board and Committee performance and the Group's current and target culture, and reviewed sample agendas and papers.
Step 3	A report, covering Board and Committee performance, was prepared and presented by Promontory and discussed at the Board's January 2024 meeting.
Step 4	An action plan was defined, based on the recommendations in Promontory's report.

2023 evaluation outcome

The results of the review were presented to the Board and its Committees in January 2024 and the recommendations form the basis of an action plan for 2024 as summarised in the table on page 115, along with an update on the action plan that resulted from the 2022 review. Themes emerging from the 2023 review included Board and executive succession planning, management skills and capabilities, culture, communication, meetings and materials. Separately, the Senior Independent Director discussed the Chair's performance with the Non-Executive Directors (except the Chair) and provided constructive feedback to the Chair. No Director was involved in the review of their own performance.

2022 focus areas and action taken during 2023

Reflecting on 2022 challenges

The Non-Executive Directors arranged a discussion in June 2023, which was facilitated by Promontory, to reflect on the lessons learned from navigating the challenges and volatility of 2022. The Board and its Committees have, during 2023, overseen a number of action plans, the objectives of which included improving the Group's control framework and increasing the depth of management's technical and leadership capability.

Improving Board information

Some progress has been made in supplying summary key performance indicators to the Board by business category in a more succinct and insightful format. This is work-in-progress and further reviews of Board and Committee materials, and training for the authors and executive sponsors of papers, are planned in 2024.

Succession planning

The search for a new Chief Executive resulted in the selection of Adam Winslow, which was announced on 30 August 2023. Two new Non-Executive Directors joined the Board in 2023, Mark Lewis in March and David Neave in October, and an additional search has led to the appointment of Carol Hagh with effect from 1 April 2024. A review of executive succession planning during the year led to a number of searches at senior level, which are expected to be concluded in early 2024. There has been a particular focus on recruiting additional technical and leadership capability in the Pricing & Underwriting and Actuarial functions.

2023 focus areas and proposed action for 2024

Strategic direction

The Board intends to rebalance its support for, and challenge of, senior management. It will engage with Adam Winslow, the new Chief Executive, on setting the priorities for the Group's strategy in 2024 and beyond, including for brand and commercial strategy, driving the business benefits of investment in technology and responding to customers' changing needs.

Investment in leadership

The Board will oversee the continuing action plan to strengthen management technical and leadership capability, working with the new CEO on the Group's target operating model, clarifying roles and responsibilities and driving accountability.

Refreshing culture

The Board will continue to oversee work on stimulating a high-performance, customer outcomes-focused and risk-positive culture, including investing in risk management and compliance culture and capability, further enhancing the insights from cultural metrics developed in 2023.

Audit, Risk & Internal Control

An explanation of how the Board complies with the Code in relation to audit, risk and internal control is set out below, except for the following matters, which are covered elsewhere in the Annual Report and Accounts:

- how the Board has assessed the Group's longer-term viability and the adoption of the going concern basis in the financial statements is on page 93 and page 159; and
- the Board's delegated responsibility to the Audit Committee to oversee the management of the relationship with the Company's External Auditor.

You can find details of the Audit Committee's role, activities and relationship with the External Auditor in the Audit Committee report which starts on page 117.

Responsibility for preparing the Annual Report and Accounts

The Board's objective is to give shareholders a fair, balanced and understandable assessment of the Group's position, performance, business model and strategy. The Board is also responsible for maintaining adequate accounting records, and seeks to ensure compliance with statutory and regulatory obligations.

You can find an explanation from the Directors about their responsibility for preparing the financial statements in the Statement of Directors' responsibilities on page 160. The Group's External Auditor explains its responsibilities on page 171.

The Directors confirm that they consider that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information that shareholders need to assess the Group's position, performance, business model and strategy. In arriving at this conclusion, the Board was supported by a number of processes, including the following:

- management drafted the Annual Report and Accounts to ensure consistency across sections, and a steering group comprising a team of cross-functional senior management provided overall governance and co-ordination;
- a verification process, to ensure the content was factually accurate;
- members of the Executive Committee reviewed drafts of the Annual Report and Accounts;
- the Company's Disclosure Committee reviewed an advanced draft of the Annual Report and Accounts; and
- the Audit Committee reviewed the substantially final draft of the Annual Report and Accounts, before consideration by the Board.

Assessing emerging and principal risks

The Board determines the nature and extent of the risks that it is willing to take to achieve its strategic objectives. The Directors robustly assessed the emerging and principal risks facing the Company, including risks that would threaten its business model, future performance, solvency or liquidity. You can find a description of these risks, and their management or mitigation, on pages 88 to 92.

This determination is based on the Board Risk Committee's review and challenge of the Group's Material Risk Assessment, and the Board's review and approval of the Group's risk appetite statements. The Risk Assessment identifies risks quantified as having a residual risk impact of £30 million or greater. The quantifications are produced through stress and scenario analysis, and our capital model. Each directorate's bottom-up risk identification and assessment supplements the Material Risk Assessment. The Material Risk Assessment also plays a key role in developing the ORSA and assessing the Group's strategic plan.

Risk management and internal control systems

The Board, with the assistance of the Board Risk Committee and the Audit Committee, and support from the Risk and Group Audit functions as appropriate, monitored the Company's risk management and internal control systems that have been in place throughout the year under review, and reviewed their effectiveness. The monitoring and review covered all material controls, including financial, operational and compliance controls.

The Risk function annually produces an Internal Risk and Control Assessment ("IRCA") Statement to support the Board in monitoring the effectiveness of the Group's risk management and internal control systems. Under the IRCA process, each function completes a self-assessment of its risks and key controls and an Executive Sponsor, responsible for the function, attests to the status of the effectiveness of the risk management and internal control systems. This is supported by control testing in the first line of defence. The Risk function reviews and challenges these findings and the Group Audit function provides an independent assessment of the overall effectiveness of the governance and risk and control framework of the Group. The overall findings are combined into a Group-level assessment and reported to the Board Risk Committee.

The 2023 IRCA process did not identify any material financial, operating, or compliance control deficiencies during the year ended 31 December 2023, nor any material control deficiencies that remained unresolved at the balance sheet date.

The IRCA specifically assessed the potential control implications of risk events which occurred in recent years but have further crystallised in 2023, including material customer redress provisions, and weaknesses in the Motor account trading performance.

The Group incurred material customer redress provisions of £104m in 2023 in respect of its past business reviews relating to renewal pricing under the rules in ICOBS 6B and claims under motor insurance policies where the vehicle was deemed uneconomical to repair ("Motor Total Loss Claims"). The IRCA identified that these events were, in part, caused by deficiencies in the Group's operational and compliance controls in prior years. The underlying root causes of these control deficiencies have since been remediated, such that they did not represent an unresolved material control failure as at the balance sheet date.

In addition, the Group's 2023 trading performance has been adversely impacted by the earning of premiums priced during the exceptional inflationary UK motor claims environment in 2022. The IRCA reported that the adequacy of the Group's pricing response at that time may have been impacted by shortcomings in the resilience of its pricing and underwriting control environment when operating in those stressed circumstances. The Group has taken a number of corrective actions in 2023 to reduce the impact of this on its ongoing commercial performance.

During the year, the Group enhanced its control environment across a number of key areas including pricing and underwriting, compliance with pricing practices regulation, financial reporting, change management, and risk management in the first line. These enhancements are part of an objective to strengthen the Group's overall risk and control environment. Further work is to be undertaken in 2024 to formalise newly introduced controls, complete the programme of control remediation, and ensure that the process of risk and control assessment is updated to fully support and embed these enhancements.

To support and accelerate this work, the Board commissioned a Group-wide controls improvement programme in 2023. This was overseen by the Board Risk Committee. In addition, the Audit Committee has overseen a Control and Oversight Remediation Programme within Finance, the aim of which is to enhance the financial reporting control environment across the Group. Significant progress has been made under both initiatives resulting in an improving control environment, with work continuing into 2024. More information in respect of both initiatives can be found in the respective Audit Committee and Board Risk Committee reports.

The Group Audit function supports the Board by providing independent and objective assurance on the adequacy and effectiveness of the Group's controls. It brings a systematic and disciplined approach to evaluating and improving the effectiveness of the Group's risk management, control and governance frameworks and processes. Group Audit's 2023 annual assessment of the risk management, governance and control environment did not identify any matters that conflict with the 2023 IRCA Statement.

On behalf of the Board, the Board Risk Committee reviewed the 2023 IRCA Statement and was satisfied with the conclusion that the Group's risk management systems, including its internal control systems, were adequate for managing all material risks. The Board Risk Committee also regularly reviews significant risks and how they might affect the Group's financial position, comparisons to agreed risk appetites, and what the Group does to manage risks outside its appetite.

The Board confirms that there is an ongoing process for assessing the Company's risk management and internal control systems and identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the period and up to the date of this report. The Board takes the view that, on the basis of the 2023 IRCA assessment carried out, it would be reasonable to conclude that the Group's risk management and internal control systems are effective. The Directors acknowledge that any internal control system can manage, but not eliminate, the risk of not achieving business objectives. It can only provide reasonable, not absolute, assurance against material misstatement or financial loss.

Remuneration

The Board is mindful at all times that remuneration policies and practices must be designed to support strategy and promote the long-term sustainable success of the Group. It delegates responsibility to the Remuneration Committee to ensure that there are formal and transparent procedures for developing policy on Executive remuneration and determining Director and senior management remuneration.

In his report on pages 131 to 135, the Remuneration Committee Chair provides an overview of the Committee's work in setting an appropriate framework for remuneration of the Executive Directors, Executive Committee and other senior managers, as well as the wider workforce, to ensure fair pay for all our colleagues.

For details on how the Company has applied Provision 40 of the Code in determining Executive Director remuneration policy and practices, see the summary on page 138.

Audit Committee report

Gregor Stewart
Chair



Committee membership

- **Gregor Stewart**
Chair and Independent Non-Executive Director
- **Mark Gregory**
Independent Non-Executive Director
- **Fiona McBain**
Independent Non-Executive Director
- **David Neave**¹
Independent Non-Executive Director

Key responsibilities

- Oversee the integrity of the Group's financial statements.
- Oversee and challenge the effectiveness of the Group's systems of financial internal controls and regulatory reporting.
- Oversee Group Audit's annual assessment of the Group's risk management, control and governance frameworks and processes.
- Oversee the actuarial reserving process.
- Oversee the work and effectiveness of the Group's internal and external auditors.
- Oversee the Group's financial and non-financial disclosures, including climate-related financial disclosures.

Areas of focus in the reporting period

- Financial reporting: reviewed and challenged the key accounting estimates and judgements made by management to support the financial statements.
- Insurance reserves: reviewed the Group's insurance reserves to obtain assurance that they remained appropriate for discharging expected liabilities.
- Reviewed IFRS 17 implementation.
- External Audit: oversaw the transition from Deloitte LLP to KPMG LLP.
- Oversaw the CFO Control and Oversight Remediation Programme.
- Reviewed and challenged Group Audit's annual assessment of the Group's risk management, control and governance framework and processes.
- Oversaw the independent External Quality Assessment of the Group Audit function.

Committee skills and experience

In line with the UK Corporate Governance Code (the "Code"), all members of the Audit Committee are independent, and the Committee as a whole is deemed to have competence relevant to the insurance and financial services sectors in which the Group operates.

The Committee Chair is a member of the Institute of Chartered Accountants of Scotland. Fiona McBain and Mark Gregory are members of the Institute of Chartered Accountants in England and Wales. David Neave brings to the Committee 40 years of experience in senior general insurance positions including claims and underwriting.

Each member has recent and relevant financial experience gained in a number of different financial services businesses, including insurance, enabling them to contribute diverse expertise to the Committee's proceedings.

Main activities during the year

At each of its scheduled meetings, the Committee received reports on financial reporting, insurance reserves, internal controls and Group Audit.

Financial reporting

The Committee followed a review process before recommending the Annual Report and Accounts and Half Year report to the Board, and focused on the choice and application of significant accounting policies, emphasising those requiring a major element of estimation or judgement. Further information on the significant matters considered is provided in the table on page 118.

In addition, the Committee reviewed papers prepared by management on the use of alternative performance measures in the financial statements. The Audit Committee had previously noted that on transition to IFRS 17, the Group intended to replace the previously reported alternative performance measure, the combined operating ratio, with a new metric, the net insurance margin. The net insurance margin expresses the insurance service result under IFRS 17 as a percentage of insurance revenue and measures financial year underwriting profitability. The Committee was satisfied that an explanation of both the alternative performance measure, and why it was used, was clearly communicated to users of the financial statements.

Furthermore, the Committee considered the estimates and judgements used to prepare the Group's capital position under Solvency II, including focusing on the level of technical provisions held. Specific matters considered included judgements made in respect of events not in data, and the risk margin. The Committee reviewed the Group's Solvency and Financial Condition report on behalf of the Board before submission to the PRA, and concluded that the processes to produce and review this report had operated satisfactorily.

IFRS 17 and IFRS 9 implementation

During the year, the Committee reviewed and challenged disclosures in respect of the Company's first reporting under IFRS 17 and IFRS 9, which included 2022 restatements. It considered challenge from the External Auditor on topics in IFRS 17 including: the illiquidity premium to be used to discount insurance liabilities; the application of the premium allocation approach and the eligibility testing undertaken; the onerous contracts assessment; the treatment of extreme events not in data; and reclassification of line items on the Statement of Financial Position.

Note:

1. Appointed to the Committee with effect from 6 December 2023.

Significant judgements and issues

Matter considered	Description	Action
<p>Insurance liabilities valuation</p>	<p>The Committee reviewed the level of insurance liabilities of the Group. Insurance liabilities include the liability for remaining coverage and the liability for incurred claims at the statement of financial position date. By its nature, the liability for incurred claims requires analysis of trends and risks, and the application of management judgement, knowledge and experience. The measurement of the liability for remaining coverage is less judgemental than the liability for incurred claims and is recognised on a similar basis to the Group's previous accounting treatment of the unearned premium reserve under IFRS 4. Further information on insurance liabilities is provided on pages 37 to 38.</p>	<p>In 2023, the Committee reviewed and challenged the approach, methodology and key assumptions used by management in setting the liability for incurred claims and monitored developing trends that could have a material impact on them. On an ongoing basis, it received updates from the Actuarial Director on how actual claims experience compared to expectations. Particular points of discussion in 2023 were the developing trends in personal lines Motor, covering large and small bodily injury claims experience in addition to damage claims. This included a focus on recoveries for non-fault claims, where the adequacy of the provision was challenged to protect against the risk of fewer recoveries than estimated. The Committee also considered the more wide-ranging impacts of the ongoing uncertainty caused by the current macro-economic environment. The Committee discussed the judgements that underpinned the year end liabilities, including those based on current and prior-year development and settlement patterns. Consistent with the continued uncertainty in an inflationary environment, the Committee reviewed analysis of the matters that significantly impacted the booked reserves, alongside supporting data and diagnostics, and the potential range of outcomes. The Committee discussed the approach to identifying and recognising those events which were not yet reflected in data and reviewed and challenged the provisions proposed by management. In addition, the Committee was provided with the Group's response to the Dear Chief Actuary letter from the PRA, which highlighted the risks of inflation for general insurers and made recommendations on certain actions to address those risks. The Committee obtained insight and reviewed results from an independent actuarial review of material elements of insurance liabilities. Where there was divergence between the independent actuarial review and that of management, the Committee challenged the reasons for the divergence. The Committee also considered the adequacy of remediation costs recognised for past business reviews covering Motor total loss and the pricing of Motor and Home policies following the implementation of the FCA's PPR reforms. The Committee was satisfied that management had exercised appropriate control and judgement in estimating insurance liabilities.</p>
<p>Valuation of investments not held at fair value and investment property</p>	<p>The Committee considered reports on the estimates and judgements applied to the carrying value of the Group's investments that are not held at fair value, and the basis for the valuation. These assets principally comprise infrastructure loans, commercial real estate loans and private placement bonds held within the investment portfolio. The Group also holds a portfolio of investment properties. Information was provided to the Committee on a regular basis to support the value recognised in the accounts.</p>	<p>In 2023, the Committee considered material accounting estimates and judgements in respect of assets not held at fair value, and the investment property portfolio, and was satisfied with the carrying value of investments and the basis for their valuation. The Committee noted that a write down was proposed in the investment portfolio in relation to one of the Group's commercial real estate loans. The Committee considered the impact of the continuing challenging macro-economic environment on the investment property portfolio and noted the year end independent valuation resulted in a small decline overall in the portfolio value. The Committee concluded that the carrying values in the accounts were reasonably stated.</p>

Insurance contract liabilities - liability for incurred claims

The Committee reviewed and challenged the key assumptions and judgements, emerging trends, movements, and analysis of uncertainties underlying the reserving estimates made for the liability for incurred claims. These assumptions and judgements were informed by actuarial analysis, wider commercial and risk management insights, and principles of consistency from period to period. Inflation risks were discussed throughout the year, taking account of care costs, cost of materials and general labour inflation affecting different lines of business. The Actuarial Director presented scenario analyses for various inflationary drivers, supporting the booking of the liability for incurred claims. After its review, the Committee recommended the liability for incurred claims to the Board.

The Committee also commissioned an external independent actuarial review of material risk areas of insurance liabilities, carried out for the Committee by PricewaterhouseCoopers LLP ("PwC").

Task Force on Climate-related Financial Disclosures report

The Committee reviewed the financial disclosures in the Task Force on Climate-related Financial Disclosures report on behalf of the Board as part of its review of the Annual Report and Accounts. The TCFD report can be found on page 70.

Going concern, viability and fair, balanced and understandable

The Committee considered the going concern assumptions and viability statement in the 2023 Annual Report and Accounts, valuation of assets and impairment reviews, non-recurring period-specific transactions and clarity of disclosures. The Committee reviewed and concluded that the Annual Report and Accounts taken as a whole were fair, balanced and understandable and provided sufficient information to enable the reader to assess the Group's position, performance, business model and strategy.

When considering the 2023 Annual Report and Accounts, the Committee considered the significant judgements and issues which could be material to the financial statements. These included the matters set out in the table on page 118. The Committee challenged the estimates and judgements being made and also discussed these matters with the External Auditor.

For more information on the viability statement see page 93.

Internal control

During the year, the Committee continued to monitor and review the adequacy and effectiveness of the controls that underpin the Group's financial reporting control framework, which forms part of the Group's wider internal controls system. The Board delegates supervision of the framework to the Committee, while the CFO is responsible for the framework's operation on a day-to-day basis. During 2023, there were no material control deficiencies reported to the Committee.

In the 2022 Annual Report, the Committee reported that whilst there were no material control deficiencies reported to it during 2022, there had been an increase in the number of non-material control deficiencies identified during that year and therefore took an action to work alongside the Board Risk Committee to oversee a programme of improvements to the Group's financial reporting control environment.

In this regard, the Audit Committee has overseen the CFO Control and Oversight Remediation Programme (the "**Programme**"), the aim of which is to enhance the financial reporting control environment across the Group. During the year, the Programme, which is led by the CFO Control Steering Group and chaired by the CFO, reported back to the Committee on a monthly basis, as well as at scheduled meetings, on its progress. Targeted remediation activities relating to improvement in the financial reporting processes were completed. The Programme will continue in 2024 to ensure that progress made in 2023 is maintained into 2024 to further embed the continuous improvement of the control environment of the Group's financial reporting framework.

The Committee reviewed and challenged Group Audit's annual assessment of the Group's risk management, control and governance frameworks and processes. The Committee also reviewed Group Audit's opinion on the overall effectiveness of the Group's internal control framework. This concluded that important elements of the formal framework required further improvement, but that, taken as a whole, the framework was adequate, such that no material control failures had occurred in the current year.

The Committee also considered management's processes and controls for identifying and responding to the risk of fraud. The Committee noted that there were no fraud-related events or actions to suggest that fraud might have a material impact on the financial statements.

The Committee monitored management's responses to the control insights and observations raised by the External Auditor in its annual management letter during the year, and was satisfied that management was taking appropriate and timely action to resolve the issues raised.

Group Audit

The Committee is responsible for overseeing the work of Group Audit and for ensuring industry best practice is adopted appropriately. The Group Head of Audit's primary reporting line is to the Chair of the Committee. The secondary reporting line, for day-to-day administration, is to the CEO.

During the year, the Committee oversaw the independent External Quality Assessment ("**EQA**") of the Group Audit function. This rated Group Audit 'generally conformant' with professional standards, with some improvements recommended against relevant Internal Audit professional standards. The Committee oversaw the development of the action plan to address the findings from the EQA and is receiving quarterly progress updates. Group Audit's performance partner PwC continued to provide independent quality assurance activity alongside the EQA with results reported to the Committee.

During the year, Group Audit provided the Committee with independent and objective reports on the adequacy and effectiveness of the Group's governance, risk management and internal controls. Group Audit completed a number of reviews of major programmes during the year. The Committee approved Group Audit's plan on a quarterly basis, and confirmed the audit plan coverage on an annual basis. The Committee received quarterly reports detailing internal audit activity, key findings, management responses, and proposed action plans. There were no material deficiencies reported to the Committee in the year.

Following the independent EQA and assessment by the Committee during the year, it was concluded that the Group Audit function was effective. The Committee approved the Group Audit Charter, which is reviewed annually.

Additional information

The Committee has unrestricted access to management and external advisers to help discharge its duties. It is satisfied that in 2023 it received sufficient, reliable and timely information to perform its responsibilities effectively.

During the reporting period, the External Auditor and Head of Group Audit met privately with the Audit Committee, in the absence of management. The Chair of the Committee reported on matters dealt with at each Committee meeting to the subsequent scheduled Board meeting.

During the year, the FRC carried out a limited scope review of the Group's Half Year report to 30 June 2023 as part of its thematic review of IFRS 17, covering interim disclosures in the first year of application. No substantive questions or queries were raised as a result of the review. It is noted that the FRC's review was limited to considering compliance with reporting requirements, did not provide assurance that the report was correct in all material respects, and it is not the FRC's role to verify the information provided.

External Audit

Deloitte LLP ("**Deloitte**") has served as the Company's Auditor since 2000. Andrew Holland, FCA, was the lead audit partner for the Company's 2023 audit. As Deloitte was appointed as Auditor to the Company in 2000 (when it was a subsidiary of The Royal Bank of Scotland Group plc), under the transitional provisions of the relevant legislation, Deloitte could only continue as the Company's External Auditor until 31 December 2023. As noted below, a competitive tender process was undertaken in 2022 to appoint a new External Auditor.

The Committee is responsible for overseeing the work of the External Auditor and agreeing the audit fee, as well as approving the scope of the External Auditor's annual plan.

External Audit transition

During 2022, the Committee oversaw a competitive tender process to select a new auditor to be appointed for the financial year ending 31 December 2024. As announced on 10 October 2022, the Board approved the appointment of KPMG LLP ("**KPMG**") as the Company's auditor for the financial year ending 31 December 2024, subject to shareholder approval at the Company's 2024 AGM.

During the year the Committee has been engaged in overseeing planning and arrangements for the transition from Deloitte to KPMG. The lead Audit Partner from KPMG, James Anderson, attended a number of meetings of the Committee to report on progress against the transition plan. Transitional activities have included: reviewing Deloitte's files; shadowing Deloitte on the 2023 audit; visiting the Company's outsourced finance resources in India and meeting with management. The Committee reviewed KPMG's independence, noting that they have been considered independent in line with all regulatory and professional requirements since June 2023.

The Company has complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Auditor independence

The Group has in place a minimum standard in relation to the independence of the External Auditor, which is compliant with the Financial Reporting Council's review of its Ethical Standard for Auditors. This establishes parameters for preventing or mitigating anything that compromises the External Auditor's independence or objectivity. The minimum standard includes:

- a formal process for the pre-approval of certain non-audit services by the External Auditor;
- a requirement that any non-audit services are reviewed annually;
- restrictions on employees of the auditor working for the Group and vice-versa; and
- a requirement that key audit partners are rotated at least every 5 years.

The Committee reviews the standard annually.

The Committee's Terms of Reference require that the Committee meet at least once annually with the External Auditor in the absence of management.

In addition, the Committee reviews confirmation from Deloitte that in its professional opinion, it is independent within the meaning of regulatory and professional requirements.

Therefore, the Committee is satisfied that the Group has adequate procedures to ensure that the External Auditor is independent and objective and that these procedures operated effectively during the year.

Non-Audit Fees

During the year, the Committee approved fees in respect of Deloitte providing reporting accountant services in respect of the sale of the brokered commercial business. The Company's policy for non-audit services is compliant with the FRC's 'Revised Ethical Standard 2019'. In line with regulation, the Group is required to cap the level of non-audit fees paid to its external auditor at 70% of the average audit fees paid in the previous three consecutive financial years.

The following is a breakdown of fees paid to Deloitte for the year ended 31 December 2023 (excluding VAT).

	Fees £m	Proportion %
Audit fees	3.8	63 %
Audit-related assurance services	0.6	10 %
Non-audit services	1.6	27 %
Total fees for audit and other services	6.0	100 %

Audit-related assurance services were in respect of the Group's Solvency II reporting, the review of the Half Year report 2023, for which the Company's External Auditor must be used and for assurance services in respect of the Claims Liability Act. Non-audit fees charged by Deloitte for their services as reporting accountants as explained above, were within the cap of 70% of the last three average annual audit fees. An additional non-audit service has been provided in 2024 for fees of £0.4m for reporting accountant services. Further information in respect of audit fees paid to Deloitte is disclosed in note 7 to the consolidated financial statements.

Effectiveness of the external audit process

In 2023, the Committee conducted its annual review of the External Auditor's effectiveness. The Committee assessed the External Auditor through:

- i. a detailed questionnaire completed by key stakeholders;
- ii. discussing matters with the CFO;
- iii. formally reviewing the External Auditor's independence;
- iv. assessing the key risks identified by the External Auditor, the quality controls put in place to deliver the audit and whether the agreed audit plan was fulfilled; and
- v. private meetings with the External Auditor in the absence of management.

In addition, through regular interaction with the External Auditor, the Committee was satisfied that the External Auditor continued to demonstrate professional scepticism and challenged management's assumptions.

The quality of the audit was assessed through review and discussion of the External Auditor's report to the Committee at each meeting, and from the challenges and insights brought to significant areas of judgement in the Group's financial statements.

After taking into account all of the information available and considering FRC Audit Quality: Practice aid for audit committees, the Committee concluded that Deloitte had performed its obligations effectively and appropriately as External Auditor to the Group.

The Committee also considered the publication by the FRC in July 2023 of the results of its Annual Quality Review and its thematic findings for 2021/2022. The FRC reviewed Deloitte's audit of the Group's financial statements for the year ended 31 December 2022 for the 2022/23 review cycle. No significant recommendations were made by the FRC for further improvement and a number of areas of good practice were highlighted.

Committee effectiveness review

During the year, an internal evaluation of the effectiveness of the Committee was carried out with assistance from Promontory as part of the wider review of the performance of the Board and the Board Committees. The review found that the Committee's skills and experience were appropriate, that its papers, whilst technical in nature, were accessible, that the Committee's interaction with the Board and other Committees was constructive and that its level of challenge was effective, reflecting current priorities. The review noted that the Committee had increased the frequency of its meetings to oversee current issues. Further information on the Board effectiveness review can be found on pages 114 to 115.

In addition, the Committee's terms of reference were reviewed against the activity of the Committee during the year. The terms of reference were found to be suitable, comprehensive and of appropriate scope. The Committee's terms of reference can be found on the corporate website: www.directlinegroup.co.uk/en/who-we-are/leadership/board-committees

The Board reviewed and approved this report on 21 March 2024.



Gregor Stewart
Chair of the Audit Committee and Independent Non-Executive Director

Board Risk Committee report

Mark Gregory
Chair



Committee membership

- **Mark Gregory**
Chair and Independent Non-Executive Director
- **Fiona McBain**
Independent Non-Executive Director
- **David Neave**¹
Independent Non-Executive Director
- **Gregor Stewart**
Independent Non-Executive Director
- **Dr. Richard Ward**
Senior Independent Director

Key responsibilities

- Provide oversight and advice to the Board in relation to current and emerging risk exposures of the Group and the strategic approach to managing risk, including determination of risk appetite.
- Promote a risk-aware culture within the Group.
- Review the design and implementation of the Enterprise Risk Management and Strategy Framework, risk appetite and tolerances.

Areas of focus in the reporting period

- Monitored and reviewed the Group's top risks across its financial, operational and organisational resilience pillars.
- Regularly assessed the Group's emerging risks, including monitoring of the geopolitical landscape and its impacts on the Group.
- Oversaw and challenged progress and delivery of the FCA's Consumer Duty implementation programme, followed by continued oversight post-implementation.
- Oversaw the Controls and Risk and Control Self-Assessment ("**RCSA**") Project ("**CRP**"), a Company-wide controls improvement programme aiming to set a new activity and assurance standard.
- Received regular updates on the Pricing Practices Regulation and Motor Total Loss past business reviews.

Further detail on these areas can be found in the body of the Committee report.

Chief Risk Officer's report

At each scheduled meeting, the Committee received a report from the Chief Risk Officer ("**CRO**") which outlined the challenges and risks being faced across the Group's financial, operational and organisational resilience pillars. The CRO's report provided an overview and status of the top and principal risks against the Group's appetite, as well as: key activities undertaken by the Risk function to further embed risk management across the Group; outputs of regular risk monitoring activities; and details of any current and specific financial, non-financial or regulatory and compliance risk matters. Alongside the CRO's report, the Committee regularly assessed the Group's emerging risks. It challenged management on the identification of all possible significant emerging risks during the year and on the Risk function's role in ensuring that such emerging risks were being monitored and managed appropriately. The most notable emerging risks identified included those relating to geopolitical tension, disruptor emerging risk, data ethics, digital disruption, the transition to a low carbon economy, changing customer needs, cyber threats and the transition to Electric Vehicle ("**EVs**"). In addition, the Committee reviewed the plan of risk assurance activities to be undertaken for each quarter and the year ahead to support the Group's key strategic objectives and to ensure adherence to prevailing legal and regulatory requirements, as well as the Group's enterprise and risk management framework.

Focused business and risk reviews

Set out below are some of the areas of focus and key reviews that the Committee carried out during the reporting period, to examine the risk profile of the business, and to challenge the robustness of frameworks in place to manage key risk exposures as well as regulatory requirements and expectations:

- oversaw and challenged progress and delivery of the Consumer Duty implementation programme;
- reviewed customer and conduct risk matters with a view to ensuring that fair pricing and outcomes were being achieved for customers across all Direct Line Group products, including review of the Group's pricing strategy and the pricing governance and control framework;
- reviewed the Group's operational resilience self-assessment, including important business services and associated impact tolerances;
- reviewed the effectiveness of the Group's risk management and internal control systems and environment, including material financial, operational and compliance risks, the Group's residual risk position, associated mitigating actions and compensating controls. This included oversight of the Group's CRP;
- reviewed the Group's adherence to privacy and data protection legislation; and
- reviewed the stability, security and capability of the Group's IT systems.

Note:

1. Appointed to this Committee with effect from 6 December 2023.

Risk appetite

The Committee undertakes an annual review of the Group's risk appetite framework, which includes the overarching risk appetite and policy risk appetite statements. It monitors the Group's exposure against these statements, considers key risk indicators and assesses the key drivers that affect status against risk appetite. At each scheduled meeting, the Committee also monitors the Group's performance against its capital risk appetite through the CRO's report. In line with regulatory requirements, the Committee scrutinises and approves the Group's overall affirmative and non-affirmative cyber insurance underwriting strategy, associated risk appetite statements and relevant management information.

Committee members also reviewed and challenged the Own Risk Self-Assessment ("**ORSA**") process and key content before submission to the Board for approval. Committee challenges on elements of the ORSA during the year included: the effect of profit warnings issued by the Group in January 2023 which required an updated ORSA to be developed and whether internal and external stress factors in the document were sufficiently stringent. In addition, the Committee monitored and challenged the stress and scenario testing plan and outputs. The Committee also reviewed the potential Contingent Management Actions for management to consider taking in times of stress to restore the Group's capital strength to within an acceptable risk appetite range.

Compliance and regulatory risk

During the year, the Committee received regular reports on the progress of the Group's Consumer Duty implementation plan. This included the Group's interpretation of and planned compliance with the new Consumer Duty regulations. The Committee challenged the progress towards implementation and sought assurance that management had the appropriate resources to meet the implementation deadline of 31 July 2023, that robust and reasonable interpretations of Consumer Duty requirements had been developed, and that associated risks had been managed appropriately.

The Committee received regular reports on phase two of the programme, which focused on embedding Consumer Duty across the Group, delivering improvements, implementation of a new customer conduct culture framework, and transitioning Consumer Duty into business as usual.

The Committee also reviewed and challenged regular updates in respect of Pricing Practices Regulation and Motor Total Loss past business reviews.

Internal control

In the 2022 Annual Report, the Board Risk Committee reported that whilst the IRCA process in respect of 2022 had not identified any material financial, operating or compliance control deficiencies, it did identify areas where further enhancements could be made to the Group's risk and control environment. During 2023, the Group took a number of steps to improve its overall risk and control environment across key areas such as pricing, finance, change management, culture and first line risk management.

To accelerate these enhancements, during 2023 the Board Risk Committee oversaw a Group-wide control improvement programme aiming to improve the Group's risk management, oversight and monitoring capability. This programme is currently in progress and will continue into 2024. Key elements of this programme include:

- the introduction of new risk policies and standards;
- the launch of an enhanced quarterly RCSA process;
- an assessment of the design of the Group's critical processes and controls, supported by external subject matter experts;
- strengthening the ownership of risk and control across the first line;
- improving the documentation of risk and control through new risk and control matrices and control libraries; and
- the replacement of the Group's risk management system.

This work is supported by further activity across the Group, overseen by the Board and its relevant Committees, designed to carry out control remediation, improve risk culture, and develop the required capability across the first line of defence.

The Committee received updates on the control improvement programme at each of its scheduled meetings, where it monitored and challenged progress and supported work to enhance the Group's controls environment. This programme will continue into 2024 as the underlying improvements in risk and control are further formalised and embedded across the Group.

In response to the Group undertaking a business review relating to pricing during the year, the Committee also oversaw a review of the Group's pricing control activity with a view to making improvements in control documentation, testing and monitoring. A suite of new controls designed to improve the pricing control environment was implemented to target the root cause of the issues identified and these controls are to be further formalised and embedded in 2024.

Climate change

The Committee regularly received updates on climate change. In particular, the Committee reviewed the climate-related risk management roadmap that was in place and considered the plan to take the Group to a position whereby it could demonstrate credible progress towards Net-Zero. The key areas were the time horizon, scenario modelling, integrating climate into the risk framework and reporting on it in the ORSA, and incorporating Net Zero modelling into the plan. The Group's Net Zero targets have been accepted by the Science Based Targets initiative.

Internal capital model

The Committee regularly reviewed and challenged reports on the Group's partial internal economic capital model for determining regulatory capital requirements during the year, including key assumptions, methodologies and areas of expert judgement used within the model, activities undertaken to validate model outputs, model changes and future management actions.

Whistleblowing

As delegated by the Board, the Committee routinely reviewed the arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters ("**whistleblowing**") during the year. The Committee Chair oversees the independence, autonomy and effectiveness of the Group's policies and procedures on whistleblowing, including the procedures for protection from detrimental treatment for staff who raise concerns. During the year, the Committee reviewed reports relating to whistleblowing, including anonymised, individual cases, to ensure arrangements were in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. The Committee challenged management and was satisfied that the whistleblowing process met the necessary standards and that it was adequately designed, operated effectively and adhered to regulatory requirements.

Financial crime and anti-bribery and corruption

The Group has a fraud and financial crime policy, which includes the requirement that all employees of the Group comply with an anti-bribery and corruption minimum standard. The aim of the standard is to ensure compliance with applicable anti-bribery and corruption legislation and regulation and to ensure that employees act responsibly and ethically at all times when conducting business.

The Committee considered the Group's actions to prevent financial crime through its review of the annual financial crime report and recognised the additional monitoring controls that had been implemented to manage remote working fraud risk. Annually, the Committee considers an anti-bribery and corruption report, which includes a risk assessment of the level of anti-bribery and corruption risk to the Group. Following review and challenge, the Committee was satisfied that the Group's policies and procedures on anti-bribery and corruption were fit for purpose and that anti-bribery and corruption risks were managed appropriately.

The conflict between Russia and Ukraine has seen continued sanctions against the Russian regime. The Group continues to monitor the sanctions situation and screen against the most up-to-date key sanctions lists on a daily basis in order to mitigate this risk.

Risk governance

During the reporting period, the Committee received assurance from management on the process for review of the Group's policies and reviewed material changes to the Group's most significant policies. The Committee reviewed and challenged each of these policies and recommended them for approval by the Board as appropriate.

The Committee has unrestricted access to management and external advisers to help discharge its duties. It is satisfied that in 2023 it received sufficient, reliable and timely information to perform its responsibilities effectively. In addition to one-to-one meetings with the Chair, the CRO also met with the Committee in the absence of the Executive Directors. The Chair reported on matters dealt with at each Committee meeting to the subsequent scheduled Board meeting.

Committee effectiveness review

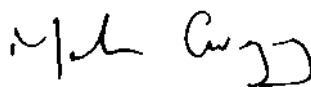
During the year, an internal evaluation of the effectiveness of the Committee was carried out with assistance from Promontory as part of the wider review of the performance of the Board and the Board Committees. The review found that the skills and experience of the Committee were appropriate, that its interaction with the Board and other Committees was constructive and that its level of challenge was effective, reflecting current priorities. The Committee recommended that some training be provided to improve the impact and succinctness of some of its papers. Further information on the Board effectiveness review can be found on pages 114 to 115.

In addition, the Committee's Terms of Reference were reviewed against the activity of the Committee during the year. The Terms of Reference were found to be suitable, comprehensive and of appropriate scope.

The Committee's Terms of Reference can be found on the corporate website:

www.directlinegroup.co.uk/en/who-we-are/leadership/board-committees

The Board reviewed and approved this report on 21 March 2024.



Mark Gregory

Chair of the Board Risk Committee and Independent Non-Executive Director

Nomination and Governance Committee report

Danuta Gray
Chair



Committee membership

- **Danuta Gray**
Chair and Independent Non-Executive Director
- **Tracy Corrigan**¹
Independent Non-Executive Director
- **Mark Gregory**¹
Independent Non-Executive Director
- **Sebastian James**²
Independent Non-Executive Director
- **Adrian Joseph**¹
Independent Non-Executive Director
- **Mark Lewis**¹
Independent Non-Executive Director
- **Fiona McBain**¹
Independent Non-Executive Director
- **David Neave**¹
Independent Non-Executive Director
- **Gregor Stewart**¹
Independent Non-Executive Director
- **Dr Richard Ward**
Senior Independent Non-Executive Director

Key responsibilities

- Review the composition of the Board and its Committees.
- Lead the process for Board appointments and make recommendations to the Board.
- Oversee executive succession planning at a high level to ensure the development of a diverse senior management talent pipeline.
- Set diversity objectives and strategies.
- Oversee and monitor the corporate governance framework of the Group.
- Monitor developments in governance and investor ESG expectations.

Areas of focus in the reporting period

- Led the search for the new Chief Executive Officer.
- Led the searches for new Non-Executive Directors.
- Recommended appointments to the Board and to the Board's Committees.

Main activities during the year

Board and senior management succession planning

The Committee continuously keeps the composition of the Board under review, with the objective of preserving and refreshing the Board's collective experience, expertise and diversity to enable it to oversee the execution of the Group's long-term strategy effectively.

During the year, the Committee led the search for a new permanent Chief Executive Officer ("CEO"), working closely with the Board on specifying the skills and experience needed by a CEO to shape the Group's strategy and lead the business. The international search firm Spencer Stuart (a signatory to the voluntary code of conduct for executive search firms, which has no other connection to the Company or any individual director) was engaged to assist with the search. Shortlisted candidates were interviewed by members of the Committee and other Non-Executive Directors, resulting in the selection of Adam Winslow as the preferred candidate. We announced on 30 August 2023 that Adam would join the Group as its new CEO, subject to regulatory approval. We announced on 27 January 2023 that Jon Greenwood had been appointed as Acting CEO and, on 31 August 2023, that, the relevant regulatory approvals having been obtained, he had been appointed to the Board as a Director.

The Committee also led searches for new Non-Executive Directors during the year with the assistance of Teneo, the global executive search and advisory firm (and a signatory to the voluntary code of conduct for executive search firms, which has no other connection to the Company or any individual director). Shortlisted candidates were interviewed by members of the Committee and the Board and David Neave, having been selected as the preferred candidate, was appointed to the Board as a Non-Executive Director with effect from 19 October 2023. The searches started in 2023 have also resulted in the selection of Carol Hagh, whose appointment to the Board will take effect on 1 April 2024. More information about the expertise that Carol will contribute to the Board is set out in the Chair's statement on page 10.

Composition of Board Committees

During the year, the Committee considered the effect of changes in the Board's composition on the skills and experience available to the other Committees of the Board and recommended that Mark Lewis be appointed as a member of the Remuneration and Customer and Sustainability Committees and that David Neave be appointed as a member of the Audit and Board Risk Committees. The Committee also recommended that all Non-Executive Directors should become members of the Nomination and Governance Committee with effect from 1 January 2024 or, if later, with effect from their date of appointment to the Board.

Electing and re-electing Directors

Before recommending the proposed election or re-election of Directors at the 2023 AGM, the Committee reviewed the independence of the Non-Executive Directors and concluded that all Non-Executive Directors remained independent in judgement and character and met the criteria for independence set out in the UK Corporate Governance Code. The Chair of the Board was independent on appointment.

Notes:

1. Tracy Corrigan, Mark Gregory, Adrian Joseph, Mark Lewis, Fiona McBain, David Neave and Gregor Stewart were appointed to the Committee with effect from 1 January 2024
2. Sebastian James stepped down as a Director on 31 December 2023.

The Committee also carefully considered Directors' external responsibilities and concluded that all Directors had sufficient time to dedicate to their respective roles.

All current Directors will submit themselves for election or re-election at the Company's 2024 AGM.

Diversity and inclusion

The Committee believes that diversity of gender, ethnicity, skills and experience, as well as cognitive, regional, socio-economic, educational and professional diversity, equips the Board better to take a broad strategic perspective and the management team better to lead a diverse workforce and serve a diverse customer base.

The Board has in place a Diversity Policy, the objective of which is to seek to ensure that individual differences, which contribute to the success of the Company and represent the diversity of our customers and colleagues, are reflected at Board level. The policy states that appointments should embrace diversity of gender, ethnicity, skills, experience and cognitive diversity, as well as socio-economic, educational and professional background, among other differences. The policy underpins appointments that are made to both the Board and its Committees.

The Board Diversity Policy is monitored and reviewed annually by the Nomination and Governance Committee and made available to any executive search firm engaged to assist with the selection and appointment process for Board positions.

The Board Diversity Policy is available to view on the Company's website at www.directlinegroup.co.uk/en/sustainability/reports-policies-and-statements.

Further information on the Board's approach to diversity can be found in the Corporate Governance report on pages 112 to 113 which includes progress against key external targets.

The Committee also oversees the promotion of diversity at senior management level and Group-wide. During the year, it has kept the Group's diverse talent pipeline under review, noting its focus on inclusivity and equality of opportunity, as well as on prioritising future skills needed by the business, and the progress made towards gender targets among senior management positions. More information on senior management diversity can be found on page 113.

Corporate governance

The Committee monitors arrangements made by the Company and its subsidiaries to comply with the UK Corporate Governance Code and other relevant governance standards. It also considers emerging governance matters, observance of ESG standards and developments, and reforms which may affect the Group's adherence to corporate governance best practice.

The Chair reported on matters dealt with at each Committee meeting to the subsequent scheduled Board meeting.

Committee effectiveness review

During the year, an internal evaluation of the effectiveness of the Committee was carried out with assistance from Promontory Financial Group as part of the wider review of the performance of the Board and its Committees. The review found that the Committee challenged matters within its remit effectively, having regard to wider strategic priorities, and that the materials available to it were satisfactory. The Committee considered that its effectiveness would be enhanced by the appointment of all Non-Executive Directors as members of the Committee, which it recommended to the Board and which took effect from 1 January 2024. Further information about the Board effectiveness review can be found on pages 114 to 115.

The Committee also reviewed its activity against its Terms of Reference and determined that its Terms of Reference remained comprehensive and of appropriate scope.

The Committee's Terms of Reference can be found on the corporate website: www.directlinegroup.co.uk/en/who-we-are/leadership/board-committees.

The Board reviewed and approved this report on 21 March 2024.



Danuta Gray
Chair of the Nomination and Governance Committee

Customer and Sustainability Committee report

Tracy Corrigan
Chair



Committee membership¹

- **Tracy Corrigan²**
Chair and Independent Non-Executive Director
- **Adrian Joseph OBE**
Independent Non-Executive Director
- **Mark Lewis³**
Independent Non-Executive Director

Key responsibilities

- Provide oversight of and advice to the Group on conducting its business in a responsible and sustainable manner.
- Monitor the progress of the Group under its five sustainability pillars.

Areas of focus in the reporting period

- Monitored the Group's activity under the five pillars of the Group's sustainability strategy.
- Oversaw the Group's involvement in environmental initiatives, tracking progress against the Group's Science-Based Targets.
- Considered decision making on ethical matters, including the Group's Modern Slavery Statement.
- Reviewed performance and approach on key stakeholder matters, including the refresh of the Group's sustainability materiality matrix.
- Reviewed the Group's people plans, including targets aimed at improving gender and ethnic diversity at all levels of the business and developing a culture of inclusivity.
- Reviewed the Committee's remit to ensure all sustainability matters received appropriate review and challenge at Board and management level.

Main activities during the year

On 31 December 2023, Seb James stepped down as Chair of this Committee. I would like to thank Seb for his energetic stewardship of the Committee for the past seven years.

I was delighted to be appointed as Seb's successor and took the Chair of this Committee from 1 March 2024.

Customer

During the year, the Committee oversaw management's work to drive positive customer outcomes and to align business practices with the Group's purpose of helping people carry on with their lives, giving them peace of mind now and in the future.

The Committee reviewed the business' implementation of a new 'Group Customer Day' as part of work to deepen Group-wide understanding of customer outcomes, feedback and metrics.

As part of the Group's Consumer Duty implementation, the Committee received presentations on how the business was evaluating, developing and testing its products and customers' understanding of them, and how the business was further adapting its communications to meet the needs of vulnerable customers. The Committee welcomed steps taken by the Group to support customers affected by the cost-of-living crisis.

The Committee challenged the business's arrangements for embedding a customer outcomes-focused culture and encouraged the continuing improvement of metrics used to understand customers' priorities.

Planet

At the beginning of the year, the Committee considered the results of a sustainability benchmarking exercise and supported management's strategic approach to climate change risk. Emphasis was placed on the importance of delivering the Group's carbon emissions reduction plan whilst managing the potential risk to the business of climate change.

In the second half of the year, the Group commenced work to deliver against the climate-related risk management roadmap that it had submitted to the PRA in July 2023. Management was challenged to refine the business' sustainability materiality matrix and the underlying ESG issues identified as most relevant to the Group and its stakeholders.

Progress on delivery of the Group's five Science-Based Targets ("SBTs") was reviewed throughout the year and the Committee strongly supported engagement with smaller suppliers in order to support their journey towards decarbonisation.

Notes

1. Sebastian James chaired this Committee until he stepped down from the Board on 31 December 2023.
2. Tracy Corrigan was appointed as Chair of this Committee with effect from 1 March 2024.
3. Mark Lewis was appointed as a member of this Committee on 30 March 2023.

People

Over the course of 2023, the Committee reviewed the business's initiatives to promote a culture that helps people thrive through celebrating difference.

The Committee oversaw the introduction of a new four-point performance framework along with new Group values. For more information on our refreshed values, please see page 22.

The Committee received reports on the all-employee 'DiaLoGue' engagement surveys and carefully monitored any trends in the feedback received, including responses to employee pay arrangements, provision of a targeted one-off cost-of-living payment, as well as general levels of engagement.

The Committee supported management's work to improve diverse recruitment at all levels of the business, including the continuing development of a healthy talent pipeline and the establishment of targeted mentoring, coaching and leadership development for colleagues from minority groups.

Society

Throughout the year, the Committee oversaw the business's work to use its expertise to improve outcomes for society and the communities that the Group serves.

The Committee noted that, since its launch in May 2023, the Group's Community Fund outreach programme had engaged with 9,700 young people. The programme was facilitated by 600 Group colleagues, including the Chair of the Board of Directors, who collectively contributed 2,200 volunteering hours. Events held included business simulation events for students from lower socio-economic backgrounds, and work experience and mentoring opportunities for students with special educational needs and disabilities.

During the year, new partnerships were established with UK Youth and St Mary Magdalene Academy: The Courtyard school, and the business continued to work with existing partners Envision and Springpod.

In 2023, the Committee welcomed news that the Group had entered the Social Mobility Foundation Top 75 Employer Index for the first time.

Modern Slavery Statement

In February 2023, the Committee reviewed the Group's policy on compliance with the Modern Slavery Act 2015 (the "MSA") and how third-party suppliers complied with the Act's requirements.

The Committee reviewed the Procurement function's activity in relation to the MSA and concluded that processes and policies in connection with the MSA were robust, effectively embedded in supply chain processes, and reflected the Procurement function's updated sustainability processes.

The Modern Slavery Statement is available to view on the corporate website:

<https://www.directlinegroup.co.uk/en/sustainability/reports-policies-and-statements>

Governance

The Board is committed to ensuring that ethical and sustainable business practice is embedded throughout the business, and to both reviewing and challenging management's approach to delivering outcomes in line with the Group's vision and purpose.

During the year, the Chair of the Customer and Sustainability Committee reported on matters dealt with at each Committee meeting to the subsequent scheduled Board meeting, whilst the Board, recognising the growing strategic significance of sustainability matters, received additional, dedicated reports on the Group's approach to Customer, People and Culture.

Remit of the Committee

The Committee reviewed its responsibilities in late 2023 and recommended that it increase its oversight of customer outcomes, conduct and experience. With that objective, the Committee decided to meet more frequently to be able to dedicate the time thought appropriate to monitor and challenge customer metrics, and to debate the standard to which the Group aims to work in supporting its customers. To reflect its increased focus on customer-related matters, the Committee has changed its name to the Customer and Sustainability Committee.

Committee effectiveness review

During the year, an internal evaluation of the effectiveness of the Committee was conducted with assistance from Promontory, as part of the wider review of the performance of the Board and its Committees. The review found that the skills and capacity of the Committee, and the materials available to it, were appropriate to enable it to provide an effective level of challenge. Further information on the Board effectiveness review can be found on pages 114 to 115.

In addition, the Committee's Terms of Reference were reviewed against the activity of the Committee during the year. The Terms of Reference were found to be suitable, comprehensive and of appropriate scope.

The Committee's Terms of Reference can be found on the corporate website:

www.directlinegroup.co.uk/en/who-we-are/leadership/board-committees

The Board reviewed and approved this report on 21 March 2024.



Tracy Corrigan

Chair of the Customer and Sustainability Committee and Independent Non-Executive Director

Investment Committee report

Fiona McBain
Chair



Committee membership

- **Fiona McBain**
Chair and Independent Non-Executive Director
- **Mark Gregory**
Independent Non-Executive Director
- **Neil Manser**
Chief Financial Officer

Key responsibilities

- Provide oversight of the Group's investment strategy.
- Oversee the management and performance of the Group's investment portfolio.

Areas of focus in the reporting period

- Monitored closely the changes in valuations and resilience of the Group's investment assets.
- Oversaw the refresh of the target Strategic Asset Allocation, including approval of plans for phased implementation and review of recommendations across asset classes.
- Ensured the investment portfolio held appropriately matched assets and liabilities and remained within agreed aggregate risk and exposure limits.
- Ensured the investment portfolio maintained sufficient liquidity to meet a stress insurance or financial market event in a 1 in 200-year insurance, market, or credit risk event.
- Received progress updates on the calibration of Science-Based Targets ("SBTs") for each asset class in scope within the investment portfolio.

Oversight of market developments

During the year, the Committee considered trends in economic growth, employment figures, credit spreads, inflation and interest rates, stresses in the banking sector, and wider geopolitical contexts and took these into account when providing oversight of, and challenge to, the Group's investment strategy.

At each scheduled meeting, the Committee received reports on key financial market developments from the Director of Investments and Capital Management.

Monitoring investment activity and performance

Throughout the year, the Committee carefully reviewed the performance of the Group's investments. It received a presentation from the external managers of its commercial property portfolio, CBRE, and discussed areas in which there might be further opportunities for investment in line with the Group's risk appetite. Management shared recommendations for the Group's in-house portfolios, which were reviewed and challenged by the Committee to ensure the investment strategy remained appropriate and well-positioned in an uncertain macro-economic context.

Reviewing investment strategy and liquidity

Early in 2023, the Committee conducted its annual review of the business's asset liability management, which was undertaken to ensure that the Group's asset and liability matching, along with stressed liquidity requirements, remained appropriate. Noting feedback from the Financial Risk function, and due to the relatively small changes in the nature of the liabilities in the past twelve months, the Committee supported management's recommendation that no adjustments were required.

The Committee agreed a slight adjustment of the Group's liquidity requirements, striking a balance between the business's performance and the Group's ability to access sufficient liquidity if it were to meet a 1 in 200-year stress risk event.

During the year, the Committee oversaw a Strategic Asset Allocation ("**SAA**") exercise which had been carried out by external consultants Willis Towers Watson ("**WTW**"). The exercise was undertaken in order to identify an SAA with improved expected return compared to the Group's existing portfolio and reduced expected volatility and value-at-risk. Following review and challenge, the Committee approved the staggered implementation of a provisional target SAA, which management had adapted from the original WTW recommendation. The Financial Risk function was engaged throughout the process and made recommendations for risk mitigation, which were supported by the Committee. Following input from the Committee, the first stages of the target SAA refresh were actioned, including work to rebalance the core and specialist fixed interest portfolios.

Oversight of responsible investment

In 2023, the Group finalised its selection of a climate scenario modelling provider and updated its responsible investment framework. The latter included: a climate framework for corporate bonds; setting of SBTs for emissions reduction for commercial real estate (“CRE”) and CRE loans; use of ESG-weighted indices; and screening for controversial weapons and issuers deemed in violation of the UN Global Compact principles.

Governance

The Chair reported on matters dealt with at each Committee meeting to the subsequent scheduled Board meeting.

Committee effectiveness review


During the year, an internal evaluation of the performance of the Committee was conducted with assistance from Promontory, as part of the wider review of the performance of the Board and its Committees. The review found that the Committee had the appropriate skills and experience to enable it to challenge effectively, that it provided effective updates to the Board and that it received satisfactory and timely papers. Further information on the Board effectiveness review can be found on pages 114 to 115.

In addition, the Committee’s Terms of Reference were reviewed against the activity of the Committee during the year. The Terms of Reference were found to be suitable, comprehensive and of appropriate scope. Updates were made regarding the Committee’s oversight of climate and sustainability.

The Committee’s Terms of Reference can be found on the corporate website:

www.directlinegroup.co.uk/en/who-we-are/leadership/board-committees

The Board reviewed and approved this report on 21 March 2024.



Fiona McBain

Chair of the Investment Committee and Independent Non-Executive Director

Directors' Remuneration report

Dr Richard Ward
Chair of the Remuneration Committee



Committee membership

- **Dr Richard Ward**
Chair and Senior Independent Director
- **Tracy Corrigan**
Independent Non-Executive Director
- **Danuta Gray**
Chair of the Board
- **Mark Gregory**
Independent Non-Executive Director
- **Sebastian James¹**
Independent Non-Executive Director
- **Mark Lewis²**
Independent Non-Executive Director

Key responsibilities

- Determine the policy for rewarding Directors and senior leadership for results that are generated within the risk appetite set by the Board and oversee how the Group implements its Remuneration Policy.
- Oversee the level and structure of remuneration arrangements for senior executives, approve share incentive plans, and recommend them to the Board and shareholders.
- Review workforce remuneration and related policies and the alignment of incentives and rewards with culture, ensuring all our colleagues are paid fairly.

Areas of focus in the reporting period

- Jon Greenwood was appointed Acting CEO on 27 January 2023 and the Committee carefully considered the appropriate remuneration package for this role, taking into account its interim nature.
- The Committee also considered the remuneration arrangements for the departing CEO, Penny James, in accordance with the Directors' Remuneration Policy and incentive plan rules, contractual obligations and shareholder expectations.
- The process for the recruitment of a new CEO was completed during the year, with Adam Winslow taking up the position on 1 March 2024. The Committee carefully considered the appropriate remuneration package to attract and motivate Adam.
- The Committee (and Board) continued to be updated on wider workforce actions in the context of the higher cost of living environment, including employee feedback, voluntary turnover and salary increase decisions.

Dear Shareholders,

On behalf of the Remuneration Committee ("**the Committee**"), I am pleased to introduce the Directors' Remuneration Report for the 2023 financial year.

During 2023, Direct Line Group has taken decisive action to restore our capital resilience, improve performance in Motor insurance and maintain the performance of our non-Motor businesses. The Group has been put back on a stable footing, after a volatile trading environment in 2022, with heightened inflation and severe weather events. The performance of Home, Rescue and Commercial Direct has been good, broadly in line with our expectations, and we have taken significant actions to improve margin in Motor.

During the year, we sold our brokered commercial insurance business for an attractive valuation which strengthened the Group both from a strategic and capital perspective, in particular improving our solvency ratio. Our Home, Commercial Direct, Rescue and other businesses have delivered a good performance with an improved ongoing net insurance margin.

These factors have continued to impact remuneration outcomes for the 2023 financial year, and the Committee carefully considered a range of factors when making remuneration decisions in respect of 2023 performance. In doing so we were also cognisant of the challenges faced by our people in the context of the continuing cost of living crisis and the actions the Group has taken to best support them through this period. Further details are set out later in this letter.

The Report is set out in the following sections:

Section	Page
Chair's statement	131 to 135
Remuneration at a glance – summarising the remuneration arrangements for Executive Directors	136
Annual Report on Remuneration – detailing pay outcomes for 2023 and covering how the Group will implement the Policy for 2024	137 to 152
Summary of the Policy approved at the 2023 AGM	153 to 156

Notes:

1. Sebastian James stepped down from the Board on 31 December 2023.
2. Mark Lewis was appointed to this Committee on 30 March 2023.

Performance and incentive outcomes for 2023

During 2023, we continued to balance the needs of our stakeholders, supporting our people through a cost of living crisis, whilst looking after our customers and protecting the business for the long term. We addressed our three key priorities; to restore our capital resilience, improve our performance in Motor, and have resilient trading across our other business.

Significant underwriting and pricing actions have been taken to improve our written margins, which in the second half of the year were consistent with a 10% net insurance margin. The nature of financial reporting for an insurance business means that 2023 earnings do not fully reflect the profit on business written during the year (particularly in the second half of the year), and significant underwriting and pricing actions have been taken to improve our written margins, which, we believe for the majority of the second half of the year were consistent with our ambition of a net insurance margin above 10%. The performance outcomes of the Annual Incentive Plan ("AIP") and Long-term incentive Plan ("LTIP") awards reflect these factors and challenges, and are set out below.

AIP

Financial performance in 2023 was heavily influenced by the external environment, but we took strategic action to rebuild our capital position as outlined above. Motor continued to be affected by high claims inflation, which remained ahead of our expectations for the first half of the year. Although underwriting and pricing actions during the second half of the year have improved the net insurance margin position, this is not yet fully reflected in our reported financial performance. As a result, there was an operating loss of £189.5m (excluding restructuring and one-off costs), which was below the threshold level for this element of the AIP (55% weighting).

In last year's report we explained our intention to base 45% of the AIP on an assessment against a set of Group Objectives and Key Results related to 2023 underwriting performance as well as delivering a great customer experience and supporting great people. During engagement with shareholders in early 2023, investors set out a clear preference that cost management should be an additional area of focus. As a result, the Committee resolved shortly after the finalisation of the 2022 Annual Report that the appropriate performance measures for the 2023 AIP were cost management and underwriting performance (25% weighting), customer (10% weighting) and people (10% weighting).

To assess the delivery of improved underwriting performance, the Committee considered how we have made progress on our cost agenda via operating expenses, as well as progress in current year Motor margin and the scored loss ratio for Home. The Committee awarded 10% (out of 25%) for this element. Performance in respect of the People element was robust, with delivery of industry-recognised training programmes to address skills gaps in particular areas and good inclusion and engagement scores. The Committee awarded 5% (out of 10%) for this element. There was limited progress against Customer metrics, which resulted in this element not meeting threshold performance.

The Committee considered the appropriateness of the AIP outcome for Executive Directors at length, noting that financial performance has been challenging. However, the Committee believes it is also important to appropriately recognise the actions the management team has taken during the year, in particular the actions in relation to improving Motor performance and rebuilding the capital position, neither of which are wholly reflected in our operating profit result. The Committee also noted that no AIP awards were made to any staff in respect of 2022.

The Committee concluded that an outcome of 15% of maximum appropriately balances the factors outlined above. In line with the Policy, 40% of any AIP for the Executive Directors will be deferred for three years under the Deferred Annual Incentive Plan ("DAIP").

The overall AIP outcome for the Executive Directors for 2023 was therefore 15% of maximum, which resulted in a payout of £176,756 for the Acting CEO (relating to the period as an Executive Director) and £138,229 for the CFO, which the Committee believes is appropriate in the context of the Group's performance in 2023. In line with the Policy, 40% of any AIP award will be deferred for three years under the DAIP.

Full details on the outcomes for the year are included on pages 140 to 141.

LTIP

In accordance with the remuneration reporting regulations, the reported figures in the single figure table for 2023 include the RoTE element of the 2021 LTIP awards and the TSR element of the 2020 LTIP awards. The Group granted LTIP awards in two tranches in 2020 and 2021.

- RoTE (2021 LTIP): Average RoTE for the three year performance period ending 31 December 2023 was 0.9%. This is below the threshold target level of 17.5%, and therefore this element will lapse in full.
- Relative TSR (2020 LTIP): The performance of this element (three year performance period from grant to vesting date ending on 26 March and 31 August, respectively) was below the threshold performance level (median) for both awards, and therefore these elements lapsed in full.

This means that the overall outcome of the March and August 2020 LTIP awards, which vested in 2023 were both 0% of maximum (including the RoTE outcomes disclosed last year).

The relative TSR elements of the 2021 LTIP, and therefore the overall outcome of the March and August 2021 LTIP awards (including the RoTE outcomes as above) will be disclosed in next year's report once the performance period is complete.

No discretion was exercised in respect of LTIP awards vesting during the year, which reflects the trading performance over the last three years.

Committee decisions on remuneration outcomes

The overall AIP outcome recognising the impact on the Group's financial performance during the year were considered appropriate and therefore no discretion to adjust the outcome was exercised.

The 0% vesting outcomes for the 2020 LTIP awards were considered appropriate in the light of the Group's performance over the three-year performance period, and therefore no discretion to adjust the outcome was exercised in relation to these awards.

Although the RoTE element of the 2021 LTIP awards will lapse, the extent that the TSR elements vest will be considered by the Committee in March and August 2024 (as the TSR performance period continues until the vesting date).

Taking the points above into account, the Committee believes the Policy has delivered an appropriate quantum of reward for the corporate performance achieved. The Committee was therefore satisfied that the Group's Remuneration Policy has operated as intended.

Wider workforce pay considerations and engagement for 2023

The Committee considers wider employee pay as context for the decisions it makes and this has been particularly important this year in light of the continuing cost of living pressures. The Committee was acutely cognisant of the wider macroeconomic environment throughout the year, in particular the impact that sustained higher inflation and energy bills have had on our people.

As part of the wider Committee oversight on all-employee pay matters, the Committee is pleased to confirm that the Group will apply an increase to the Group's minimum salary of 7.1% from 1 April 2024, to align with the Living Wage Foundation's Real Living Wage. This will result in the Group-wide minimum salary increasing to £23,400 on a full-time basis (for 37.5hr working week).

For employees who earn above the minimum salary, all eligible employees (excluding Executive Directors and the Executive Committee and Senior Leadership) will receive a salary increase of 5% effective 1 April 2024. In addition, the Committee was supportive of management's recommendation to extend the eligibility of an annual variable pay scheme to all our colleagues who do not currently participate in a variable pay scheme.

The Group has also continued to support colleagues by:

- continuing to provide a facility for employees to access part of their monthly salary in advance of the normal payroll date;
- refreshing the Group's employee discount platform and signposting to relevant offers; and
- providing support and options to seek support for colleagues facing financial hardship.

The Chair of the Committee has attended at least one meeting of the Group's Employee Representative Body ("**ERB**") each year since 2018. I attended the ERB meeting in December 2023, where I listened to concerns from the ERB members regarding the impact of the cost of living crisis and their insights regarding hybrid working. I had the opportunity to explain how, when making decisions about executive remuneration, the Remuneration Committee balance the needs of shareholders and employees, particularly the pressure on our lowest paid workers.

The Chief People Officer and Acting Chief Executive Officer provided further workforce reward updates to the Committee throughout the year as part of a standing agenda item at our Committee meetings. Further details can be found on page 137. This year, updates included information on the Group's gender and ethnicity pay gaps and cost of living support outlined above, as well as how reward mechanisms have been reviewed to ensure alignment with Group's customer focussed priorities in the context of Consumer Duty requirements and best practice.

The Committee considers it important to monitor and assess internal pay relativities, including the CEO pay ratio disclosures, and takes these into account in its decision making. For example, the Committee scrutinises the reasons for movements in the CEO pay ratio year-on-year and considers the impact of salary increases on the total remuneration package of our Executive Directors and Executive Committee in the context of appropriate external remuneration benchmarking data.

Directors' Remuneration Policy (the "Policy")

In line with the usual triennial Policy approval timescales, a new Policy was approved by shareholders at the AGM in May 2023. Considering shareholder support for the pre-existing arrangements and recognising the economic uncertainty, inflationary challenges and complexities associated with the Insurance industry transition to IFRS 17, the Committee concluded that the existing Policy remained appropriate at the current time and therefore largely rolled-forward our existing Policy for approval at the 2023 AGM.

The Policy was approved by shareholders, with over 98% support. A summary of the Policy is set out on pages 153 to 156. The Committee retains the ability to keep the Policy under review in light of the Group's evolving strategy and under the leadership of a new CEO.

Executive Director changes

As explained in last year's report, Penny James agreed with the Board to step down as Chief Executive Officer and as a Director on 27 January 2023. Penny's employment ceased on 28 February 2023 and further details are provided on page 149.

As announced on 30 August 2023, Adam Winslow was appointed as Chief Executive Officer effective from 1 March 2024 and to the Board on 21 March 2024. In setting Adam's remuneration, the Committee considered his wealth of experience in general insurance, market data in respect of FTSE51-150 companies and other FTSE350 insurers, the previous CEO's remuneration package, our Directors' Remuneration Policy and the pay and conditions of the wider workforce. Taking these factors into account, Adam's salary was set at £820,000, broadly in line with the previous CEO, and he will not be eligible for a salary increase in 2024.

In accordance with the Directors' Remuneration Policy, he will receive pension contributions (or cash in lieu) in line with the wider workforce (9% of salary) and his variable remuneration opportunities (AIP and LTIP) are in line with the current Directors' Remuneration Policy. Adam will also receive buyout awards to compensate him for awards forfeited from his previous employer in connection with his appointment at DLG. Further details are set out on page 149.

Jon Greenwood (previously Chief Commercial Officer) served as Acting Chief Executive Officer from 27 January 2023 until 21 March 2024. As explained in last year's report, Jon's salary was set at £725,000 with pension and variable remuneration opportunities in line with the Directors' Remuneration Policy. Following the appointment of Adam Winslow, Jon has returned to a non-Board role - as a continuing employee he remains eligible for 2024 AIP and LTIP awards, and his unvested DAIP and LTIP awards will continue as normal.

Executive Director remuneration for 2024

The Committee carefully considered salary increases for the Executive Directors (and Executive Committee) for 2024, taking into account the wider workforce level (of 5%) and shareholder expectations. The Committee determined that Neil Manser should receive an increase of 3% (below the wider workforce level) effective from 1 April 2024. Jon Greenwood will not receive an increase prior to returning to a non-Board role. As outlined above, Adam Winslow will not receive a salary increase during 2024.

Following Adam Winslow's appointment as CEO, it is expected that a business wide review will take place to confirm the Group's strategic priorities. The Committee is of the view that, in order to ensure long term remuneration is linked to KPIs, it will be appropriate to set the 2024 LTIP targets once this review is complete (and no later than 6 months after the grant date). The targets applicable to these awards will be disclosed in due course.

The Committee has carefully considered the appropriate performance measures for the 2024 AIP. Operating Profit will remain the key financial measure (55% weighting), reflecting the strategic focus on net insurance margin and pricing. A 20% weighting will also be attributed to delivering against key strategic measures in 2024. The remainder of the 2024 AIP will be based on performance against our customer experience dashboard (15% weighting) and progress on people and culture initiatives (10% weighting).

Committee performance

During the year, an evaluation of the effectiveness of the Committee was facilitated by Independent Audit, as part of their wider review of the Board's effectiveness. The review found that Committee members bring a good mix of skills and styles to meetings and that the Committee benefits from a well-established agenda and good support from the business. Further information about the Board effectiveness review can be found on pages 114 to 115.

In addition, the Committee's terms of reference were reviewed against the activity of the Committee during the year. The terms of reference were found to be suitable, comprehensive and of appropriate scope.

The Committee's terms of reference can be found on the corporate website: www.directlinegroup.co.uk/en/who-we-are/leadership/board-committees

Your AGM vote

The Committee welcomes investor feedback on an ongoing basis and this report seeks to describe and explain our remuneration decisions clearly. I hope that having read the information in this report, you will vote in support of the Remuneration Report resolution at the upcoming AGM.

Should you have any questions about the Committee's Report please email our AGM email address shareholderenquiries@directlinegroup.co.uk and I or one of my colleagues at Direct Line Group will respond to you.

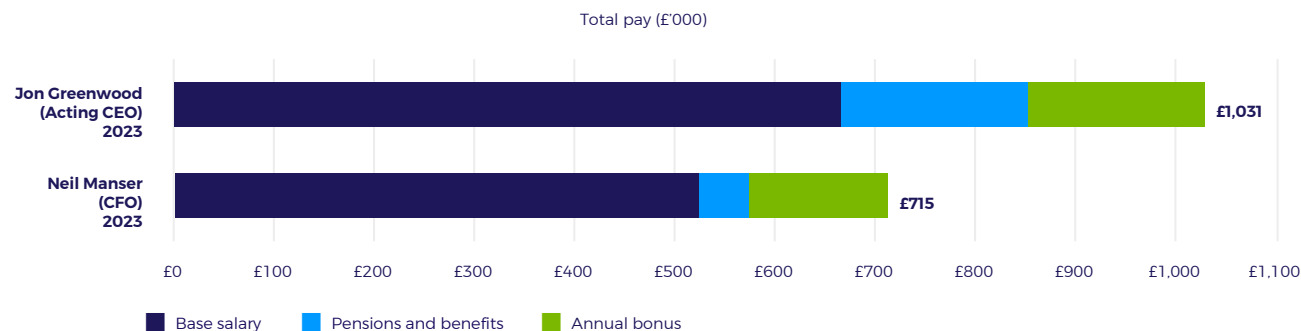
Yours sincerely,



Dr Richard Ward
Chair of the Remuneration Committee and Senior Independent Director

Remuneration at a glance

Remuneration outcomes for 2023



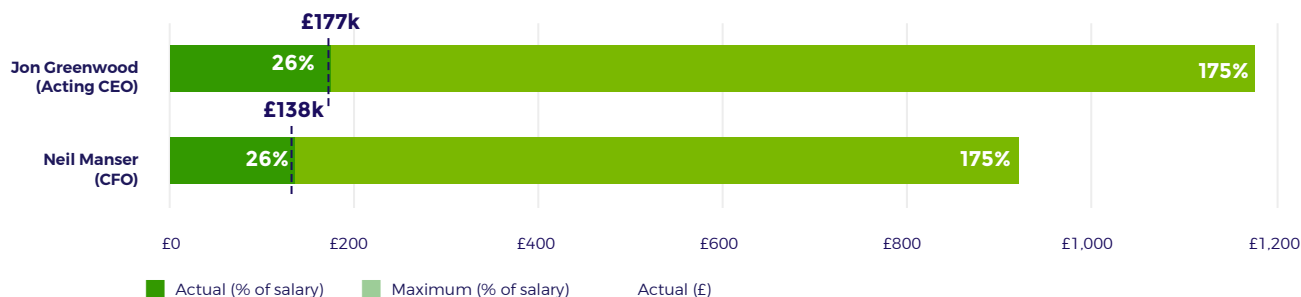
Find out more on page 139

Note:

1. Jon Greenwood was appointed as Acting CEO effective 27 January 2023. His remuneration has been pro-rated accordingly for this period.

AIP achievement

This chart illustrates the actual amounts earned from the AIP reflecting performance in 2023. 60% of the amount is payable in April 2024 and 40% will be deferred into shares for three years.



Find out more on page 140 to 141.

Annual Report on Remuneration

Introduction

We have prepared this Report in accordance with the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the "**Regulations**"). The Report also meets the relevant requirements of the Listing Rules of the FCA and describes how the Board has complied with the principles and provisions of the Corporate Governance Code relating to remuneration matters. Remuneration tables subject to audit in accordance with the relevant statutory requirements are contained in this report and stated to be audited. Unless otherwise stated, the information within the Report is unaudited.

Committee members and governance

The following list details members of the Committee during 2023. You can find information about each member's attendance at meetings on page 105. You can find their biographies on pages 97-100.

Committee Chair

Dr Richard Ward

Non-Executive Directors

Danuta Gray

Tracy Corrigan

Mark Gregory

Sebastian James (to 31 December 2023)

Mark Lewis (from 30 March 2023)

Advisers to the Committee

The Committee consults with the Acting Chief Executive Officer, the Chief Financial Officer, the Chief People Officer, and senior representatives of the HR, Risk and Finance functions on matters relating to the appropriateness of all remuneration elements for Executive Directors and Executive Committee members. The Chair of the Board, Acting CEO, CFO and CPO are not present when their remuneration is discussed. The Committee works closely with the Chair of the Audit Committee and the Board Risk Committee Chair is a member of the Remuneration Committee. Input was received regarding target-setting and payouts under incentive plans, and whether it is appropriate to apply malus and/or clawback. The Remuneration and Board Risk Committees can also hold joint meetings to consider matters of common interest.

The Committee appointed PricewaterhouseCoopers LLP ("**PwC**") as its independent adviser from 1 January 2019 following a competitive tender process.

During the year, PwC advised on market practice, corporate governance and regulations, incentive plan design and target-setting, recruitment, and other matters that the Committee was considering. PwC supported the Group in several ways, including the provision of internal audit, risk and controls, tax and actuarial services during 2023. PwC is a member of the Remuneration Consultants Group and a signatory to its Code of Conduct and the Committee is therefore satisfied that the advice PwC provided was objective and independent from the Group and its Directors.

PwC's total fees for remuneration-related advice in 2023 were £163,250 excluding VAT. PwC charged its fees on a time and expenses basis.

Wider workforce engagement and pay considerations for 2023

The Committee carefully and regularly considers wider employee pay as context for the decisions it makes.

The Group's ERB is a valued forum for having a two-way dialogue on many important matters. Since 2018 the Committee Chair has attended meetings as appropriate. The Committee Chair attended an ERB meeting in December 2023 where there was a Q&A session covering topics such as affordability and maintaining competitiveness of pay. Feedback was shared about how people are adapting to different working patterns and how some are continuing to experience cost of living challenges. The leadership reflected on this in considering the approach to the 2024 pay review.

The outcome of our DiaLoQue People Survey is an important factor for the Committee to reflect on and it has been kept abreast of matters by the Chief People Officer and Acting Chief Executive Officer throughout the year. Our existing workforce engagement is strengthened through "town halls" and other forums. To supplement this, the Committee receives papers setting out details of all-employee pay and workforce policies across the Group at each meeting. For 2023 this included information on aligning with Consumer Duty, the Motability partnership, our gender and ethnicity pay gap, updates on supporting colleagues with cost of living and the approach to 2024 salary increases for the wider workforce. This standing agenda item provides valuable insight and context for framing executive pay and policies.

Alignment to Provision 40 of the Corporate Governance Code

The following table summarises how the Remuneration Committee has addressed the factors set out in Provision 40 of the 2018 UK Corporate Governance Code.

<p>Clarity</p> <p>Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.</p>	<ul style="list-style-type: none"> - The remuneration arrangements for the Executive Directors are set out in a clear and simple way in the Directors' Remuneration Policy and in the plan rules for each incentive plan. Guides are accessible explaining how each incentive plan operates via an employee portal to ensure full understanding and demonstrates a commitment to transparency. - Queries on remuneration practices from shareholders or the workforce are welcomed by the Committee throughout the year and encouraged at the AGM and at the Group's regular ERB meetings, which the Chair of the Remuneration Committee attended in December 2023. Further details are set out on pages 133 and 137. - We are committed to transparent communication with all our stakeholders, including shareholders. For example, in conversations in early 2023, investors expressed a preference that cost management should be reflected in the AIP, and the Committee therefore resolved that the 2023 AIP would include this metric, alongside underwriting performance, people and customer elements.
<p>Simplicity</p> <p>Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.</p>	<ul style="list-style-type: none"> - The Group's remuneration arrangements are intentionally simple and well understood. Executive Directors (and Senior Leadership) receive fixed pay (salary, benefits, pension), and participate in a single short-term incentive (the AIP) and a single long-term incentive (the LTIP). - The decision, for 2023 onwards to adopt a single annual grant of LTIP, rather than the previous approach to split into two grants, has been well received and simplified the framework further. - The Committee reviews the appropriateness of targets annually, being mindful of alignment with strategy.
<p>Risk</p> <p>Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.</p>	<ul style="list-style-type: none"> - The ability to mitigate potential risks is within the Policy. Examples include: <ul style="list-style-type: none"> - the Committee's discretionary powers to amend the formulaic outcome from incentive awards (for example, where not consistent with performance); - the inclusion of malus and clawback provisions under a wide range of potential scenarios; and - in-employment and post-employment shareholding requirements. - The Committee considers that the incentive arrangements do not encourage inappropriate risk-taking, due to the Committee's rigorous process for reviewing incentive outcomes, which includes seeking the view of the Chair of the Board Risk Committee before making its final variable pay determinations. - The Committee also considers that the Policy provides wide-ranging flexibility to adjust payments where outcomes are not considered to reflect underlying business performance and individual contributions, or where behaviours are inconsistent with the risk appetite of the Group.
<p>Predictability</p> <p>The range of possible values of rewards to individual directors should be identified and explained at the time of approving the Policy.</p>	<ul style="list-style-type: none"> - At the time of approving the Policy, full information on the potential values of the AIP and LTIP are provided, with strict maximum opportunities and minimum, target and maximum performance scenarios. An indication of the potential impact of a 50% share price appreciation on the value of LTIP awards was also included. - The 2023 AIP and LTIP award opportunities were in line with the maximum opportunity in the Policy.
<p>Proportionality</p> <p>The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.</p>	<ul style="list-style-type: none"> - Payments under variable incentive schemes require robust performance against challenging conditions over the short and longer term. For example, for 2023, 55% of the AIP was based on operating profit in addition to cost and underwriting performance (25% of the AIP), and there was an equal focus between RoTE and EPS in the LTIP (both measures being Key Performance Indicators for the Group). - The Committee considers the formulaic outcome, as well as other relevant factors, when making decisions on remuneration outcomes. - Outcomes do not reward poor performance due to the Committee's overriding discretion to depart from formulaic outcomes which do not reflect underlying business performance.
<p>Alignment to culture</p> <p>Incentive schemes should drive behaviours consistent with company purpose, values, and strategy.</p>	<ul style="list-style-type: none"> - The Committee oversees consistent workforce reward principles and is satisfied that these policies drive the right behaviours and reinforce the Group's values, which in turn promote an appropriate culture. - Our new values are reflected in the measures used in our incentive schemes. Our incentive arrangements link to them in the following ways: <ul style="list-style-type: none"> - Win together – the strategic element of the AIP requires our Executive Directors and senior leadership to work together to deliver key results to our stakeholders. For example, our AIP measures include measures linked to our customer and people performance, whilst our AIP and LTIP measures include financial metrics which measure the short-term and long-term performance of the business including earnings and returns measures. - Own it – financial targets under the AIP are the same for all eligible participants, regardless of seniority, linking everyone's individual contribution to AIP reward outcomes. - The use of annual bonus deferral, LTIP holding periods and our shareholding requirements strengthen the focus on our strategic aims and ensure alignment with the interests and experiences of shareholders, both during and after employment.

Implementing Policy and pay outcomes relating to 2023 performance

Single figure table (Audited)

£'000		Salary ¹	Benefits ²	Annual bonus ³	Long-term Incentives	All-employee share plans	Pension contributions and cash allowance in lieu of pension	Fixed pay and benefits sub-total	Variable remuneration sub-total	Total	
	Jon Greenwood ⁴	2023	668	125	177	0	1	60	854	177	1,031
		2022	-	-	-	-	-	-	-	-	-
	Neil Manser	2023	527	2	138	0	1	47	577	138	715
		2022	515	2	0	0	1	46	564	0	564
	Penny James ⁵	2023	57	1	0	0	-	5	63	0	63
		2022	817	49	0	0	-	74	940	0	940

Notes:

- Salary - the Company operates a flexible benefits policy, and salary is reported before any personal elections are made.
- Benefits - include a company car or allowance, private medical insurance, life assurance, income protection, health screening and discounted insurance. The former CEO used a car service for travelling on journeys between home and office; the Group also paid for any associated tax liability on this benefit. To reflect the interim nature of the role, the Acting CEO received reimbursement of reasonable travel and accommodation expenses between his home in the North of England and the Group's London office; the Group also paid for any associated tax liability on this benefit. The total cost to provide this travel and accommodation benefit was £88,897.63. The Acting CEO also received an allowance of £25,000 per annum (payable monthly, £23,205.19 received in respect of 2023) to reflect the significant disturbance to Jon and his family as a result of spending the majority of his time in London.
- Annual bonus - includes amounts earned for performance during the year but deferred for three years under the DAIP. For more information, see pages 140 to 141. These deferred awards are normally subject to continuous employment. Awards remain subject to malus and clawback.
- Jon Greenwood was appointed as Acting CEO effective 27 January 2023. His remuneration has been pro-rated accordingly for this period.
- Penny James stepped down from the Board on 27 January 2023. Her remuneration has been pro-rated for this period accordingly. Details of Penny's exit arrangements can be found on page 149.

Each Executive Director has confirmed they have not received any other form of remuneration, other than that already disclosed in the single figure table.

Annual Incentive Plan outcomes for 2023 (Audited)

The chart illustrates the final assessment, performance measures and weightings under the AIP.

Performance measures and weighting



■ 55% Operating profit
■ 10% Customer
■ 10% People
■ 25% Underwriting performance and cost

Performance achievement 2023	Outcome 2023
	15%
	Total
Operating profit	
0%	0%
Underwriting performance and cost	
40%	10%
Customer	
0%	0%
People	
50%	5%

Executive Director	Achievement under the 2023 AIP	2023 AIP payment
Jon Greenwood	15%	£176,756
Neil Manser	15%	£138,229

Operating profit (55% weighting)

The primary financial performance measure for 2023 was operating profit for ongoing operations. The Committee established threshold and maximum performance levels at the start of the year considering internal budgets and analysts' consensus forecasts and did not adjust the targets during the year.

The approach taken to assessing financial performance against this measure was based on a straight-line outcome between 10% for threshold performance and 100% for achievement of maximum performance.

The table below sets out the threshold and maximum performance targets for the year, and the actual performance achieved.

Measure	Threshold 10%	Maximum 100%	2023 Actual	2023 Achievement
Operating Profit	£168.7m	£253.1m	(£189.5m)	nil

Notes:

- The AIP for Jon Greenwood is pro-rated to reflect the period from 27 January 2023, being the date he was appointed Acting CEO.
- 40% of any AIP award is deferred into shares under the DAIP, vesting three years after grant.
- Note that the operating profit target was originally set on an IFRS 4 basis (on a Group basis, rather than an ongoing operations basis, as targets were set prior to the sale of the Commercial business), before being rebased to IFRS 17 per the targets disclosed in the table above - for transparency, the original targets as set on an IFRS 4 basis were:
 - Threshold: £201.8m
 - Maximum: £302.8m

A straight-line interpolation occurs from threshold to maximum performance.

<p>Underwriting performance and Cost</p> <p>(25% weighting)</p> <p>Improve our competitiveness to deliver better value and experience for customers by reducing operating expenses</p>	<p>Improving Motor margins</p> <ul style="list-style-type: none"> - In Motor during 2023 we have taken significant pricing and underwriting action, prioritising margin improvement over volume. - We believe that for the majority of the second half of 2023 we have been underwriting profitably, consistent with our ambition of a net insurance margin of above 10%. - Encouragingly, we began to see the signs of an improvement in our current year net insurance claims ratio in the second half of 2023. <p>Sustaining Home underwriting</p> <ul style="list-style-type: none"> - Over the course of 2023 Home has traded the market well, delivering written margins ahead of budget, maintaining a strong retention and exiting the year with an improved in-force policy count trajectory. <p>Cost</p> <ul style="list-style-type: none"> - Adjusting for the impact of changes to perimeter, e.g. Motability, controllable spend was reduced broadly in line with a specific stretch in the budget. - Overall costs increased by less than the rate of inflation. <p>2023 Achievement: 40% (10% out of 25%)</p>
<p>Customer</p> <p>(10% weighting)</p> <p>To better align focus of our leadership teams on delivery of customer experience</p>	<ul style="list-style-type: none"> - Across the business we have been embedding delivery of our Consumer Duty obligations to ensure good customer outcomes and meet our mission to be brilliant for customers every day. A comprehensive implementation plan addressed the requirements arising from the new Duty, which has been approved by the Board. - Over 2023, we undertook extensive work across the organisation to further focus on how we meet our customers' insurance needs. Although good performance was delivered against some of the stretching customer targets (including Net Promoter Scores) set as part of the 2023 AIP, particularly in the Rescue part of the business, performance against other metrics (such as complaints) and in other areas of the business were below the threshold level set by the Committee at the start of the year. - The Committee recognised that these outcomes were impacted by lower levels of capacity across the motor repair industry, higher inflation (which has led to higher premium prices) and higher resulting call volumes (leading to longer wait times). However, the Committee concluded that the overall performance did not warrant any payout in respect of this element of the AIP. <p>2023 Achievement: 0%</p>
<p>People</p> <p>(10% weighting)</p> <p>A range of indicators around diversity and inclusion, employee engagement and closing the skills gap, reflecting the importance of these agendas to the success of the Group</p>	<ul style="list-style-type: none"> - 2023 diversity targets, aiming to improve gender and ethnic diversity at senior levels were not met, but it is recognised that progress is not always linear, particularly given that Group's representation remains strong compared to the wider market. - We did well to buck the trend on UK employee satisfaction, and maintained employee satisfaction levels despite not only facing the same external challenges as the rest of the UK, but a complex internal landscape. - On building our entry level talent pipeline, during the year programmes continued to evolve to develop the future skills needed to serve our increasingly tech-savvy customers. 394 colleagues are currently on a diverse range of apprenticeships, with 33% focused on vehicle repairs and 43% on data and technology. Intake to our Ignite/apprenticeship schemes landed above the target range numbers. - In addition, nearly half of our people manager population have attended high performance upskilling in 2023 and people manager calibration toolkits were widely used to support on the job learning when completing end of year performance calibration. <p>- 2023 Achievement: 50% (5% out of 10%)</p>

LTIP outcomes for 2023 (Audited)

2020 LTIP awards (vesting in 2023)

Awards under the LTIP granted in March and September 2020 vested during 2023. They were subject to relative TSR performance over the three-year period from the date of grant, and RoTE performance in 2020, 2021 and 2022.

Consistent with the Regulations, the expected RoTE vesting outcomes for the year ended 31 December 2022 (together with the TSR elements from the 2019 awards) are included in the 2022 LTIP column of the single figure table because the performance period for these elements ended in 2022. The performance outcomes of these elements are included in the table below.

The TSR elements of the 2020 awards (and the RoTE elements of the 2021 awards - see below) are included in the 2023 single remuneration figure because the performance period for those elements ended in 2023. Details of the targets and performance achieved are set out in the table below.

The performance achieved against the targets was as follows:

Award	Performance measure	Weighting	Threshold (20% of maximum)	Maximum (100% of maximum)	Actual performance	Achievement	Outcome
March 2020	RoTE (2022 single figure)	60%	17.5%	20.5%	14.2%	0.0%	0.0%
	Relative TSR (2023 single figure)	40%	Median	Upper quintile	Below median	0.0%	0.0%
August 2020	RoTE (2022 single figure)	60%	17.5%	20.5%	14.2%	0.0%	0.0%
	Relative TSR (2023 single figure)	40%	Median	Upper quintile	Below median	0.0%	0.0%

2021 LTIP awards (vesting in 2024)

Awards under the LTIP granted in March and August 2021 are subject to relative TSR performance over the three-year vesting period, and RoTE performance in 2021, 2022 and 2023. The RoTE performance period for these awards ended on 31 December 2023 and performance in respect of this element is set out in the table below. Performance under the relative TSR measure will be assessed at the end of the vesting periods in March 2024 and August 2024 respectively and will be disclosed in the 2023 Directors' Remuneration Report. Vesting is subject to the Committee's satisfaction that the financial and risk underpins have been met at the end of the vesting period.

Consistent with the Regulations, the expected RoTE vesting outcomes for the 2021 LTIP awards (together with the TSR elements from the 2020 awards above) are included in the 2023 single remuneration figures. You can find details of this on page 139.

Award	Performance measure	Weighting	Threshold (20% of maximum)	Maximum (100% of maximum)	Actual performance	Achievement	Outcome
March 2021	RoTE (2023 single figure)	60%	17.5%	20.5%	0.9%	0.0%	0.0%
	Relative TSR (2024 single figure)	40%	Median	Upper quintile	Performance period not yet complete		
August 2021	RoTE (2023 single figure)	60%	17.5%	20.5%	0.9%	0.0%	0.0%
	Relative TSR (2024 single figure)	40%	Median	Upper quintile	Performance period not yet complete		

LTIP awards granted during 2023 (Audited)

The table below shows awards granted under the LTIP to Executive Directors in 2023 in the form of nil-cost options. As outlined in last year's report, to simplify the remuneration structure, we have now transitioned to a single LTIP grant for participants each year (previously granted 50% in March and 50% in August). Prior to granting the awards, the Committee considered the decline in the share price since the grant of the 2022 LTIP awards. However the Committee determined that it would not be appropriate to make an adjustment at the time of grant given the recent volatility in the share price at the time, and will instead review whether there has been a "windfall gain" at the time of vesting (to the extent that the performance conditions have been met).

Director	Position	Awards granted in 2023 under the LTIP ¹		
		Award as % of salary	Number of shares granted	Face value of awards (£)
Jon Greenwood	Acting Chief Executive Officer	200%	1,058,394	1,450,000
Neil Manser	Chief Financial Officer	200%	751,824	1,030,000

Note:

1. The number of shares awarded was based on the average share price in the three-day period prior to grant on 30 March 2023, which was £1.37.

The performance conditions that apply to the LTIP awards granted in 2023 are set out below:

Performance Measure	Performance conditions for awards granted in 2023 under the LTIP		
	Proportion of award	Performance for threshold vesting (20%)	Performance for maximum vesting
RoTE (average over three years)	30%	15.0%	22.0%
TSR (vs FTSE 51-150 (excluding Investment Trusts))	30%	Median	Upper quintile
Cumulative operating earnings per share	30%	46.6p	63.1p
Emissions	10%	1 out of 3 targets are met	All 3 targets are met

Notes:

- Emissions targets are:
 - Operational Scope 1 and 2: Reduce Scope 1 emissions by 36% by 2025 versus the 2019 baseline.
 - Corporate bonds (Scope 1 and 2): Reduce Scope 1 + 2 portfolio temperature score by invested value within corporate bonds portfolio from 2.44°C in 2019 to 2.23°C in 2025.
 - Corporate bonds (Scope 1, 2 and 3): Reduce Scope 1 + 2 + 3 portfolio temperature score by invested value within corporate bonds portfolio from 2.80°C in 2019 to 2.51°C in 2025.
- Note that the RoTE and cumulative operating earnings per share targets were originally set on an IFRS 4 basis, before being rebased to IFRS 17 per the targets disclosed in the table above. After careful analysis and consideration, the Committee determined that no change was required for the RoTE targets but the cumulative operating EPS targets were adjusted on a neutral basis to offset the impact of the adoption of IFRS 17 - for transparency, the original targets as set on an IFRS 4 basis were:
 - Threshold: 56.2p
 - Maximum: 76p

A straight-line interpolation occurs from threshold to maximum performance.

The performance period for the awards granted on 30 March 2023 will end on 31 December 2025 for the RoTE, EPS and Emission elements, and 29 March 2026 for the TSR element.

Direct Line Group 2012 Share Incentive Plan ("SIP") (Audited)

During 2023, all employees, including Executive Directors, were eligible to invest from £10 to £150 a month from their pre-tax pay into the scheme, and receive one matching share for every two shares they purchased in the form of a conditional share award. The matching shares vest after 3 years subject to continued employment and continuing to hold the purchased shares. This table details the number of shares held by Jon Greenwood and Neil Manser under the SIP.

	Matching shares granted during the year	Matching shares cancelled during the year	Value of matching shares granted (£) ¹	Total number of matching shares at 31 December 2023 ²
Jon Greenwood	539	—	901	1,225
Neil Manser	539	—	901	1,225

Notes:

- The total market value of matching shares granted at the time of each award. Purchase of the matching shares takes place within 30 days of the contributions being deducted from salary.
- Matching shares which are subject to forfeiture.

Directors' Share interests (Audited)

Executive Directors commit not to hedge their exposure to outstanding awards under these plans or in respect of shares they are reporting to the Company within their ownership for the purposes of any share ownership guidelines. They also agree not to pledge as collateral their participation under any of the plans or any shares which they are required to hold in the Company for any purposes, including for share ownership guidelines. The table below sets out details of the Executive Directors' share interests exercised whilst serving as a Director in the year to 31 December 2023.

	At 31 December 2023				Share plan interests exercised whilst serving as a Director during the year to 31 December 2023	
	Share plan awards subject to performance conditions ^{1,2,3}	Share plan awards subject to continued service ¹	Share plan awards vested but unexercised ¹	Shares held outright ⁴	Number of options exercised ¹	Share price on date of exercise ^{5,6}
Jon Greenwood	1,516,703	140,926	—	120,121	92,440	1.38
					1,548	1.66
					83,915	1.66
Neil Manser	1,416,577	142,085	—	329,494	53,289	1.38
Penny James ⁷	—	322,790	556,618	1,361,226		

Notes:

- These awards take the form of nil-cost options over the Company's shares. Such awards accrue dividend entitlement from the grant date to the date on which an award vests, or the end of the applicable holding period. Dividends added post-vesting are shown to 31 December 2023 but are not realised until exercise.
- LTIP awards granted to Executive Directors include an additional two-year holding period before awards may be released.
- Unvested awards subject to performance conditions represent LTIP awards.
- The number includes beneficial share interests acquired under the SIP. At 21 March 2024, the number of shares beneficially held by Jon Greenwood has increased to 120,391, and the number of shares held by Neil Manser has increased to 329,764.
- Jon Greenwood exercised options on 28 March and 26 May 2023.
- Neil Manser exercised options on 28 March 2023.
- The above share plan interests for Penny James are as at 27 January 2023 being the date she stepped down from the Board.

The table below shows the Non-Executive Directors' beneficial interests in the Company's shares¹.

Director	Shares held at 31/12/2023	Shares held at 31/12/2022
Danuta Gray	26,500	26,500
Tracy Corrigan	—	—
Mark Gregory	—	—
Sebastian James	5,000	5,000
Adrian Joseph	—	—
Mark Lewis	—	—
Fiona McBain	—	—
David Neave	—	—
Gregor Stewart	2,925	2,925
Richard Ward	—	—

Note:

- This information includes holdings of any connected persons, as defined in section 253 of the Companies Act 2006.
- There were no changes to the above between 31 December 2023 and 21 March 2024.

Non-Executive Directors (Audited)

Non-Executive Directors receive a basic fee plus additional fees for specific Board responsibilities. The Chair of the Board receives a single fee. Non-Executive Directors may also claim for reasonable travel and subsistence expenses, in accordance with the Group's travel and expenses policy, and, where these are classified as taxable by HMRC, they are shown under 'Taxable benefits' below. The Non-Executive Directors receive no other benefits.

Director	Fees		Taxable benefits ^{2,3}		Total	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Danuta Gray	350	350	10	6	360	356
Tracy Corrigan	90	88	—	—	90	88
Mark Gregory	130	129	—	—	130	129
Sebastian James	105	104	—	—	105	104
Adrian Joseph	80	80	—	—	80	80
Mark Lewis ⁴	68	—	4	—	72	—
Fiona McBain	110	109	14	11	124	120
David Neave ⁴	29	—	3	—	32	—
Gregor Stewart	115	115	22	12	137	127
Richard Ward	150	150	—	—	150	150

Notes:

1. Non-Executive Directors are not eligible to participate in any of the Group's bonus or share incentive schemes or to join any Group pension scheme.
2. The values shown under 'Taxable benefits' above comprise the value of taxable travel and subsistence expenses reimbursed by the Company (including any gross-up for tax and national insurance contributions due).
3. The value of benefits for Tracy Corrigan, Mark Gregory, Sebastian James, Adrian Joseph and Richard Ward in 2023, and for Richard Ward in 2022, were all less than £500. The values have been rounded to 0 for consistency in the table above.
4. Mark Lewis joined the Board on 30 March 2023. David Neave joined the Board on 19 October 2023.

Shareholdings (Audited)

This table sets out the Executive Directors' share ownership guidelines and actual share ownership levels:

Director	Position	Share ownership guideline ¹ (% of salary)	Value of shares held at 31 December 2023 ^{2,3} (% of salary)
Jon Greenwood	Acting Chief Executive Officer	250%	51%
Neil Manser	Chief Finance Officer	200%	142%

Notes:

1. Executive Directors are normally expected to retain all the 'after tax' Ordinary Shares they obtain from any of the Company's share incentive plans until they achieve a shareholding level that is equal to 250% of base salary for the CEO and 200% of base salary for the CFO respectively. In light of the interim nature of the role, the Committee did not expect the Acting CEO to meet the share ownership guideline.
2. For these purposes, holdings of Ordinary Shares will be treated as including unvested DAIP awards, all vested but unexercised awards, or awards unvested but after the performance period and in the holding period. Holdings of Ordinary Shares are valued on a basis that is net of applicable personal taxes payable on acquiring such Ordinary Shares.
3. Shareholding as a percentage of salary has been calculated based on the 29 December 2023 share price of £1.82.

CEO pay ratio

The table below compares the single total figure of remuneration for the CEO since 2019 with that of the Group employees who are paid at the 25th percentile (lower quartile), 50th percentile (median) and 75th percentile (upper quartile) of its employee population.

Director	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2023 ¹	Option A	36:1	27:1	19:1
2022	Option A	35:1	27:1	18:1
2021	Option A	122:1	95:1	65:1
2020	Option A	132:1	108:1	73:1
2019 ²	Option A	123:1	101:1	67:1

Notes:

- As required by the regulations, the CEO single figure used to determine the 2023 pay ratios is based on the sum of the total single figures of remuneration for Penny James and Jon Greenwood (as Acting CEO).
- As required by the regulations, the CEO single figure used to determine the 2019 pay ratios is based on the sum of the total single figures of remuneration for Paul Geddes and Penny James, but with remuneration in respect of Penny James' service as CFO excluded.

The UK employees included are those employed on 31 December 2023 and remuneration figures are determined with reference to the financial year ending on 31 December 2023 (consistent with the approach taken in previous years).

Option A, as set out under the reporting regulations, was used to calculate remuneration for 2023 as we continue to believe that that is the most robust methodology for calculating these figures. The value of each employee's total pay and benefits was calculated using the single figure methodology consistent with the CEO. No elements of pay have been omitted. Where required, remuneration was approximately adjusted to be full-time and full-year equivalent basis based on the employee's average full-time equivalent hours for the year and the proportion of the year they were employed. No other adjustments were made.

The table below sets out the salary and total pay and benefits of the employee at the lower quartile, median and upper quartile for the 2023 financial year:

Director	25th percentile (P25)	Median (P50)	75th percentile (P75)
Salary	£24,786	£29,836	£48,616
Total pay and benefits	£30,466	£39,900	£58,726

Base salaries of all employees, including our Executive Directors, are set with reference to a range of factors including market practice, experience and performance in role. In reviewing the ratios, the Committee also noted that the CEO's remuneration package is weighted more heavily towards variable pay (including the AIP and LTIP) than the wider workforce due to the nature of the role, and this means the ratio is likely to fluctuate depending on the performance of the business and associated outcomes of incentive plans in each year.

The 2023 ratios are broadly in line with 2022 levels. Although there has been an increase in the (combined) CEO total single figure remuneration (driven by a higher benefits value for the Acting CEO and non-zero AIP outturn for 2023, partially offset by a lower base salary for the Acting CEO), there has been a broadly consistent proportionate increase in total pay and benefits for quartile employees (primarily due to a combination of salary increases and increased bonus outturns). As a result, there have been only small changes to the 2023 pay ratios compared to 2022. In September 2023, over 500 employees joined the Group through our Motability partnership, but this has not significantly impacted the pay ratios for 2023.

The Group's employees are fundamental to the Group's strategy and to ensuring a high level of service to our customers. We are proud that the high number of consultants in our customer service centres are employed by the Group (rather than being outsourced) and note that the impact of these lower paid roles is reflected in the ratios above. Further details on the remuneration of Executive Directors and the wider workforce are set out on page 137. The Committee notes that the pay ratios for 2023 reflect the nature of the CEO's package being more heavily weighted towards variable pay compared to more junior colleagues, consistent with our reward policies, such that the 2023 (and 2022) ratios are lower than previous years reflecting the incentive scheme performance outturns. Furthermore, the Committee is satisfied that these policies drive the right behaviours and reinforces the Group's values which in turn drives the correct culture, and for the reasons outlined above, believes that the ratios are consistent with the Group's reward policies.

Percentage change in Executive Directors' and Non-Executive Directors' pay for 2020 to 2023

The table below shows the year-on-year percentage change in salary, taxable benefits, and bonus (where applicable) of the Executive Directors and Non-Executive Directors, compared to the average pay for all other employees.

Director	Salary/Fees ¹				Benefits ²				Bonus (including deferred amount) ³			
	2023	2022	2021	2020	2023	2022	2021	2020	2023	2022	2021	2020
Executive Directors												
Jon Greenwood	–	–	–	–	–	–	–	–	–	–	–	–
Penny James	0%	0%	1%	8%	(16%)	38%	37%	(25%)	–	(100%)	3%	16%
Neil Manser	2%	0%	–	–	7%	4%	–	–	–	(100%)	–	–
Non-Executive Directors^{4,5,6}												
Danuta Gray	0%	0%	67%	90%	56%	–	0%	(100%)	–	–	–	–
Tracy Corrigan	2%	18%	–	–	0%	–	n/a	n/a	–	–	–	–
Mark Gregory	1%	3%	15%	7%	0%	0%	0%	(100%)	–	–	–	–
Sebastian James	1%	4%	4%	1%	0%	0%	0%	0%	–	–	–	–
Adrian Joseph	0%	0%	–	–	0%	–	–	–	–	–	–	–
Mark Lewis	–	–	–	–	–	–	–	–	–	–	–	–
Fiona McBain	1%	7%	7%	15%	26%	–	(100%)	(80%)	–	–	–	–
David Neave	–	–	–	–	–	–	–	–	–	–	–	–
Gregor Stewart	0%	0%	0%	0%	92%	–	(100%)	(87%)	–	–	–	–
Richard Ward	0%	5%	19%	0%	(4%)	105%	193%	(6%)	–	–	–	–
All employees (average)												
Average employee	8.6%	6%	3%	4%	0%	57%	(19%)	(1%)	34%	(41%)	9%	4%

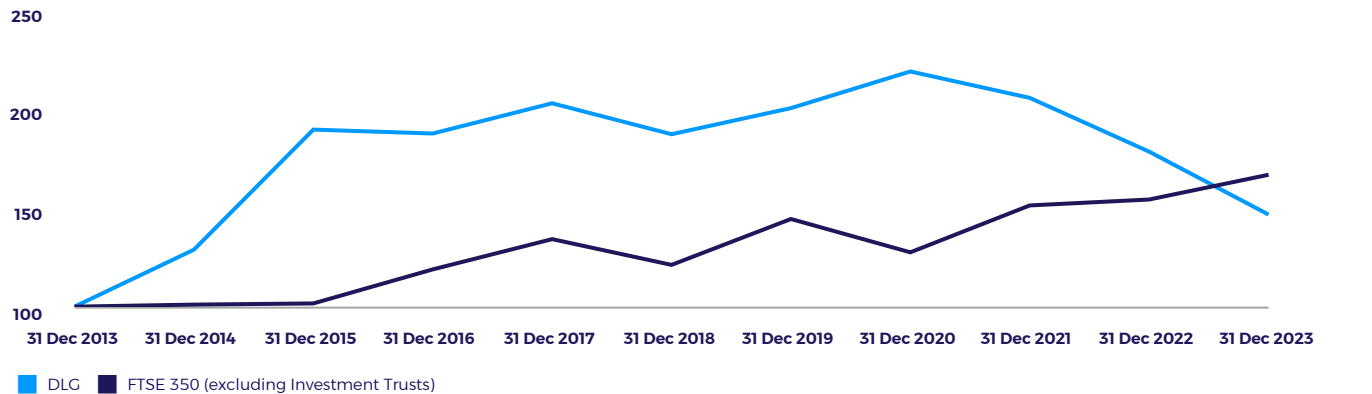
Notes:

1. Based on the change in average pay for employees employed in the year ended 31 December 2023 and the year ended 31 December 2022. Jon Greenwood joined the Board in 2023 and therefore there is no comparison to prior year. Non-Executive Director fee levels were unchanged between 2022 and 2023.
2. For all employees, there were no changes in benefits provision between 2022 and 2023. For Non-Executive Directors, benefits comprise taxable travel and subsistence expenses reimbursed by the Company (including any gross-up for tax and national insurance contributions due).
3. This includes average amounts earned under the AIP, and other variable incentive schemes, including monthly incentive schemes operated in certain parts of the Group. Jon Greenwood and Neil Manser received bonuses related to 2023 performance, however it is not possible to display as a percentage increase due to their nil bonus in 2022. Non-Executive Directors are not eligible to participate in any of the Group's bonus or incentive schemes.
4. Jon Greenwood, Mark Lewis and David Neave joined the Board during 2023.
5. Mark Lewis, David Neave, Adrian Joseph, Sebastian James, Mark Gregory and Tracy Corrigan had expenses in 2023, however it is not possible to display as a percentage increase due to their nil expenses in 2022. See page 145 for further information.

Chief Executive Officer's pay between 2014 and 2023 and historical performance of TSR

The table below shows historical levels of the CEO's pay between 2014 and 2023. It also shows vesting of annual and long-term incentive pay awards as a percentage of the maximum available opportunity. The graph reflects the TSR for the Company and the FTSE 350 index (excluding Investment Trusts) on a cumulative basis over the period from 31 December 2013 to 31 December 2023, as the Company is a constituent of this index.

Total Shareholder Return (%)



	2014 ¹	2015	2016 ²	2017	2018	2019 ³	2019 ³	2020	2021	2022	2023 ⁴	2023 ⁴
Director	Paul Geddes					Penny James						Jonathan Greenwood
CEO single figure of remuneration (£'000s)	5,356	4,795	4,071	4,039	3,250	774	2,773	3,286	3,137	940	63	1,031
Annual bonus payment (% of maximum)	75%	83%	43%	88%	68%	76%	76%	82%	84%	0%	n/a	15%
LTIP vesting (% of maximum) ¹	88%	96%	86%	99%	71%	0%	100%	80%	75%	0%	n/a	0%

Notes:

- Based on actual vesting under the 2010, 2011 and 2012 RBS Group LTIP. The value included in the single figures in respect of these awards is £2,437,428 in 2014.
- The 2016 single figure and annual bonus payment reflect an adjustment, made in 2019, to the original award of 20% of maximum opportunity related to the Ogden discount rate change.
- The 2019 single figure reflects part of the year for the outgoing CEO, Paul Geddes, and the entire year for the newly appointed CEO, Penny James.
- The 2023 single figure reflects part of the year for the outgoing CEO, Penny James, and part of the year for the Acting CEO, Jon Greenwood.

Payments for loss of office (Audited)

Penny James

As announced on 27 January 2023, the Board and Penny James mutually agreed that she would step down as Chief Executive Officer and an Executive Director with immediate effect. She supported the Board with a handover to the Acting CEO and her employment then ceased on 28 February 2023. During this period, she continued to receive her contractual salary, pension and benefits as normal.

After this date, Penny continued to receive an amount equivalent to salary, pension and benefits in monthly instalments in lieu of the remainder of her contractual 12 notice period (which would have run to 26 January 2024).

The table below sets out the total value of the amounts paid (or which are due to be paid) to Penny in relation to her departure, as outlined above:

	Salary (£'000)	Benefits (£'000)	Pension (£'000)	Total (£'000)
Total pay and benefits	817	14	74	905

Penny also received £73,250 in respect of legal fees and outplacement support in connection with the termination of her employment.

In respect of variable remuneration:

- No payments were made under the 2022 AIP and Penny was not eligible for an award under the 2023 AIP.
- All outstanding unvested LTIP awards lapsed at the point of cessation of employment (that is: awards granted in 2020, 2021 and 2022).
- Penny retained her unvested awards under the DAIP. The awards will continue to vest on the third anniversaries of award and remain subject to the scheme rules, including malus and clawback provisions.
- Penny also retained LTIP awards which had vested but were in the two year post-vesting holding period. The holding period will continue to apply and awards remain subject to the scheme rules, including malus and clawback provisions.

In accordance with the Policy, Penny is required to maintain a shareholding of 250% of salary for a period of two years from the date of cessation of her employment, with the number of shares being held in order to comply with these requirements fixed as at the date of termination of her employment at 28 February 2023.

New Executive Director

Adam Winslow

Adam Winslow was appointed as Chief Executive Officer effective from 1 March 2024 and will be appointed to the Board on 21 March 2024.

In setting Adam's remuneration, the Committee considered his wealth of experience in general insurance, market data in respect of FTSE 51-150 companies and other FTSE 350 insurers, the previous CEO's remuneration package, our Directors' Remuneration Policy and the pay and conditions of the wider workforce. Taking these factors into account, Adam's salary was set at £820,000, broadly in line with the previous CEO. Adam will not be eligible for a salary increase during 2024.

Pension and variable remuneration opportunities have been set in line with the Directors' Remuneration Policy.

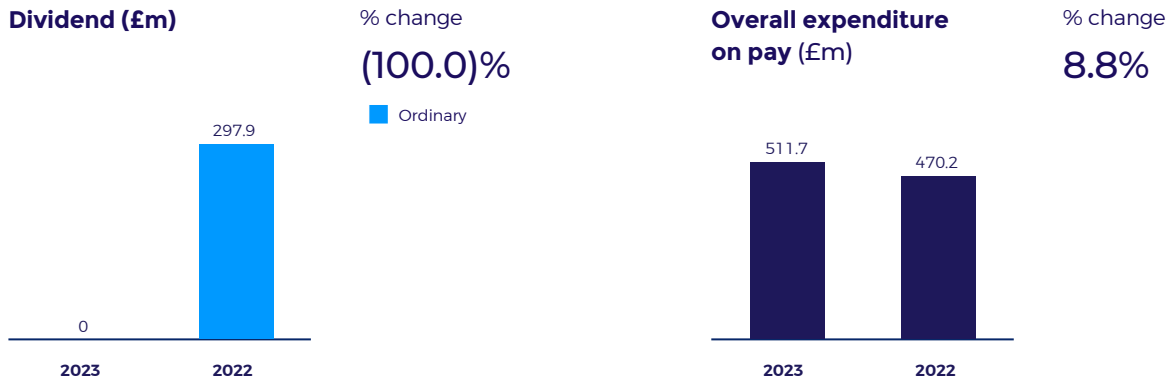
The Committee also approved buyout awards to compensate him for awards forfeited from his previous employer in connection with his appointment as follows:

- 2023 annual bonus (Maximum: £975,000): To mirror the original award as far as possible, the final value will be determined based on the published Aviva Group CEO 2023 annual bonus outcome (i.e. based solely on Aviva Group performance) prior to any personal performance adjustment. The Remuneration Committee will then consider the performance of the business unit which Adam led, based on published information and may adjust the outcome noted above upwards or downwards accordingly. The award will be delivered 50% in cash and 50% in shares (which vest annually over 3 years) to mirror the original terms.
- Deferred bonus in respect of 2021 and 2022 (Estimate: approximately £760,000): Granted on a like-for-like basis with the original awards (which vest annually over a 3 year period from grant).
- Unvested share awards subject to performance conditions (Maximum: approximately £4.25 million, estimated performance: approximately £3.8 million): Value based on a performance assessment of the unvested awards, to be granted on a like-for-like basis with the original awards. For the 2021 LTIP, the buyout award will be based on the performance outcome disclosed in the 2023 Aviva Directors' Remuneration Report. For the 2022 and 2023 LTIP awards, the buyout awards will be based on the expected performance out turn at the date of his appointment.

Values are based on the Aviva share price and estimated performance outcomes at the time of preparation of this report, and are therefore subject to change based on movements in the Aviva share price and/or final performance out turns. Final values will be disclosed in next year's Directors' Remuneration Report.

Distribution statement

This chart shows the overall pay expenditure across all Group employees compared with the total dividend value paid to shareholders in 2022 and 2023.



Note:

1. The dividends paid information has been taken from note 14 to the Consolidated financial statements. The overall expenditure on pay has been taken from note 7 and therefore, consistent with market practice, it has not been calculated in a manner consistent with the single figure in this report.

AGM voting outcomes

The table below shows the percentage of shareholders' votes which were for or against, and the percentage of votes withheld, relating to the resolutions to approve the 2022 Directors' Remuneration Report (which was put to shareholders at the 2023 AGM) and the Policy (which was put to shareholders at the 2023 AGM).

	For		Against		Number of votes withheld (abstentions)
	Number	Percentage	Number	Percentage	
Approval of Directors' Remuneration Policy (2023 AGM)	1,030,959,263	98.1%	19,918,567	1.9%	1,356,094
Approval of Directors' Remuneration Report (2023 AGM)	1,028,748,967	97.9%	22,163,847	2.1%	1,321,110

Dilution

The Company complies with the dilution levels that the Investment Association guidelines recommend. These levels are 10% in 10 years for all share plans and 5% in 10 years for discretionary plans. This is consistent with the rules of the Company's share plans.

Implementing the Policy in 2024

Base salary

Key features

- Reviewed annually with any increases taking effect on 1 April
- The Committee considers a range of factors when determining salaries, including pay increases throughout the Group, individual performance, and market data

Implementation in 2024

- The Acting CEO's salary remains unchanged at £725,000
- The incoming CEO's salary will be set at £820,000
- 3% increase for the CFO to £546,364

Pensions

Key features

- Pension contributions are paid only in respect of base salary
- The Executive Directors' pension is set in line with the pension level received by the employee population

Implementation in 2024

- Pension contributions remain at 9% (in line with the workforce)

Annual Incentive Plan

Key features

- Maximum opportunity of 175% of salary for the CEO and the CFO
- At least 50% of the AIP is based on financial measures. The Committee considers various non-financial performance measures such as strategic measures for the remainder
- The outcome is assessed at the end of the performance period with reference to targets agreed at the start of the year
- Any payment is subject to an additional gateway assessment, including assessing risk factors
- Malus and clawback provisions apply

Implementation in 2024

- No change to the maximum opportunity
- There will be a straight-line vesting between AIP threshold and maximum performance
- Operating Profit (55% weighting)
- Strategic measures (20% weighting)
- Customer (15% weighting)
- People (10% weighting)
- The performance targets are considered commercially sensitive and will therefore be disclosed in next year's Report

Deferred Annual Incentive Plan

Key features

- 40% of the AIP is deferred into shares
- Typically vesting after three years, normally subject to continued employment
- Malus and clawback provisions apply

Implementation in 2024

- No further performance conditions apply

Implementing the Policy in 2024 *continued***Long-Term Incentive Plan****Key features**

- Awards typically granted as nil-cost options
- Awards granted once per year
- The LTIP allows for awards with a maximum value of 200% of base salary per financial year
- Performance is measured over three years
- Awards vest subject to financial underpin and payment gateway
- Malus and clawback provisions apply
- Awards are subject to an additional two-year holding period following the end of the three-year performance period

Implementation in 2024

- No change to the maximum annual award levels
- Will be granted once per year
- Nil-cost options will continue to be used for the grants
- Following Adam Winslow's appointment as CEO, it is expected that a business wide review will take place to confirm the Group's updated strategic priorities. The Committee is of the view that, in order to ensure long term remuneration is linked to KPIs, it will be appropriate to set the 2024 LTIP targets once this review is complete (and no later than 6 months after the grant date). The targets applicable to these awards will be disclosed in due course.

Non-Executive Directors' fees

The fees for the Chair and Non-Executive Directors for 2024 are set out below (unchanged from 2023).

Position	Fees for 2024 £'000
Board Chair fee	350
Basic Non-Executive Director fee	75
Additional fees	
Senior Independent Director fee	30
Chair of Audit, Board Risk and Remuneration Committees	30
Chair of Sustainability and Investment Committees	15
Member of Board Committee (Audit, Board Risk or Remuneration)	10
Member of Board Committee (Sustainability, Investment or Nomination)	5

Directors' Remuneration Policy

The following is a copy of the main table from the Policy approved by shareholders at the 2023 AGM on 9 May 2023. The full Policy is available in the Directors' Remuneration report of the 2022 Annual Report and Accounts, which is available on the Direct Line Group website, under the 'Results and Reports' heading in the Investors page. You can find further details regarding the Policy's operation for 2024 on pages 151 and 152.

Policy table

Base salary

- This is the core element of pay that reflects the individual's role and position within the Group
- Staying competitive in the market allows us to attract, retain and motivate high-calibre executives with the skills to achieve our key aims while managing costs

Operation

- Base salaries are typically reviewed annually and set in April of each year, although the Committee may undertake an out-of-cycle review if it determines this to be appropriate
- When reviewing base salaries, the Committee typically takes the following into account:
 - general base salary movements across the Group;
 - level of skill, experience and scope of responsibilities, individual and business performance, economic climate, and market conditions; and
 - the appropriate benchmarking peer group(s) that reflects the Group's size and industry focus, the corresponding market pay range(s) and the relevant positioning within the market pay range(s)
- The Committee does not follow market data in isolation, and instead uses it as a reference point when considering, in its judgement, the appropriate salary level, while regarding other relevant factors, including corporate and individual performance, and any changes to an individual's role and responsibilities
- The principles for setting base salary are like those applied to other employees in the Group. However, the specific benchmarking groups used to review external market relativities may differ across employee groups
- Base salary is typically paid monthly

Maximum opportunity

- When determining salary increases, the Committee will consider the factors outlined in this table under 'Operation'

Performance measures

- Not applicable

Pension

- To remain competitive within the marketplace
- To encourage retirement planning and retain flexibility for individuals

Operation

- Pension contributions are paid only in respect of base salary
- Executive Directors are eligible to participate in the defined contribution pension arrangement or alternatively they may choose to receive a cash allowance in lieu of pension
- The Executive Directors' pension will be set in line with the pension level for the wider workforce

Maximum opportunity

- The maximum pension percentage contributions are set at the wider workforce level (currently 9% of salary)

Performance measures

- Not applicable

Policy table *continued***Benefits**

- A comprehensive and flexible benefits package is offered, emphasising individuals being able to choose the combination of cash and benefits that suits them

Operation

- Executive Directors receive a benefits package generally set by reference to market practice in companies of a similar size and complexity. Benefits currently provided include a Company car, use of a car or car allowance, private medical insurance, life insurance, health screening, and income protection
- The Executive Directors are eligible to receive such additional benefits as the Committee considers appropriate having regard to market norms
- In line with our approach to all employees, certain Group products are offered to Executive Directors at a discount
- Executive Directors are eligible to participate in any of the employee share plans operated by the Company, in line with HMRC guidelines (where relevant) and on the same basis as other eligible employees. Currently, this includes our HMRC-approved SIP, which has been used to provide an award of free shares to all employees (including Executive Directors) and permits employees to purchase shares with a corresponding matching award
- Where an Executive Director is required to relocate to perform their role, they may be offered appropriate relocation benefits. The level of such benefits would be determined based on the circumstances of the individual and typical market practice and be consistent with the relocation arrangements available to the workforce generally. In normal circumstances, relocation benefits will only be paid for a period of up to 12 months

Maximum opportunity

- The costs of benefits provided may fluctuate from year to year, even if the level of provision has remained unchanged
- Additionally, the limit for any employee share plans in which the Executive Directors participate will be in line with the caps permitted by HMRC from time to time
- The Executive Directors may be entitled to retain fees received for any directorships held outside the Group
- Similarly, while not benefits in the normal usage of that term, certain other items such as hospitality or retirement gifts may also be provided

Performance measures

- Not applicable

Element and purpose in supporting the Group's strategic objective

AIP

- To motivate executives and incentivise delivery of performance over a one-year operating cycle and enable a stronger focus and alignment with the short to medium-term elements of our strategic aims
- Deferral delivers further alignment with shareholders and aids retention of key executive talent

Operation

- The AIP is measured based on performance over the financial year against performance targets which the Committee considers to be appropriate
- At least 40% of the AIP is deferred into shares (typically in the form of nil-cost options or conditional share awards) under the DAIP
- This typically vests three years after grant (with deferred awards also capable of being settled in cash at the discretion of the Committee, for example, when it gives rise to legal difficulties to settle in shares). The remainder of the award is paid in cash following the year-end
- The Committee will keep the percentage deferred and terms of deferral under review. This will ensure levels are in line with regulatory requirements and best practice and may be changed in future years but will not, in the Committee's view, be changed to be less onerous overall
- Dividends will accrue during the deferral period
- Malus and clawback provisions apply to the cash and deferred elements of the AIP. These are explained in the notes to the Policy table

Maximum opportunity

- The maximum bonus opportunity under the AIP is 175% of base salary per year
- The current maximum bonus opportunity applying for each individual Executive Director is shown in the statement of implementation of Policy
- Threshold and maximum bonus levels for Executive Directors are set by considering annual bonus practice throughout the organisation and referring to practice at other insurance and general market comparators
- Outcomes for performance between threshold and maximum will be determined on a straight-line basis
- No more than 10% of the bonus is paid for threshold performance
- However, the Committee retains flexibility to amend the pay-out level at different levels of performance for future bonus cycles. This is based on its assessment of the level of stretch inherent in the set targets, and the Committee will disclose any such determinations appropriately

Performance measures

- Performance measures for the AIP may be financial and non-financial (Group, divisional, business line or individual)
- Each year, at least 50% of the AIP is based on financial measures. The remainder of the AIP may be based on a combination of, for example, strategic, operational, ESG, shared or individual performance measures
- The Committee sets targets at the beginning of each financial year
- Before any payment can be made, the Committee will perform an additional gateway assessment (including in respect of any risk concerns). This will determine whether the amount of any bonus is appropriate in view of facts or circumstances which the Committee considers relevant. This assessment may result in moderating (positively or negatively) each AIP performance measure, subject to the individual maximum bonus levels
- The AIP remains a discretionary arrangement. In line with the Code requirements, the Committee maintains discretion to override formulaic outcomes where those outcomes are not reflective of the overall Group performance. DAIP awards vest subject to continued employment only

Element and purpose in supporting the Group's strategic objective *continued***LTIP**

- Aligning executives' interests with those of shareholders to motivate and incentivise delivering sustained business performance over the long term
- To aid retaining key executive talent long term and deliver market competitive remuneration

Operation

- Awards will typically be made in the form of nil-cost options or conditional share awards, which vest to the extent performance conditions are satisfied over a period of at least three years. Under the Plan rules, awards may also be settled in cash at the discretion of the Committee. This may be appropriate, for example, if legal difficulties arise with settling in shares
- Vested options will remain exercisable for up to the tenth anniversary of grant
- Malus and clawback provisions apply to the LTIP. These are explained in the notes to the Policy table
- Executive Directors will be subject to an additional two-year holding period following the vesting period, during which time awards may not normally be exercised or released
- During the vesting period and additional holding period (during which time awards cannot be exercised) the awards will continue to accrue dividends. Following the holding period, awards will cease to accrue dividends if not exercised

Maximum opportunity

- The maximum LTIP award in normal circumstances is 200% of salary
- Awards of up to 300% of base salary are permitted in exceptional circumstances, for example relating to recruiting or retaining an employee, as determined by the Committee

Performance measures

- The Committee will determine the performance conditions for each award made under the LTIP, measuring performance over a period of at least three years with no provision to retest
- Performance is measured against targets set at the beginning of the performance period, which may be set by referring to the time of grant or financial year
- Awards vest based on performance against financial and/or such other measures (including share return), as set by the Committee, to be aligned with the Group's long-term strategic objectives. The Committee may alter the precise measures used for future awards
- Not less than 50% of the award shall be subject to one or more financial measures
- Awards will be subject to a payment gateway, such that the Committee must be satisfied that there are no material risk failings, reputational concerns or regulatory issues
- 20% of the award vests for threshold performance, with 100% vesting for maximum performance
- The Committee reserves the right in respect of future awards to lengthen (but not reduce) any performance period and/or amend the terms of any holding period; however, there is no intention to reduce the length of the holding period
- In line with the Code requirements, the Committee maintains discretion to override formulaic outcomes where those outcomes are not reflective of the overall Group performance

Share ownership guidelines

- To align the interests of Executive Directors with those of shareholders

Operation

- Executive Directors are expected to retain all the ordinary shares vesting under any of the Company's share incentive plans, after any disposals for paying applicable taxes, until they have achieved the required shareholding level; unless earlier sale, in exceptional circumstances, is permitted by the Chair of the Board
- Shares considered will include those held by the director and their connected persons, vested awards subject to holding requirements and unvested awards not subject to performance conditions (on a net of tax basis). Executive Directors are also expected to retain their in-employment shareholding requirement (or actual shareholding, if lower) post their employment for a period of two years
- In exceptional circumstances, earlier sale is permitted subject to the Chair's discretion

Maximum opportunity

- 250% of salary for the CEO and 200% for the CFO
- The Committee reserves the discretion to amend these levels in future years

Performance measures

- Not applicable

Directors' report

The Board of Directors present their report for the financial year ended 31 December 2023 as required by the Companies Act 2006.

The Board would like to draw your attention to the forward-looking statements disclaimer which can be found on page 276.

Directors' report disclosures

The Board takes the view that some of the matters required to be disclosed in the Directors' report are of strategic importance and these are, therefore, included in the Company's Strategic report which is on pages 1 to 94 as permitted by the Companies Act 2006. These matters, and all matters referenced in the table below, are incorporated into this Directors' report:

Subject	Pages
Use of financial instruments	30, 35, 36
Important events since the financial year end	8 to 16
Likely future developments in the business	16
Employee engagement	25, 54 to 57, 104 to 109, 140
Engagement with suppliers, customers and other business relationships	51 to 53, 107
Research and development	19, 51
Greenhouse gas emissions, energy consumption and energy-efficient action	63 to 65
Branches outside the UK	256

Disclosure of information required by Disclosure Guidance and Transparency Rule 7.2

The FCA's Disclosure Guidance and Transparency Rule 7.2 requires a Corporate Governance statement in the Directors' report to include certain information. You can find information that fulfils the Corporate Governance statement's requirements in this Directors' report, the Corporate Governance report, the Committee reports and the Directors' Remuneration report, all of which are incorporated into the Directors' report by reference.

Disclosure of information under Listing Rule 9.8.4C

In accordance with Listing Rule 9.8.4C, the table below sets out the location of the information required to be disclosed under LR 9.8.4R, where applicable:

Subject	Pages
Interest capitalised by the Group	Not applicable
Unaudited financial information	Note 3.5
Details of long-term incentive schemes	141 to 142
Directors' waivers of emoluments	Not applicable
Directors' waivers of future emoluments	Not applicable
Non pro-rata allotments for cash (issuer)	Not applicable
Non pro-rata allotments for cash (major subsidiaries)	Not applicable
Listed company is a subsidiary of another company	Not applicable
Contracts of significance involving a Director	Not applicable
Contracts of significance involving a controlling shareholder	Not applicable
Details of shareholder dividend waivers	158
Controlling shareholder agreements	Not applicable

Dividends

As explained in the Chair's statement on page 8, the Board is recommending a dividend for 2023. More information on dividends and capital management can be found in the CFO review on page 32.

Directors

The names of all current Directors and their biographies are set out on pages 97 to 100. Information about Adam Winslow, who joined the Group as CEO on 1 March 2024, can be found in the Chair's statement on page 9.

All Directors will retire and those wishing to continue to serve will be submitted for election or re-election at the 2024 AGM. This is in accordance with the UK Corporate Governance Code and the Articles of Association of the Company, which govern appointing and replacing Directors.

The Directors listed on pages 97 to 100 were the Directors of the Company throughout the year under review. In addition, Sebastian James served from the start of the year to 31 December 2023 when he retired from the Board.

The Company's Articles of Association set out the Directors' powers. You can view these on the Company's website at www.directlinegroup.co.uk. The Directors' powers are also subject to relevant legislation and, in certain circumstances, including in relation to the issuing or buying back of shares, authority from the Company's shareholders. You can find details of the Directors' remuneration, service contracts, employment contracts and interests in the shares of the Company in the Directors' Remuneration report on pages 131 to 156.

The Articles of Association of the Company permit it to indemnify the Company's officers, and officers of any associated company, against liabilities arising from conducting Company business, to the extent permitted by law. As such, the Company has executed deeds of indemnity for each Director's benefit, regarding liabilities that may attach to them in their capacity as Directors of the Company or associated companies.

These indemnities are qualifying third-party indemnities as defined by section 234 of the Companies Act 2006. No amount was paid under any of these indemnities during the year. The Company maintains directors' and officers' liability insurance. This provides appropriate cover for legal actions brought against its Directors. The Company has also provided the Directors of DLG Pension Trustee Limited with qualifying pension scheme indemnities. This is in accordance with section 235 of the Companies Act 2006. During 2023, DLG Pension Trustee Limited acted as trustee for two of the Company's occupational pension schemes.

Secretary

Roger Clifton is the Company Secretary of Direct Line Insurance Group plc and can be contacted at the Company's Registered Office, details of which are on page 277.

Share capital

The Company has a premium listing on the London Stock Exchange. As at 31 December 2023, the Company's share capital comprised 1,311,388,157 fully paid Ordinary Shares of 10¹⁰/₁₁ pence each.

At the Company's 2023 AGM, the Directors were authorised to:

- allot shares in the Company or grant rights to subscribe for or convert any security into shares, up to an aggregate nominal amount of £47,686,842, and to allot further shares up to an aggregate nominal amount of £98,373,684 for the purpose of a rights issue;
- allot shares having a nominal amount not exceeding in aggregate £14,306,052 for cash, without offering the shares first to existing shareholders in proportion to their holdings;
- allot additional shares having a nominal amount not exceeding in aggregate £14,306,052 for the purposes of financing a transaction which the Board of the Company determines to be an acquisition or other capital investment, without offering the shares first to existing shareholders in proportion to their holdings;
- make market purchases of up to 131,138,815 shares in the Company, representing 10% of the Company's issued share capital at the time; and
- allot shares (with the disapplication of pre-emption rights) up to an aggregate nominal amount of £23,250,000 in relation to the issue of Restricted Tier 1 ("RTI") Instruments.

To date, the Directors have not used these authorities granted in 2023. At the 2024 AGM, shareholders will be asked to renew these authorities. The Company has not held any shares in treasury during the period under review. You can find out more about the Company's share capital and shares under option as at 31 December 2023 in notes 27 and 31 of the consolidated financial statements.

Under the Company's Share Incentive Plan, Trustees hold shares on behalf of employee participants. The Trustees will only vote on those shares, and receive dividends that a participant beneficially owns, in accordance with the participant's wishes. An Employee Benefit Trust also operates which has discretion to vote on any shares it holds as it sees fit, except any shares participants own beneficially, in which case the Trustee will only vote on such shares as per a participant's instructions.

The Trustee of the Employee Benefit Trust has waived its right to dividends on all shares within the Trust. You can find out more about the number of shares held by the employee share plan trusts in note 31 on page 241. The Company is not aware of any other dividend waivers or voting restrictions in place.

Shareholder voting rights and restrictions on transfer of shares

All the Company's issued Ordinary Shares rank equally in all respects. The Company's Articles of Association set out the rights and obligations attaching to the Company's Ordinary Shares.

Employees of the Company and Directors must comply with the UK Market Abuse Regulation and the Company's share dealing rules. These rules restrict particular employees' and Directors' ability to deal in the Company's shares at certain times, and require the employee or Director to obtain permission to deal before doing so. Some of the Company's employee share plans also include restrictions on transferring shares while the shares are held within the plans.

Each general meeting notice will specify a time, not more than 48 hours before the time fixed for the meeting (which may exclude non-working days), for determining a shareholder's entitlement to attend and vote at the meeting. To be valid, all proxy appointments must be filed at least 48 hours (which may exclude non-working days) before the time of the general meeting.

Where the Company has issued a notice under section 793 of the Companies Act 2006, and the person interested in the relevant shares has been in default of the notice for at least 14 days, they shall not be entitled to attend or vote at any general meeting until the default has been corrected or the shares sold.

There is no arrangement or understanding with any shareholder, customer or supplier, or any other external party, which provides the right to appoint a Director or a member of the Executive Committee, or any other special rights regarding control of the Company.

Articles of Association

Unless expressly specified to the contrary in the Articles of Association, the Articles may only be amended by a special resolution of the Company's shareholders at a general meeting.

Significant agreements affected by a change of control

A number of agreements may take effect, alter or terminate upon a change of control of the Company. None of these agreements is considered significant in terms of its impact on the Group's business as a whole. All the Company's employee share incentive plans contain provisions relating to a change of control. Outstanding awards would typically vest and become exercisable. This is subject to satisfying any performance conditions, and normally with an additional time-based pro-rata reduction where performance conditions apply, and with approval from the Remuneration Committee.

Substantial shareholdings

The table below shows the holdings of the major shareholders in the Company's ordinary issued share capital, as at 31 December 2023 and as at 18 March 2024, as notified in accordance with the provisions of Chapter 5 of the FCA's Disclosure Guidance and Transparency Rules. It should be noted that these holdings may have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed. Information provided by the Company pursuant to the FCA's Disclosure Guidance and Transparency Rules is publicly available via the regulatory information services and on the Company's website.

Subject	31 December 2023	18 March 2024	Nature of Holding
abrdn plc	4.57 %	4.57 %	Indirect
Ameriprise Financial Inc	5.06 %	5.06 %	Indirect
APG Asset Management N.V.	2.99 %	2.99 %	Direct
Ariel Investments	4.90 %	4.90 %	Direct/ Indirect
Artemis Investment Management LLP	4.82 %	4.82 %	Indirect
BlackRock Inc	Below 5%	Below 5%	Indirect
FIL Limited	5.12 %	5.12 %	Indirect
FMR LLC	7.11 %	7.11 %	Indirect
Majedie Asset Management Limited	4.99 %	4.99 %	Indirect
Norges Bank	3.99 %	2.94 %	Direct
Schroders plc	5.67 %	5.67 %	Indirect
T.Rowe Price Associates, Inc.	4.68 %	4.68 %	indirect

Political donations

The Group made no political donations during the year (2022: £nil).

Disabled and neuro-divergent colleagues

The Group is committed to supporting those who are neuro-divergent or have a disability and recognises the benefits that diversity of thought or body brings to an organisation.

For recruitment purposes, we adjust and enhance our application and selection process, and guide and provide additional training for interviewers where necessary. We reasonably adjust colleagues' working environments and equipment, and roles and role requirements (including for colleagues who become disabled during their time working in the Group). We also seek to ensure that everyone can access the same opportunities.

The Neuro-Diversity & Disability strand of our Diversity Network Alliance ("**DNA**") works to celebrate and support those who are neuro-divergent or disabled with the aim of ensuring that all our colleagues feel understood, fully appreciated, and empowered to be their best selves. More information about the work of the DNA strand can be found on page 55 of the Strategic report.

Going concern

The Directors believe that the Group has sufficient financial resources to meet its financial needs, including managing a mature portfolio of insurance risk. The Directors believe the Group is well positioned to manage its business risks successfully in the current economic climate. The Chief Financial Officer Review describes the Group's capital management strategy, including the capital actions taken in the last 12 months to ensure the continued strength of the balance sheet and sets out management actions that the Group continues to pursue to rebuild balance sheet resilience. The Group's financial position is also covered in that section, including a commentary on cash and investment levels, reserves, currency management, insurance liability management, liquidity and borrowings. The financial disclosures relating to the Group's principal risks are set out in note 3. This covers insurance, market, credit, liquidity and operational risk; and the Group's approach to monitoring, managing and mitigating exposures to these risks.

The Directors have assessed the principal risks of the Group over the duration of the planning cycle, which runs until 2027, with the first year following approval of the Strategic Plan ("**the Plan**"), being 2024, having greater certainty and hence used to set detailed budgets. The Group's Risk Function has carried out an assessment of the risks to the Plan and the dependencies for the success of the Plan. This included running adverse scenarios on the Plan to consider the downside risks to the Plan and subsequent impact on forecast profit. The key scenarios applied to the Plan were in relation to the impact of adverse claims inflation, failure to achieve motor pricing initiative benefits, delay to delivery of expense reductions and a fall in asset values. The key judgements and assumptions applied in these scenarios were as follows:

- Adverse claims inflation: the Plan includes a scenario for inflation being higher than expected, leading to claims costs increasing by 3-6% with the Group and market response delayed by six months.
- Failure to achieve motor pricing initiative benefits: planned benefits from future motor pricing initiatives are not achieved.
- Delay to delivering expense reductions: there is a delay of 12 months in delivering planned expense reductions.
- Fall in asset values: an increase in credit spreads of 75 basis points, with a partial recovery of 25 basis points over 2025.

It is unlikely that all risks would materialise at the same time. None of the scenarios individually were concluded to present a threat to the Group's expected viability across the duration of the Plan.

The Risk Function has also carried out an assessment of the risks to the Group's and Company's capital position over 2024 and 2025. Two specific macroeconomic combination stresses, a moderate and a severe, have been updated to include not only a review of Group financials but also a review of assumptions to reflect the latest internal and external environment and trends. The stresses have been run to assess the possible impact on own funds in the period to 31 December 2024 and 31 December 2025. The stresses are updated and repeated regularly. The macroeconomic assumptions for key parameters such as Consumer Price index, GDP and bank base rate for the moderate scenario reflect the adverse end of the Bank of England November Monetary Policy Committee forecast range. The severe scenario adopts the key parameters from the 2022 Bank of England Banking Stress Test, which is described as "severe but plausible", updated for changes in the macroeconomic environment.

In the moderate and severe scenarios, it was concluded that the Company's solvency capital requirement would not be breached.

Additionally, the Risk Function conducted a Reverse Stress Test ("**RST**") to establish whether the long-term future for motor insurance, specifically, the adoption of EVs, poses a threat to the viability of the Company's current business model. The findings showed that over the duration of the planning cycle the scenarios considered did not present a risk to the viability of the business model.

Further information in relation to the sensitivity of key factors on the Group's financial position are included in the financial statements. The insurance risk note (note 3.3.1) sets out the impact on profit before tax of an increase and a decrease in claims inflation of 100 basis points for two consecutive years. The market risk note (note 3.3.2) sets out the impact on profit before tax and equity of a 100 basis points increase in spreads on financial investments and the impact of a 100 basis points increase in interest rates on financial investments and derivatives.

Therefore, having made due enquiries, the Directors believe they can reasonably expect that the Group has adequate resources to continue in operational existence for at least 12 months from 21 March 2024 (the date of approval of the condensed consolidated financial statements). Accordingly, the Directors have adopted the going concern basis in preparing the condensed consolidated financial statements.

Disclosing information to the Auditor

Each Director at the date of approving these Annual Report and Accounts confirms that: as far as they are aware, there is no relevant audit information of which Deloitte, the Company's External Auditor, is unaware; and they have taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information, and to establish that Deloitte is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

Deloitte will retire as auditor from the conclusion of the 2024 AGM in line with mandatory rotation requirements. As announced on 10 October 2022, following a competitive tender process led by the Audit Committee, the Board approved the appointment of KPMG LLP as auditor of the Company for the financial year ending 31 December 2024, subject to approval by shareholders at the Company's 2024 AGM. Therefore, a resolution to appoint KPMG will be proposed at the forthcoming 2024 AGM. You can find more information about the change of auditor in the Audit Committee report on page 117.

Conflicts of interest

Each Director has a duty to avoid conflicts of interest and must declare any conflict of interest that could interfere with their ability to act in the Group's best interests. In accordance with the Companies Act 2006, the Company's Articles of Association allow the Board to authorise matters where there is, or may be, a conflict between the Group's interests and the direct or indirect interests of a Director, or between a Director's duties to the Group and another person. As a matter of course, the Board authorises certain potential conflicts of interest in this way, including Directors' external directorships and their interests in securities of other financial service institutions. The Company Secretary maintains a register of potential conflicts which the Board reviews at each scheduled Board meeting.

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year in accordance with UK-adopted international accounting standards.

The Directors have elected to prepare the Parent Company financial statements in accordance with FRS 101 'Reduced Disclosure Framework'. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the Company's state of affairs and profit or loss for that period.

In preparing these financial statements, IAS 1 requires that Directors: properly select and apply accounting policies; present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and to assess the Company's ability to continue as a going concern.

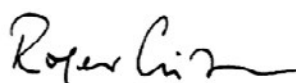
The Directors are responsible for keeping adequate accounting records that: are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy, the Company's financial position at any time; and enable them to ensure the financial statements comply with the Companies Act 2006. Additionally, the Directors are responsible for safeguarding the Company's assets and, hence, taking reasonable steps to prevent and detect fraud and other irregularities. The Directors are responsible for maintaining and ensuring the integrity of the corporate and financial information included on the Company's website at: www.directlinegroup.co.uk.

Legislation in the UK governing preparing and disseminating financial statements may differ from legislation in other jurisdictions.

Each of the Directors in office as at the date of this report, whose names and functions are listed on pages 97 to 100 confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company, and the undertakings included in the consolidation taken as a whole;
- the Strategic report (on pages 1 to 94) and Directors' report (on pages 158 to 160) include a fair review of: (i) the business's development and performance; and (ii) the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- the Annual Report and the financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

This report was approved by the Board on 21 March 2024 and signed on its behalf by:



Roger C. Clifton
Company Secretary

Registered address: Churchill Court, Westmoreland Road, Bromley, BR1 1DP

Registered number: 02280426

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Independent Auditor's Report to the shareholders of Direct Line Insurance Group plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Direct Line Insurance Group plc (the "**Parent Company**") and its subsidiaries (the "**Group**") give a true and fair view of the state of the group's and of the Parent Company's affairs as at 31 December 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("**IFRSs**") as issued by the International Accounting Standards Board ("**IASB**");
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Statement of Profit or Loss;
- the Consolidated and Parent Company Statement of Comprehensive Income;
- the Consolidated and Parent Company Statement of Financial Position;
- the Consolidated and Parent Company Statement of Changes in Equity;
- the Consolidated Cash Flow Statement; and
- the related notes 1 to 40 of the consolidated financial statements and related notes 1 to 14 on the Parent Company financial statements excluding the capital adequacy disclosures in note 3.5 calculated in accordance with the Solvency II regime that are marked as unaudited.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law, and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).





2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("**ISAs (UK)**") and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "**FRC's**") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The fees for the non-audit services provided to the Group and Parent Company for the year are disclosed in note 7 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> - Valuation of insurance contract liabilities: <ol style="list-style-type: none"> 1) The frequency, severity and inflationary assumptions for bodily injury claims; 2) Periodic payment orders ("PPOs") inflation and discount rates; and 3) Third party recoveries on accidental damage claims. - Valuation of illiquid investments: <ol style="list-style-type: none"> 1) Commercial real estate loans, infrastructure debt and private placement bonds; and 2) Investment property. - Transition to IFRS 17. - Past business reviews provisions. <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none">  Newly identified;  Increased level of risk;  Similar level of risk; and  Decreased level of risk.
Materiality	The materiality that we used for the Group financial statements was £24 million, which approximates to 1.0% of shareholders' equity.
Scoping	Our Group audit scoping included three entities being subject to a full scope audit and a further one entity being subject to an audit of specified account balances. These four entities represent the principal business units and account for 96% of the Group's shareholders' equity, 100% of the Group's insurance revenue and 100% of the Group's insurance contract liabilities.
Significant changes in our approach	<p>During the year we have made the following changes to our audit approach:</p> <ol style="list-style-type: none"> a. We updated our key audit matters on the valuation of insurance contract liabilities to include third party recoveries on accidental damage claims; b. We identified a new key audit matter on the transition to IFRS 17. Our key audit matter last year covered the disclosure of the impact of IFRS 17; and c. We identified a new key audit matter on the past business reviews provisions.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- We obtained an understanding of the internal controls relating to management's going concern assessment process;
- We assessed the impact of emerging issues and the current macroeconomic environment on the future capital position of the Group;
- We assessed management's strategic plan and challenged management's underlying business plans and forecasts to support key forward-looking assumptions such as the Group's growth and discount rates given our understanding of the Group and its industry. This included assessing the impact of the sale of the brokered commercial business, the liquidity forecast, the 3-year structured 10% quota share arrangement and the partnership with Motability; and
- We evaluated management's stress test, independently performing sensitivity analysis to assess the impact of various scenarios on the Group's solvency headroom.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's Report to the shareholders of Direct Line Insurance Group plc continued

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Valuation of insurance contract liabilities

Refer to page 118 (Audit Committee report), pages 183 to 185 (Accounting policies - note 1.5), page 190 (Critical accounting judgements and key sources of estimation uncertainty - note 2.1) and pages 225 to 234 (Notes to the consolidated financial statements - note 20).

The Group's gross insurance contract liabilities total £5.2 billion (2022 restated: £4.6 billion) and represent the single largest liability on the balance sheet. Valuation of these liabilities requires management to select methods and assumptions that are subject to high levels of estimation uncertainty. Consequently, small changes in these methods or assumptions can materially impact the valuation of these liabilities. We have identified the following three key areas of focus for our audit given their significance to the Group's result and the high level of estimation uncertainty. We have also identified these as potential fraud risk areas.

5.1.1 The frequency, severity and inflationary assumptions for bodily injury claims

Key audit matter description

The frequency and severity of bodily injury claims have a significant impact on the valuation of the insurance contract liabilities and the setting of these assumptions is driven by a variety of factors. These factors include the completeness and accuracy of source data, the transparency of any changes in the reporting of bodily injury claims, actuarial assumptions being consistent with emerging data, changing legislation, market factors and the Group's reserving model and policy. As a result of these factors, there is a significant level of judgement and estimation uncertainty in the valuation of these claims, which increases the susceptibility of the balance to material misstatement due to error or fraud.

Furthermore, reduced traffic volumes throughout accident years 2020 and 2021 and a return to normality during 2022 and 2023 increases inherent uncertainty underlying the estimation of the ultimate number of non-large bodily injury claims in the most recent cohorts of data. This uncertainty is amplified given the long-tailed nature of bodily injury claims. Additionally, the whiplash reform in May 2021 has impacted the frequency and severity mix of bodily injury claims and there continues to be inherent uncertainty.

Moreover, we have identified that inflationary assumptions have a significant impact on the valuation of bodily injury insurance contract liabilities and there is a significant level of estimation uncertainty inherent with these assumptions in light of the macroeconomic environment.

How the scope of our audit responded to the key audit matter

We gained a detailed understanding of the end-to-end claims and reserving process and obtained an understanding of relevant controls.

To gain assurance over the completeness and accuracy of source data used in the Group's actuarial calculations and by our in-house actuarial specialists in performing our work, we tested the data reconciliation controls and re-performed reconciliations on the actuarial data back to the financial ledger and source systems.

Having done this, we worked with our actuarial specialists to:

- Inspect and challenge the reserving process for bodily injury claims by assessing relevant documentation and enquiring with the Actuarial Director and his team;
- Inspect and challenge the Group's documented methodology and key assumptions, with particular reference to inflationary impacts. This included:
 - a. Using our in-house reserving software to help us challenge any emerging claims trends;
 - b. Conducting sensitivity testing on the methodology and assumptions used in the current year selections and challenging changes from the prior year;
 - c. Comparing the Group's cost per claim and frequency diagnostics to market benchmarks and independent reserve review results;
- Enquire with the Actuarial Director and his team to inspect and challenge the Events Not in Data reserves ("ENIDs"), assessing whether the approach in setting the ENIDs are reasonable given economic and non-economic events. This includes leveraging third party economic studies to challenge the appropriateness of management's adverse scenarios;
- Assess and challenge the reasonableness of the risk adjustment included in the calculation to account for non-financial risks associated with claims by inspecting methodology and validation documentation; and
- Perform a 'stand back' test to challenge the reasonableness of the overall insurance contract liability estimate, in light of the level of uncertainties that existed at the reporting date.

Key observations

We concluded that the frequency, severity and inflationary assumptions used in the calculation of the bodily injury claims reserves are reasonable.

5.1.2. Periodical payment orders, inflation and discount rates

Key audit matter description

The Group is required to settle a proportion of large bodily injury claims as PPOs rather than lump sum payments. The valuation of PPOs has a material impact on the financial statements, with liabilities totalling £655.1 million (2022 restated: £643.2 million) on a discounted gross basis as detailed in note 20.

Given the ongoing uncertainty in the UK's inflation environment and investment markets, the selection of the inflation and discount rate assumptions is highly judgemental. The PPOs are sensitive to the economic assumptions selected and, for 31 December 2023, the Group valued PPOs using an inflation rate curve linked to the consumer price index (2022: inflation rate curve linked to the PRA published risk free rate). Additionally, the Group include an illiquidity premium in the discount rate. These assumptions represent a key source of estimation uncertainty for the Group, which increases the susceptibility of the balance to material misstatement due to error or fraud.

How the scope of our audit responded to the key audit matter

We gained a detailed understanding of management's process for setting these assumptions and obtained an understanding of the relevant controls on the setting of the inflation and discount rates, specifically the challenge and approval of these assumptions by the Reserving Committee.

We worked with our actuarial specialists to:

- Inspect and challenge management's PPO inflation assumption by evaluating relevant documentation, enquiring with the Actuarial Director and his team;
- Inspect and evaluate management's sensitivity testing on the PPO inflation assumption, requesting additional sensitivity testing from management where needed; and
- Inspect and challenge management's methodology and rationale for deriving the discount rate by benchmarking against external sources and comparing with market economic data.

In addition, we worked with our valuations specialist to inspect and challenge the methodology and reasonableness of the illiquidity premium.

Key observations

We determined that the inflation and discount rate assumptions used in the calculation of the PPO claims reserve are reasonable.

5.1.3 Third party recoveries on accidental damage claims

Key audit matter description

In 2022, the number of accidental damage paid recoveries for accident years 2020 to 2022 were significantly lower than prior years. This trend has continued in 2023 resulting in accidental damage recoveries not yet received from third parties by the end of December 2023 increasing significantly. This results in the overall accidental damage reserves being highly sensitive to the recovery rate assumptions used to estimate the reserves. These assumptions represent a key source of estimation uncertainty for the Group, which increases the susceptibility of the balance to material misstatement due to error or fraud.

How the scope of our audit responded to the key audit matter

We gained an understanding of management's process and relevant controls for setting these assumptions. We tested a sample of the third-party recoveries on accidental damage claims reported but not yet paid at the end of 2022 and 2023 to identify whether the amount recognised had been fully recovered by tracing the amount to the bank statement. If the amount had not been recovered, or had been partially recovered, we evaluated the reason for partial or non-receipt.

We worked with our actuarial specialists to:

- Assess the findings from the sample testing performed to consider the impact on the liability for incurred claims, including whether the findings are an indication of management bias, and challenge management where applicable.
- Inspect and challenge the reserving process undertaken for accidental damage recoveries claims by reviewing relevant documentation, benchmarking, and enquiring with the Actuarial Director and his team; and
- Inspect and challenge management's methodology, key assumptions, and their underlying rationale adopted.

Key observations

We concluded that the assumptions applied to estimate the third party recoveries on accidental damage claims are reasonable.

5.2 Valuation of illiquid investments

Refer to page 118 (Audit Committee report), page 187 (Accounting policies - notes 1.12 and 1.13), page 193 (Critical accounting judgements and key sources of estimation uncertainty - notes 2.3 and 2.4) and pages 224 and 238 (Notes to the consolidated financial statements - notes 18 and 24).

Independent Auditor's Report to the shareholders of Direct Line Insurance Group plc continued

5. Key audit matters continued

5.2.1 Commercial real estate loans, infrastructure debt and private placement bonds

Key audit matter description

Commercial real estate loans, infrastructure debt and private placement bonds are held at amortised cost on the balance sheet and represent a higher credit risk relative to the majority of the Group's investment portfolio. As detailed in disclosure note 24, the total value at 31 December 2023 is £430.7 million (2022 restated: £532.9 million).

In 2023, the Group transitioned to IFRS 9 Financial Instruments, which replaced the existing standard for financial instruments, IAS 39 Financial Instruments: Recognition and Measurement. The Group continues to recognise and measure these instruments at amortised cost, and these instruments continue to require the recognition of an impairment when an incurred loss event arises. Significant management judgement is required in determining if an incurred loss event has occurred and, in the instance an event has occurred, there is significant estimation uncertainty in determining the impairment charge.

There is a continuing risk of default or delinquency on these less liquid assets owing to high and sustained levels of uncertainty in the UK economy from increasing inflation rates and the cost-of-living crisis.

How the scope of our audit responded to the key audit matter

We obtained an understanding of the valuation and impairment processes of illiquid investments and tested the relevant controls. We attended the year end impairment review meeting to observe the operation of this key management review control.

In addition, we performed the following procedures:

- Tested a sample of interest payments to bank during and after the year to test for default or delinquency in interest payments;
- Used market indices to identify commercial real estate loans at risk and inspected the tenancy breakdowns for potential risks of unit closure given the current economic issues facing the UK;
- Challenged management on loans of interest where indicators could point to issuer financial difficulty and obtained evidence to assess whether management's conclusion was reasonable; and
- Engaged our complex pricing specialists to determine an independent fair value of these assets to identify any significant decreases in value below amortised cost.

Key observations

We considered the valuation of commercial real estate loans, infrastructure debt and private placement bonds to be reasonable.

5.2.2 Investment property

Key audit matter description

The investment properties held by the Group comprise of retail, retail warehouse, supermarkets, industrials, hotels and alternative properties. As noted in disclosure note 18, the total value at 31 December 2023 is £277.1 million (2022: £278.5 million).

Given the continued UK macroeconomic environment uncertainty from inflationary pressures and increased interest rates affecting the cost of debt, the methodology and assumptions used for valuing the investment property portfolio involves significant judgement, including the use of external valuation experts.

Valuation methodology for investment properties is subjective in nature and involves various key assumptions. The use of different valuation methodology and assumptions could produce significantly different estimates of fair value. With the volatility in the UK financial market, the property valuers can attach less weight to previous market evidence in determining a fair value. This leads to greater levels of estimation uncertainty in determining the valuation.

How the scope of our audit responded to the key audit matter

We obtained an understanding of, and tested, the relevant control related to the annual meeting with management's external valuation expert when management review and challenge the assumptions and methodologies used in determining the fair value.

- Worked with our real estate specialists to challenge the estimated rental value, yield and capitalisation rate assumptions and methodologies;
- Assessed the competence, capability and objectivity of management's expert;
- Tested the completeness and accuracy of the data inputs used in the valuation process performed by management and their external valuer; and
- Tested the data inputs used in the valuation model for investment properties, by agreeing occupation rates, unit sizes and contracted rent to the underlying signed agreements and property reports. We then re-performed the calculation of the yields applied using this data.

Key observations

We considered the methodology and assumptions used for valuing the investment property portfolio to be reasonable.

5.3 Transition to IFRS 17

Refer to page 117 (Audit Committee report), pages 180 to 182 (Accounting policies – note 1.1), pages 190 to 193 (Critical accounting judgements and key sources of estimation uncertainty – note 2.1) and pages 225 to 234 and 250 to 252 (Notes to the consolidated financial statements – notes 20 and 40).

Key audit matter description

On 1 January 2023, the Group has adopted IFRS 17 Insurance Contracts, which replaced the existing standard, IFRS 4 Insurance Contracts.

IFRS 17 introduces pervasive changes to the measurement, presentation and disclosure of insurance contracts and related account balances. The standard is complex and has required significant judgement and interpretation in its application. To meet the requirements of the new standard, the Group has made significant changes to systems, processes and controls.

IFRS 17 has been applied fully retrospectively as at 1 January 2022 to each group of insurance contracts. As a result, comparative information has been restated within the financial statements. The net impact on the opening balance sheet equity at 1 January 2022 was a reduction of £96.1 million.

The transition to IFRS 17 is considered a key audit matter due to the pervasive accounting impact and the significant judgements made by management in its application. This has had a corresponding impact on audit effort. Key sources of estimation uncertainty and accounting judgements, as identified in note 2, include:

- Level of aggregation;
- Premium Allocation Approach ("PAA") eligibility;
- Estimates of future cash flows;
- Risk adjustment;
- Discount rates;
- Onerous contracts; and
- General insurance: Liability for incurred claims and amounts recoverable from reinsurance contracts held.

How the scope of our audit responded to the key audit matter

We performed the following audit procedures for the purposes of understanding and challenging key judgements and assumptions:

- Assessed management's accounting policy and methodology papers for compliance with the standard, involving relevant IFRS 17 specialists where required;
- Gained a detailed understanding of the relevant controls implemented for both the restated balances and business processes impacted by the transition to IFRS 17 in 2023;
- Substantively tested through a combination of test of details and/or substantive analytical procedures, the restated comparative figures under IFRS 17;
- Inspected contract terms and management information to assess the application of level of aggregation requirements to the insurance contracts issued and reinsurance contracts held by the Group;
- For those contracts not automatically eligible for PAA, including the Motability insurance contract, we worked with our actuarial specialists to challenge management's PAA eligibility testing and conclusions;
- Involved our actuarial specialists in performing procedures to challenge the Group's IFRS 17 calculation models, including those related to the estimate of the fulfilment cashflows, the risk adjustment and discounting;
- Engaged financial instrument specialists to challenge the determination of the illiquidity premia applied to short and long tail insurance liabilities;
- Gained an understanding of management's onerous contracts facts and circumstances assessment and performed procedures to test the input data used and the mathematical accuracy of the results reached; and
- Challenged the disclosures and presentation within the financial statement against the requirements of IFRS 17.

Key observations

We considered the IFRS 17 accounting policies and methodologies adopted to be reasonable and in compliance with the standard.

5.4 Past business reviews provisions

Refer to page 16 (Outgoing acting CEO review), page 29 (CFO review), page 118 (Audit Committee report) and pages 190 to 193 (Critical accounting judgements and key sources of estimation uncertainty – note 2.1).

Key audit matter description

Provisions for the Group's best estimate of anticipated customer redress payments and operational costs from past business reviews are material and have been the subject of significant audit effort, including the involvement of a regulatory specialist partner, and are therefore considered a key audit matter.

The past business review provisions at 31 December 2023 total £130.2 million (2022: £45.9 million).

The past business reviews cover motor total loss claims, which covers claims settled between 1 September 2017 and 17 August 2022, and the pricing of motor and home policies following the implementation of the FCA's Pricing Practices Review ("PPR") reform from 1 January 2022 and have been subject to third party investigations.

The measurement of these provisions requires several assumptions with a significant degree of management judgement. Key assumptions include the expected volume of impacted customers and related redress costs. As a result, the estimates and judgements applied in setting these provisions are a source of key estimation uncertainty.

Independent Auditor's Report to the shareholders of Direct Line Insurance Group plc continued

5. Key audit matters continued

How the scope of our audit responded to the key audit matter

We performed the following procedures:

- Gained an understanding of management's process for setting these provisions;
- Performed a sample test on the redress amounts by tracing to underlying case files, customer communications and bank statements where an amount had been paid;
- Performed an assessment of whether the methodology and approach to redress was consistent with third party investigation reports;
- Assessed the competence, capability and objectivity of the third party experts;
- Met with the FCA to understand the regulatory context of the investigations;
- Involved a regulatory specialist partner, who supported the audit team in providing challenge on assumptions and judgements in inspecting the third party investigation reports;
- Assessed each provision for contradictory evidence and management bias; and
- Challenged the disclosures and presentation of the provisions within the financial statement using relevant disclosure checklist tools.

Key observations

We concluded that the provisions are reasonable.

6. Our application of materiality

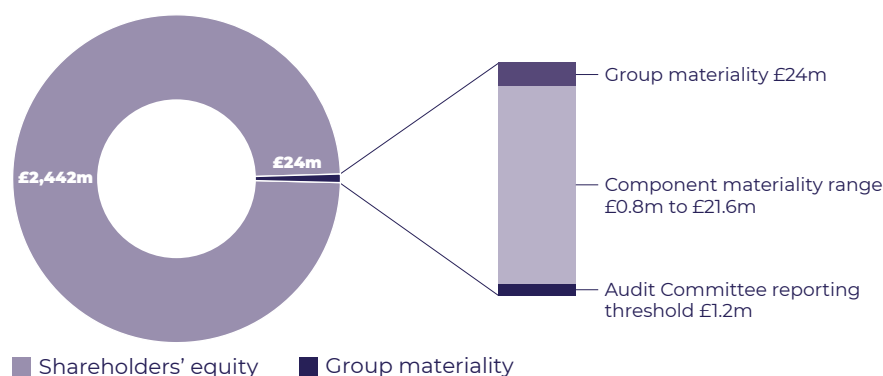
6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£24.0 million (2022: £24.0 million)	£21.6 million (2022: £21.6 million)
Basis for determining materiality	The materiality approximates 1.0% (2022: 1.0%) of shareholders' equity.	The materiality approximates 0.7% (2022: 1.0%) of shareholders' equity and is capped at 90% (2022: 90%) of Group materiality.
Rationale for the benchmark applied	We determined that the critical benchmark for the Group was shareholders' equity given the focus on distributable reserves and future dividend payment capacity. We also considered this measure alongside insurance revenue, with our materiality equating to 0.7% (2022: 0.7%) of insurance revenue.	We determined that the critical benchmark for the Parent Company was shareholders' equity. This is because the Parent Company is not a trading entity but rather received dividend income from its subsidiaries. When determining materiality for the Parent Company, we also considered the appropriateness of this materiality for the consolidation of this set of financial statements to the Group's results.

Group materiality is used for setting audit scope and the assessment of uncorrected misstatements. Materiality is set for each significant component in line with the component's proportion of the chosen benchmark. This is capped at the lower of 90% of Group materiality and the component materiality determined for a standalone audit. The main UK insurance trading entity, U K Insurance Limited, which makes up 100% of Group insurance revenue and 100% of Group insurance contract liabilities, is scoped to a component materiality of £21.6 million (2022: £21.6 million). Component materiality for other entities within the scope of our Group audit ranged from £0.8 million to £21.6 million (2022: £0.7 million to £21.6 million).



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent Company financial statements
Performance materiality	65% (2022: 67.5%) of Group materiality	65% (2022: 67.5%) of Parent Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: <ul style="list-style-type: none"> - The impact of the economic and past business reviews on the Group; and - Our risk assessment, including our assessment of the Group's overall control environment. 	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.2 million (2022: £1.2 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

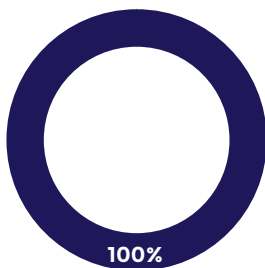
7.1 Identification and scoping of components

The scope of our Group audit was determined by obtaining an understanding of the Group and its environment, including Group wide controls and assessing the risks of material misstatement at Group level.

This resulted in three entities (Direct Line Insurance Group plc, U K Insurance Limited and DL Insurance Services Limited) being subject to a full scope audit and a further one (Churchill Insurance Company Limited) was subject to an audit of specified account balances where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations. All entities within scope of the Group audit are based in the UK.

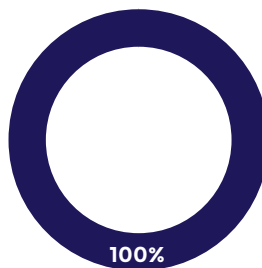
These four entities represent the principal trading and service operations of the Group and account for 96% (2022: 97%) of the Group's shareholders' equity and 100% (2022: 100%) of the Group's insurance revenue and 100% of insurance contract liabilities (2022: 100%). They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

Insurance Revenue



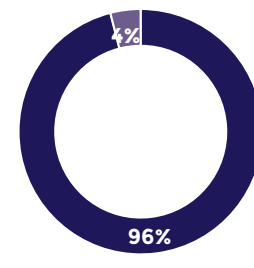
■ Full audit scope

Insurance Contract Liabilities



■ Full audit scope

Shareholders' equity



■ Full audit scope
■ Review at Group level

At the Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit team directly performed the audit work for all of the entities identified above, including the Parent Company.

Independent Auditor's Report to the shareholders of Direct Line Insurance Group plc continued

7. An overview of the scope of our audit continued

7.1 Identification and scoping of components continued

7.2 Our consideration of the control environment

IT Controls

In planning our 2023 audit, we identified 19 (2022: 19) systems that were material to the Group's financial reporting processes. These systems handled data relating to premiums, claims, expenses and payroll and we intended to rely on the IT and business controls associated with these systems. Our IT specialists tested the IT controls associated with these systems, and the supporting infrastructures and wider general IT control environment. We were able to rely on the IT controls associated with 17 (2022: 17) systems, with one (2022: one) system in the process of establishing controls and one (2022: one) system having controls that did not operate for the whole period.

Business Process and Financial Reporting controls

In planning our 2023 audit, we identified 21 business processes (2022: 21) that were material to the Group's financial reporting process. These processes covered the Group's material transactions and account balances including the premiums, claims, reinsurance, expenses, payroll, investments and intangibles processes and part of the reserving process relating to reconciliation of data. Of these, we intended to rely on the business controls associated with 19 (2022: 19) of these processes. Further, we changed our control rotation strategy, and tested all relevant controls in significant business processes, except payroll, for operating effectiveness. Having completed our testing of the relevant controls of business controls associated with these processes, we concluded that we were able to rely on the business controls associated with 19 (2022: 12) processes as planned.

In response to deficiencies identified as part of the 2022 audit, we performed enhanced procedures in the current period on the business processes impacted. We tested the design, implementation and operating effectiveness over the remediated controls on which we planned to rely and which management implemented in response to the deficiencies raised.

7.3 Our consideration of climate-related risks

We have gained an understanding of management's processes to address climate-related risks, including the Climate Executive Steering Group and Group sustainability framework. Management has performed a risk assessment for climate-related risks, further details are disclosed in the strategic report on pages 70 to 85. Based on the risk assessment, management has concluded that the impact of climate-related risks is not material to the financial statements in the short term, as disclosed in note 3 to the financial statements. We have performed a risk assessment of the financial impact of climate risks, with support from a climate change risk disclosure specialist, on the financial statements and concluded the risks of material misstatement due to climate risk factors are remote. In doing so we considered the estimates and judgements applied to the financial statements and how climate risks impact their valuation.

We have read the climate-related financial disclosures (including climate risks) within the Planet section of the Annual Report, taking into consideration the TCFD recommended disclosures and UK Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, and consider the disclosures to be consistent with our understanding of the business and the financial statements.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was tabled at the audit committee on 1 November 2023;
- results of our enquiries of management, internal audit, the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's sector;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including actuarial, tax, real estate, valuations, pensions, IT, fraud, regulatory and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: valuation of insurance contract liabilities. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

11.1 Identifying and assessing potential risks related to irregularities continued

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's operating licence, regulatory solvency requirements such as those under the relevant Solvency II requirements and those required by the PRA, FCA and environmental regulations.

Independent Auditor's Report to the shareholders of Direct Line Insurance Group plc continued

11. Extent to which the audit was considered capable of detecting irregularities, including fraud continued

11.2 Audit response to risks identified

As a result of performing the above, we identified the valuation of insurance contract liabilities as a key audit matter related to the potential risk of fraud and the past business reviews provisions as a key audit matter related to the potential risk of non-compliance with laws and regulations. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enhancing our stand-back assessments for accounting judgements, increasing and broadening the scope of our fraud inquiries;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the PRA and FCA;
- meeting directly with the PRA and FCA and engaging a regulatory specialist to support our performance of audit procedures around regulatory compliance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 159 and 160;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on pages 93 and 94;
- the directors' statement on fair, balanced and understandable set out on page 115;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 115;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 194; and
- the section describing the work of the Audit Committee set out on page 117.

14. Matters on which we are required to report by exception

14.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1 Auditor tenure

Following the recommendation of the audit committee of Royal Bank of Scotland Group Plc ("**RBSC**"), which at the time owned Direct Line Insurance Group plc, we were appointed by the Board of Directors of RBSC on 21 March 2000 to audit the financial statements for the year ending 31 December 2000 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 24 years, covering the years ending 31 December 2000 to 31 December 2023. There is mandatory rotation of the audit of the financial statements for the year ending 31 December 2024, and therefore we will cease to be auditor of the Group.

15.2 Consistency of the audit report with the additional reports to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.15R – DTR 4.1.18R, these financial statements form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R – DTR 4.1.18R. This auditor's report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R.

Andrew Holland, FCA

Senior statutory auditor

For and on behalf of Deloitte LLP

Statutory auditor

London, United Kingdom

21 March 2024

Consolidated Statement of Profit or Loss

For the year ended 31 December 2023

	Notes	2023 £m	2022 £m restated ¹
Insurance revenue	5	3,601.7	3,229.1
Insurance service expenses	5	(3,806.3)	(3,145.5)
Allocation of reinsurance premiums paid	5	(470.2)	(165.7)
Amounts recoverable from reinsurance contracts held	5	423.4	96.4
Insurance service result	5	(251.4)	14.3
Total interest income calculated using effective interest rate method	6	171.8	109.3
Other interest and similar income	6	16.1	15.6
Investment fees	6	(9.3)	(9.5)
Investment income	6	178.6	115.4
Total net fair value gains/(losses) on financial assets held at fair value through profit or loss:	6	127.0	(302.8)
Net fair value losses on investment property	6	(1.9)	(39.1)
Net credit impairment losses on financial investments	6	(0.7)	(0.6)
Investment return	6	303.0	(227.1)
Net finance (expenses)/income from insurance contracts issued	6	(193.8)	102.4
Net finance income/(expenses) from reinsurance contracts held	6	28.0	(101.5)
Investment return and net insurance finance result	6	137.2	(226.2)
Other operating income		21.8	8.3
Other operating expenses	7	(59.6)	(77.8)
Other finance costs	8	(14.5)	(20.4)
Gain on disposal of business	9	443.9	—
Profit/(loss) before tax		277.4	(301.8)
Tax (charge)/credit ²	10	(54.5)	69.9
Profit/(loss) for the year attributable to the owners of the Company		222.9	(231.9)
Earnings/(loss) per share:			
Basic (pence)	13	15.9	(19.1)
Diluted (pence)	13	15.7	(19.1)

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
2. Tax on gain on disposal of business is included in this figure.

The attached notes on pages 179 to 252 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

		2023	2022
		£m	£m
	Notes		restated ¹
Profit/(loss) for the year attributable to the owners of the Company		222.9	(231.9)
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement gain/(loss) on defined benefit pension scheme	23	0.1	(9.8)
Fair value gain/(loss) on equity investments measured at FVOCI	6	3.3	(0.6)
Realised loss on equity investments measured at FVOCI	6	(0.6)	—
Tax relating to items that will not be reclassified	11	—	2.5
		2.8	(7.9)
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		(0.2)	0.3
		(0.2)	0.3
Other comprehensive income/(loss) for the year net of tax		2.6	(7.6)
Total comprehensive income/(loss) for the year attributable to the owners of the Company		225.5	(239.5)

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

The attached notes on pages 179 to 252 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2023

	Notes	As at 31 December		As at 1 January
		2023	2022	2022
		£m	£m	£m
			restated ¹	restated ¹
Assets				
Goodwill and other intangible assets	15	818.6	822.2	822.5
Property, plant and equipment	16	91.6	83.7	113.8
Right-of-use assets	17	96.1	73.0	76.1
Investment property	18	277.1	278.5	317.0
Insurance contract assets	20	5.4	17.3	—
Reinsurance contract assets	20	1,346.0	1,074.9	1,181.7
Deferred tax assets	11	56.5	89.0	29.4
Current tax assets		82.8	71.9	14.4
Other receivables		35.2	34.5	28.4
Prepayments, accrued income and other assets	21	101.5	104.9	124.2
Derivative financial instruments	22	27.4	31.3	35.9
Retirement benefit asset	23	1.3	1.6	12.1
Financial investments	24	3,691.6	3,696.4	4,630.3
Cash and cash equivalents	25	1,772.2	1,003.6	955.7
Assets held for sale	26	13.9	40.9	41.2
Total assets		8,417.2	7,423.7	8,382.7
Equity				
Shareholders' equity		2,058.2	1,845.3	2,450.6
Tier 1 notes	29	346.5	346.5	346.5
Total equity		2,404.7	2,191.8	2,797.1
Liabilities				
Subordinated liabilities	30	258.8	258.6	513.6
Insurance contract liabilities	20	5,238.8	4,625.8	4,725.6
Reinsurance contract liabilities	20	116.6	13.9	3.6
Borrowings	25	82.4	65.2	59.2
Derivative financial instruments	22	15.4	29.6	19.5
Provisions	32	30.8	10.2	48.1
Trade and other payables	33	163.6	147.0	131.8
Lease liabilities	36	106.1	81.6	84.2
Total liabilities		6,012.5	5,231.9	5,585.6
Total equity and liabilities		8,417.2	7,423.7	8,382.7

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

The attached notes on pages 179 to 252 form an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 21 March 2024.

They were signed on its behalf by:



NEIL MANSER

CHIEF FINANCIAL OFFICER

Registration No. 02280426

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

	Share capital (note 27)	Employee trust shares	Capital reserves (note 28)	AFS revaluation reserve ²	Equity investments revaluation reserve	Foreign exchange translation reserve	Retained earnings	Shareholders' equity	Tier 1 notes (note 29)	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2022	145.2	(41.4)	1,454.8	7.5	1.5	(0.3)	982.9	2,550.2	346.5	2,896.7
First application of IFRS 17	—	—	—	—	—	—	(96.1)	(96.1)	—	(96.1)
First application of IFRS 9	—	—	—	(7.5)	—	—	4.0	(3.5)	—	(3.5)
Balance at 1 January 2022 (restated¹)	145.2	(41.4)	1,454.8	—	1.5	(0.3)	890.8	2,450.6	346.5	2,797.1
Loss for the year	—	—	—	—	—	—	(231.9)	(231.9)	—	(231.9)
Other comprehensive (loss)/income	—	—	—	—	(0.6)	0.3	(7.3)	(7.6)	—	(7.6)
Total comprehensive (loss)/income for the year (restated¹)	—	—	—	—	(0.6)	0.3	(239.2)	(239.5)	—	(239.5)
Dividends and appropriations paid (note 12)	—	—	—	—	—	—	(314.5)	(314.5)	—	(314.5)
Shares acquired by employee trusts	—	(11.0)	—	—	—	—	—	(11.0)	—	(11.0)
Shares cancelled following buyback (note 27)	(2.1)	—	2.1	—	—	—	(50.1)	(50.1)	—	(50.1)
Credit to equity for equity-settled share-based payments	—	—	—	—	—	—	9.6	9.6	—	9.6
Shares distributed by employee trusts	—	13.4	—	—	—	—	(13.4)	—	—	—
Tax on share-based payments	—	—	—	—	—	—	0.2	0.2	—	0.2
Total transactions with equity holders	(2.1)	2.4	2.1	—	—	—	(368.2)	(365.8)	—	(365.8)
Balance at 31 December 2022 (restated¹)	143.1	(39.0)	1,456.9	—	0.9	—	283.4	1,845.3	346.5	2,191.8
Profit for the year	—	—	—	—	—	—	222.9	222.9	—	222.9
Other comprehensive income/(loss)	—	—	—	—	2.7	(0.2)	0.1	2.6	—	2.6
Total comprehensive income/(loss) for the year	—	—	—	—	2.7	(0.2)	223.0	225.5	—	225.5
Dividends and appropriations paid (note 12)	—	—	—	—	—	—	(16.6)	(16.6)	—	(16.6)
Shares acquired by employee trusts	—	(10.2)	—	—	—	—	—	(10.2)	—	(10.2)
Credit to equity for equity-settled share-based payments	—	—	—	—	—	—	13.9	13.9	—	13.9
Shares distributed by employee trusts	—	19.3	—	—	—	—	(19.3)	—	—	—
Tax on share-based payments	—	—	—	—	—	—	0.3	0.3	—	0.3
Total transactions with equity holders	—	9.1	—	—	—	—	(21.7)	(12.6)	—	(12.6)
Balance at 31 December 2023	143.1	(29.9)	1,456.9	—	3.6	(0.2)	484.7	2,058.2	346.5	2,404.7

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
2. The available-for-sale ("AFS") revaluation reserve recorded fair value movements on financial assets categorised as AFS under IAS 39 'Financial Instruments: Recognition and Measurement' which has since been superseded by IFRS 9 (see notes 1.1b and 40).

The attached notes on pages 179 to 252 form an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2023

	Notes	2023 £m	2022 £m restated ¹
Net cash generated from operating activities before investment of insurance assets	34	100.5	32.1
Cash generated from investment of insurance assets	34	304.4	768.1
Net cash generated from operating activities		404.9	800.2
Cash flows from/(used) in investing activities			
Investment in other intangible assets	15	(124.1)	(108.4)
Purchases of property, plant and equipment	16	(18.9)	(11.7)
Proceeds on disposals of assets held for sale		21.9	19.3
Proceeds from disposal of business	9	520.0	—
Net cash outflow from acquisition of businesses	38	(0.6)	—
Net cash generated from/(used in) investing activities		398.3	(100.8)
Cash flows used in financing activities			
Dividends and appropriations paid	12	(16.6)	(314.5)
Repayment of subordinated liabilities	34	—	(250.0)
Other finance costs (including lease interest)		(14.2)	(23.0)
Principal element of lease payments		(10.8)	(8.9)
Purchase of employee trust shares		(10.2)	(11.0)
Share buyback	27	—	(50.1)
Net cash used in financing activities		(51.8)	(657.5)
Net increase in cash and cash equivalents		751.4	41.9
Cash and cash equivalents at the beginning of the year	25	938.4	896.5
Cash and cash equivalents at the end of the period	25	1,689.8	938.4

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

The attached notes on pages 179 to 252 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Corporate information

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

The principal activity of the Group is the provision of general insurance.

1. Accounting policies

Basis of preparation

As required by the Companies Act 2006, the Group's consolidated financial statements are prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). The Group has elected to prepare its parent company financial statements in accordance with FRS 101 'Reduced Disclosure Framework'.

The consolidated financial statements are prepared on the historical cost basis except for (i) insurance and reinsurance contract assets and liabilities which are measured at their fulfilment value in accordance with IFRS 17; (ii) debt and equity investments held at either fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FVOCI"); and (iii) financial assets; investment property and derivative financial instruments, which are measured at fair value (fair value is defined in note 37).

Where necessary, adjustments have been made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. The policies set out below have been applied consistently throughout the years ended 31 December 2023 and 31 December 2022 to items considered material to the consolidated financial statements.

The accounting policies are consistent with those set out in the Group's 2022 annual financial statements, with the exception of new accounting standards which were effective for periods beginning on or after 1 January 2023. The nature and effect of these changes are disclosed in note 2 and 40.

The Company's financial statements and the Group's consolidated financial statements are presented in sterling, which is the functional currency of the Company and the Group.

Going concern

The Directors believe that the Group has sufficient financial resources to meet its financial needs, including managing a mature portfolio of insurance risk. The Directors believe the Group is well positioned to manage its business risks successfully in the current economic climate. The Chief Financial Officer Review describes the Group's capital management strategy, including the capital actions taken in the last 12 months to ensure the continued strength of the balance sheet and sets out management actions that the Group continues to pursue to rebuild balance sheet resilience. The Group's financial position is also covered in that section, including a commentary on cash and investment levels, reserves, currency management, insurance liability management, liquidity and borrowings. The financial disclosures relating to the Group's principal risks are set out in note 3. This covers insurance, market, credit, liquidity and operational risk; and the Group's approach to monitoring, managing and mitigating exposures to these risks.

The Directors have assessed the principal risks of the Group over the duration of the planning cycle, which runs until 2027, with the first year following approval of the Strategic Plan ("the Plan"), being 2024, having greater certainty and hence used to set detailed budgets. The Group's Risk Function has carried out an assessment of the risks to the Plan and the dependencies for the success of the Plan. This included running adverse scenarios on the Plan to consider the downside risks to the Plan and subsequent impact on forecast profit. The key scenarios applied to the Plan were in relation to the impact of adverse claims inflation, failure to achieve motor pricing initiative benefits, delay to delivery of expense reductions and a fall in asset values. The key judgements and assumptions applied in these scenarios were as follows:

- Adverse claims inflation: the Plan includes a scenario for inflation being higher than expected, leading to claims costs increasing by 3-6% with the Group and market response delayed by six months.
- Failure to achieve motor pricing initiative benefits: planned benefits from future motor pricing initiatives are not achieved.
- Delay to delivering expense reductions: there is a delay of 12 months in delivering planned expense reductions.
- Fall in asset values: an increase in credit spreads of 75 basis points, with a partial recovery of 25 basis points over 2025.

It is unlikely that all risks would materialise at the same time. None of the scenarios individually were concluded to present a threat to the Group's expected viability across the duration of the Plan.

The Risk Function has also carried out an assessment of the risks to the Group's and Company's capital position over 2024 and 2025. Two specific macroeconomic combination stresses, a moderate and a severe, have been updated to include not only a review of Group financials but also a review of assumptions to reflect the latest internal and external environment and trends. The stresses have been run to assess the possible impact on own funds in the period to 31 December 2024 and 31 December 2025. The stresses are updated and repeated regularly. The macroeconomic assumptions for key parameters such as Consumer Price Index, GDP and Bank base rate for the moderate scenario reflect the adverse end of the Bank of England November Monetary Policy Committee forecast range. The severe scenario adopts the key parameters from the 2022 Bank of England Banking Stress Test, which is described as "severe but plausible", updated for changes in the macroeconomic environment, including the recession in the United Kingdom.

In the moderate and severe scenarios, it was concluded that the Company's solvency capital requirement would not be breached.

Additionally, the Risk Function conducted a reverse stress test to establish whether the long-term future for motor insurance, specifically, the adoption of electric vehicles, poses a threat to the viability of the Company's current business model. The findings showed that over the duration of the planning cycle the scenarios considered did not present a risk to the viability of the business model.

Further information in relation to the sensitivity of key factors on the Group's financial position are included in the financial statements. The insurance risk note (note 3.3.1) sets out the impact on profit before tax of an increase and a decrease in claims inflation of 200 basis points for two consecutive years. The market risk note (note 3.3.2) sets out the impact on profit before tax and equity of a 100 basis points increase in spreads on financial investments and the impact of a 100 basis points increase in interest rates on financial investments and derivatives.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

Going concern continued

Therefore, having made due enquiries, the Directors believe they can reasonably expect that the Group has adequate resources to continue in operational existence for at least 12 months from 21 March 2024 (the date of approval of the consolidated financial statements). Accordingly, the Directors have adopted the going concern basis in preparing the consolidated financial statements.

1.1 Adoption of new and revised standards

The Group has adopted the following new amendments to IFRSs and International Accounting Standards ("IASs") that became mandatorily effective for the Group for the first time during 2023 which are material to the Group.

The Group has adopted the requirements of IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments' from 1 January 2023 on a fully retrospective basis in these financial statements for the first time. The impact of adoption of the standards and key changes are discussed below:

- transition approaches used and their impact;
- new accounting policies related to IFRS 17 and IFRS 9; and
- significant accounting judgements and sources of estimation uncertainty.

1.1 (a) Adoption of IFRS 17: transition approach and impact

The Group has adopted IFRS 17 from 1 January 2023, and chose to restate 2022 comparatives. IFRS 17 does not impact the fundamental economics of the Group's business, financial strength, claims paying ability, or dividend capacity. Thus, there is no change to the Group's business operations. IFRS 17 results in a significant change in the accounting, presentation, and disclosures of the Group's financial results. The key changes are summarised below.

The insurance service result has reflected discounting for claims in the period and reclassification of certain expenses from attributable to non-attributable expenses, in line with the requirements of the standard. This has resulted in non-attributable expenses being recognised outside of the insurance service result.

Under IFRS 17, the Group has taken the option to expense insurance acquisition cash flows when they are incurred. Under IFRS 4, such acquisition costs were recognised and presented separately as 'deferred acquisition costs'.

The Group uses the Premium Allocation Approach ("PAA") to simplify the measurement of groups of insurance contracts and reinsurance contracts provided that relevant PAA eligibility criteria are met.

The carrying amount of a group of insurance contracts issued is the sum of liability for remaining coverage ("**LFRC**") and liability for incurred claims ("**LIC**"). In measuring LFRC, the PAA aligns closely with the Group's previous accounting approach under IFRS 4. However, IFRS 17 incorporates several key changes compared to IFRS 4 in the measurement of the LIC. Previously, only PPO reserves were discounted to present value, reflecting the time value of money. Since transition to IFRS 17 all claims reserves are discounted to their present value. Additionally, an explicit risk adjustment ("**RA**") is included in the calculation to account for non-financial risks associated with claims. The Group has chosen to take the full effect of the time value of money and changes in the time value of money and financial risk to the consolidated statement of profit or loss.

The key changes noted below are those that are significant on transition to IFRS 17.

Disclosures are more detailed and granular:

- The presentation of the primary statements has changed including the introduction of new required line items. New requirements include insurance revenue, insurance service expenses, allocation of reinsurance premium paid and amount recoverable from reinsurance contracts held. The presentation provides analysis of the various components related to insurance activities. As a result, the consolidated statement of profit or loss no longer includes the presentation of gross and net written premium.
- New accounting policies as a result of transition to IFRS 17 and related accounting treatments are summarised in note 1.
- Significant judgements, and changes in those judgements, and critical estimates when applying the standard are summarised in note 2.1.
- Other disaggregated qualitative and quantitative information as required by IFRS 17 (for example, reconciliation of insurance contract liabilities for movement in liability for remaining coverage and liability for incurred claims) is provided in the notes to the financial statements (see note 20).

The fully retrospective approach was applied to the insurance contracts and reinsurance contracts in force at the transition date 1 January 2022. The application of the transition approach involved:

- comprehensive review, identification, and measurement of groups of insurance contracts and reinsurance contracts. The assessment was conducted as if the requirements of IFRS 17 were always in effect. As a result, any balances that would not have existed under the constant application of IFRS 17 have been removed. The approach ensures compliance with the retrospective application of IFRS 17, bringing the Group's financial reporting in line with the principles of the standard; and
- PAA eligibility assessment was carried out for insurance and reinsurance contracts in the 2021 and prior unexpired groups, specifically those with coverage periods exceeding 12 months. The assessment confirmed that these contracts satisfied the criteria for PAA eligibility.

On the transition date, 1 January 2022, the Group has determined the quantitative impact in the following key areas.

Equity: net shareholders equity decreased by £96.1 million, primarily as a result of the policy choice to expense acquisition costs. This was partially offset by the inclusion of discounting in the LIC.

Net insurance contract liabilities: decreased primarily due to the introduction of discounting, for non-PPO claims reserves, partially offset by the reclassification of balances, such as IPT payable, from trade and other payables into net insurance contract liabilities.

Deferred tax asset: on transition, the effect of the above changes created a deferred tax asset of £29.2 million.

The reconciliation of opening to closing equity under IFRS 17 and the resulting impact on key financial statement line items is disclosed in note 40.1.

1.1 (b) Adoption of IFRS 9: transition approach and impact

The Group has adopted IFRS 9 retrospectively from 1 January 2023 and chose to restate comparatives for 2022.

The adoption of IFRS 9 has resulted in changes to the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and introduces new rules for hedge accounting and a new impairment model for financial assets, which requires a calculation for an expected credit loss ("**ECL**") for financial assets held at amortised cost.

On the transition date, 1 January 2022, the net impact recognised in equity was a decrease of £3.5 million, driven primarily by the recognition of the ECL under IFRS 9 for financial instruments carried at amortised cost, with further details included in notes 24, 40.1, 40.2 and 40.3.

Classification and measurement of financial instruments

The Group's debt instruments of £4,084.6 million that were classified as available-for-sale ("**AFS**") under IAS 39 'Financial Instruments: Recognition and Measurement' as at 1 January 2022 (the opening date of the comparative period) satisfy the conditions for classification as 'held to collect and sell' under IFRS 9 to be measured at FVOCI. However, the Group has applied the IFRS 9 option to designate debt instruments, backing its insurance contracts as FVTPL, to reduce the accounting mismatch caused by the change in the discount rates on the value of insurance contracts that are reflected in the consolidated statement of profit or loss. The AFS reserve of £7.5 million was transferred to retained earnings on 1 January 2022.

There are no other reclassifications as a result of applying IFRS 9 as:

- assets previously classified as held-to-maturity ("**HTM**") and loans and receivables satisfy the IFRS 9 condition to be classified as 'held-to-collect'. These assets are measured at amortised cost as they are debt instruments with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and sales are infrequent or insignificant;
- derivatives continue to be measured at FVTPL;
- equity investments will continue to be valued at either FVOCI when designated as such at initial recognition or FVTPL; and
- financial liabilities continue to be measured at amortised cost, except for derivative financial liabilities, which are held at fair value.

The following table shows the differences in the carrying amounts of financial instruments from their previous measurement category under IAS 39 to the measurement categories on transition to IFRS 9 on 1 January 2022.

IAS 39		Carrying amount £m	IFRS 9	
Measurement category			Measurement category	
Financial assets				
Debt securities	Available-for-sale	4,084.6	Fair value through profit or loss	4,084.6
Debt securities	Held-to-maturity	91.2	Amortised cost	90.0
Loans and receivables	Amortised cost	451.6	Amortised cost	449.2
Equity investments	Available-for-sale	6.2	Fair value through other comprehensive income	6.2
Equity investments	Fair value through profit or loss	0.8	Fair value through profit or loss	0.8
Derivative financial instruments	Fair value through profit or loss	35.9	Fair value through profit or loss	35.9
Cash and cash equivalents	Amortised cost	955.7	Amortised cost	955.7
Financial liabilities				
Borrowings	Amortised cost	59.2	Amortised cost	59.2
Derivative financial instruments	Fair value through profit or loss	19.5	Fair value through profit or loss	19.5
Trade and other payables	Amortised cost	131.8	Amortised cost	131.8
Subordinated liabilities	Amortised cost	513.6	Amortised cost	513.6

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

1.1 Adoption of new and revised standards continued

Expected credit losses

The IFRS 9 impairment model requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses as was the case under IAS 39. The Group has established a default probability model for its financial investments and debt securities held at amortised cost. Impairment for the remaining assets is measured using the simplified approach based on a probability matrix that incorporates all available information relevant to the assessment of credit risk, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. The forward-looking aspect of IFRS 9 requires judgement as to how changes in economic factors affect ECLs.

The adoption of IFRS 9 has resulted in an ECL, inclusive of the effect of tax, of £3.5 million at 1 January 2022.

1.1 (c) Estimated impact of the transition to IFRS 17 and IFRS 9 disclosed in the 2022 Annual Report and Accounts (the "Report")

Following the publication of the 2022 Report, and as disclosed in the 2023 Half Year Report, the Group has reassessed its reserving methodology for events not in data ("ENIDs"). To ensure consistency in the recognition of ENIDs between Solvency II and IFRS17, the Group has taken the decision to align the IFRS17 ENIDs methodology with that used in Solvency II. This change in methodology has further reduced the Group's total equity of £2,896.7 million on the opening consolidated statement of financial position as at 1 January 2022 by £39.4 million to £2,797.1 million from the estimated financial impact of adoption of IFRS 17 and IFRS 9 of £60.2 million disclosed in the 2022 Annual report.

1.1 (d) Other accounting standards and amendments adopted during 2023

The Group has adopted the following new amendments to IFRSs and IASs that became mandatorily effective for the Group for the first time during 2023. None of these changes have a material impact on the Group.

In February 2021 the IASB issued 'Definition of Accounting Estimates (Amendments to IAS 8)' which introduces a new definition of 'accounting estimates'. The amendments are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

Also, in February 2021 the IASB issued 'Disclosure of Accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2)' to help entities to provide accounting policy disclosures that are more useful by:

- replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and
- adding guidance on how entities apply the concept of 'materiality' in making decisions about accounting policy disclosures.

In May 2021 the IASB issued 'Deferred Tax related to Assets and Liabilities arising from a single Transaction (Amendments to IAS 12)' which narrows the scope of the initial recognition exception under IAS 12 'Income Taxes' so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify where payments that settle a liability are deductible for tax purposes.

In May 2023 the IASB issued amendments to IAS 12 'Income Taxes' which gives companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform.

1.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities that are controlled by the Group at 31 December 2023 and 31 December 2022. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing whether the Group controls another entity, the existence and effect of the potential voting rights that are currently exercisable or convertible are considered.

A subsidiary acquired is included in the consolidated financial statements from the date it is controlled by the Group until the date the Group ceases to control it. On acquisition of a subsidiary, its identifiable assets, liabilities and contingent liabilities are included in the consolidated financial statements at fair value.

The Group accounts for the disposal of subsidiary undertakings or a disposal group when it ceases to exert control.

A gain or loss is measured as the difference between the fair value of consideration received or receivable and the value of the assets and liabilities de-recognised, which relate to businesses disposed of. The gain or loss is recognised on the effective date of the completion of the disposal.

All intercompany transactions, balances, income and expenses between Group entities are eliminated on consolidation.

1.3 Foreign currencies

Group entities record transactions in the currency of the primary economic environment in which they operate (their functional currency), translated at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the foreign exchange rates ruling at the statement of financial position date. Foreign exchange differences arising on the settlement of foreign currency transactions and from the translation of monetary assets and liabilities are reported in the statement of profit or loss.

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into the relevant functional currency at the foreign exchange rates ruling at the dates the values are determined. Translation differences arising on non-monetary items measured at fair value are recognised in the statement of profit or loss except for differences arising on equity investments held at fair value through other comprehensive income ("FVOCI"), which are recognised in other comprehensive income.

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into sterling at the foreign exchange rates ruling at the statement of financial position date. Income and expenses of foreign operations are translated into sterling at average exchange rates unless these do not approximate the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on the translation of a foreign operation are recognised in the consolidated statement of other comprehensive income. The amount accumulated in equity is reclassified from equity to the consolidated statement of profit or loss on disposal or partial disposal of a foreign operation.

1.4 Contract classification

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or it is derecognised as a result of a contract modification.

1.5 Insurance contracts

Insurance and reinsurance contracts classification

Contract classification, as disclosed in policy note 1.4 above, remains unchanged on adoption of IFRS 17. The Group issues short-term motor, home, rescue, pet, travel and commercial insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders.

The Group has reinsurance treaties and other reinsurance contracts that transfer significant insurance risk. The Group cedes insurance risk by reinsurance in the normal course of business.

Insurance contracts accounting treatment

(i) Separating components from insurance and reinsurance contracts

The Group assesses its insurance contracts to determine whether they contain distinct components which must be accounted for under another IFRS instead of under IFRS 17. After separating any distinct components, the Group applies IFRS 17 to all remaining components of the (host) insurance contract. Currently, the Group's contracts do not include any distinct components that require separation.

(ii) Level of aggregation

Insurance contracts are aggregated into groups for management purposes. The level of aggregation for the Group is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories:

- i. onerous contracts, if any;
- ii. contracts with no significant risk of becoming onerous; and
- iii. the remainder group of contracts in the portfolio.

A group of insurance contracts is considered to be onerous at initial recognition if the fulfilment cashflows allocated to that group of contracts in total are a net outflow. This occurs if the present value of expected claims, attributable expenses and risk adjustment exceeds the premium. As all inwards contracts are measured under the PAA model, due to the short-term nature of the contracts, the Group takes the standard's default assumption that no groups are onerous unless facts and circumstances indicate otherwise. The grouping of insurance contracts is determined at initial recognition and is not subsequently reassessed.

Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, the Group aggregates reinsurance contracts held based on the criteria of similar risks which are managed together. The reinsurance contract held portfolios are further

divided within a calendar year into three groups that comprise:

- i. contracts for which there is a net gain at initial recognition, if any;
- ii. contracts for which, at initial recognition, there is no significant possibility of a net gain arising subsequently; and
- iii. remaining contracts in the portfolio.

(iii) Recognition

The Group recognises groups of insurance contracts it issues from the earliest of the following:

- the beginning of the coverage period of the group of contracts;
- the date when the first payment from a policyholder in the group is due or when the first payment is received if there is no due date; or
- for a group of onerous contracts, when facts and circumstances indicate that the group is onerous.

The Group recognises a group of reinsurance contracts held it has entered into from the earlier of the following:

- the beginning of the coverage period of the group of reinsurance contracts held. However, the Group delays the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held; and
- the date the Group recognises an onerous group of underlying insurance contracts if the Group entered into the related reinsurance contract held at or before that date.

(iv) Contract boundary

The Group includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay the premiums, or in which the Group has a substantive obligation to provide the policyholder with insurance contract services.

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognised. Such amounts relate to future insurance contracts.

The contract boundary is reassessed at each reporting date to include the effect of changes in circumstances on the Group's substantive rights and obligations and therefore may change over time.

The contract boundary for a reinsurance contract is dependent on the terms and conditions of the reinsurance contract and therefore may not necessarily be the same as for the underlying insurance contracts. For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations of the Group that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or in which the Group has a substantive right to receive insurance contract services from the reinsurer.

The Group's reinsurance contracts (both quota share and Motor excess of loss) include contracts with a coverage period greater than one year. However, there is no material difference in the measurement of the asset for remaining coverage between the PAA and the general model, therefore these qualify for the PAA.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

1.5 Insurance contracts continued

(v) Measurement – Premium Allocation Approach

The Group applies the PAA to all the insurance contracts that it issues and expects to apply it to reinsurance contracts that it holds, as:

- the coverage period of each contract in the group is one year or less, including insurance contract services arising from all premiums within the contract boundary; or
- for groups of insurance and reinsurance contracts longer than one year, the Group has modelled possible future scenarios to test the measurement of the liability for remaining coverage for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced by applying the General Measurement Model. Where contracts and groups of contracts are deemed to be immaterial additional PAA testing is not performed and accordingly contracts are measured under the PAA measurement model.

Insurance contracts – initial measurement

The Group applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Group's previous accounting treatment under IFRS 4. However, when measuring liabilities for incurred claims, the Group applies discounting and includes an explicit risk adjustment for non-financial risk.

The Group does not adjust the liability for remaining coverage for insurance contracts issued for the effect of the time value of money, because insurance premiums are due within one year of the coverage period.

For a group of contracts that is not onerous at initial recognition, the Group measures the liability for remaining coverage as:

- the premiums, if any, received at initial recognition; plus
- any other asset or liability previously recognised for cash flows related to the group of contracts that the Group pays or receives before the group of insurance contracts is recognised.

Where facts and circumstances indicate that contracts are onerous at initial recognition, the Group performs additional analysis to determine if a net outflow is expected from the contract. Such onerous contracts are separately grouped from other contracts and the Group recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Group for the liability for remaining coverage for any such onerous group depicting the losses recognised.

Reinsurance contracts held – initial measurement

The Group measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues. However, they are adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue.

Where the Group recognises a loss on initial recognition of an onerous group of underlying insurance contracts or when further onerous underlying insurance contracts are added to a group, the Group establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses.

Insurance contracts – subsequent measurement

The Group measures the carrying amount of the liability for remaining coverage at the end of each reporting period as:

- the liability for remaining coverage at the beginning of the period; plus
- premiums received in the period; minus
- the amount recognised as insurance revenue for the services provided in the period.

The Group estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows; they reflect current estimates from the perspective of the Group and include an explicit adjustment for non-financial risk (the risk adjustment). The Group adjusts the future cash flows for the time value of money and the effect of financial risk for the measurement of liability for incurred claims, including those that are expected to be paid within one year of being incurred. The Group has chosen to take the effect of the time value of money and changes in the time value of money and financial risk to the statement of profit or loss (see insurance finance income and expense below).

Reinsurance contracts held – subsequent measurement

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance contract held. The Group adjusts the asset for incurred recoveries (on underlying incurred claims) for the effect of changes in the default risk of the reinsurer with the corresponding change being reflected in the insurance service result (amounts recovered from reinsurance contracts held). The risk adjustment for non-financial risk is the amount of risk being transferred by the Group to the reinsurer.

Insurance acquisition cash flows for insurance contracts issued

The Group has taken the option to expense insurance acquisition cash flows as they are incurred. This includes for a small number of contracts where the coverage period exceeds a period of twelve months (see above) and there are no material amounts of acquisition costs relating to these contracts. This policy differs to the Group's previous policy of deferring acquisition costs over a twelve month period.

Insurance contracts – modification and derecognition

The Group derecognises insurance contracts when:

- the rights and obligations relating to the contract are extinguished (i.e. discharged, cancelled or expired); or
- the contract is modified such that the modification results in a change in the measurement model or the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contract to be included in a different group. In such cases, the Group derecognises the initial contract and recognises the modified contract as a new contract.

When a modification is not treated as a derecognition, the Group recognises amounts paid or received for the modification of the contract as an adjustment to the estimate of fulfilment cash flows.

(vi) Presentation

The Group presents separately, in the consolidated statement of financial position, the carrying amount of portfolios of insurance contracts issued that are assets, portfolios of insurance contracts issued that are liabilities, portfolios of reinsurance contracts held that are assets and portfolios of reinsurance contracts held that are liabilities.

The Group separately presents income or expenses from reinsurance contracts held from the expenses or income from insurance contracts issued.

Insurance revenue

The insurance revenue for the period is the amount of expected premium receipts allocated to the period. The Group allocates the expected premium receipts and instalment income (being the additional fees payable by a policyholder associated with paying for an insurance contract over 12 months that are considered non-distinct from the underlying insurance policy) to each period of insurance contract services on the basis of the passage of time.

Cash flows associated with arrangement fee and administrative fee income are included within the insurance revenue cash flows as they are considered non-distinct from the underlying insurance policy. Arrangement services are provided at a point in time as the benefits from obtaining the insurance policy occur at a specific time. The customer benefits from administration services throughout the policy period; as the Group performs its obligation on an as-needed basis, the allocated element of administration services is spread evenly over the term of the policy.

Insurance service expenses

Insurance service expenses include the following:

- incurred claims; and
- other incurred directly attributable expenses, such as marketing and acquisition costs.

Other expenses not included above are included in other operating expenses in the consolidated statement of profit or loss.

Vehicle replacement referral fees, salvage income and legal services fees are rolled up and offset against the claim cost at the Group level.

Insurance finance income and expense

Insurance finance income and expenses comprise the change in the carrying amount of the group of insurance contracts in respect of incurred claims arising from:

- the effect of the time value of money and changes in the time value of money. This mainly comprises interest accreted on the LIC; and
- the effect of financial risk and changes in financial risk. This mainly includes the effect of changes in interest rates (i.e. discount rates) and the inflation assumptions for PPOs (which are predominantly inflated with respect to the ASHE 6115 index).

The Group does not disaggregate finance income and expenses because the related financial assets are managed on a fair value basis and measured at FVTPL

Net income or expense from reinsurance contracts held

The Group presents separately on the face of the consolidated statement of profit or loss the amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid. The Group treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held and treats amounts not dependent on the underlying claims, such as ceding commissions, as a reduction in the premiums paid to the reinsurer.

Presentation of reinsurance contract with 'funds withheld' arrangement

The Group has quota share reinsurance contracts that have funds withheld features, whereby the quota share proportion of reinsurance premiums and related recoveries are retained by the Group and will be settled on a net basis at commutation.

Under this arrangement, no assets are transferred to the reinsurer at the inception of the contract. Instead, the asset is deposited within a segregated funds withheld account that is maintained by the Group with a third-party custodian. Cash withheld under funds withheld arrangements are presented in cash and cash equivalents within the statement of financial position.

The funds withheld account balance is adjusted at the agreed commutation date, with any shortfall or surplus resulting from reinsurance premium compared to reinsurance recoveries necessitating an adjustment to funds withheld. The funds withheld account is measured by reference to the fulfilment cash flows (of the reinsurance contract held) that, according to the contractual terms, give rise to the funds withheld feature. Until it is settled in cash, the funds withheld liability is included within reinsurance contract assets or liabilities.

Whilst the funds withheld arrangement operates on a net settlement basis, the Group's policy is to present the reinsurance results on a gross basis in the consolidated statement of profit or loss, as outlined above.

1.6 Revenue recognition - non-insurance

Investment return

Interest income on financial assets is determined using the effective interest rate method. The effective interest rate method is a way of calculating the amortised cost of a financial asset (or group of financial assets) and of allocating the interest income over the expected life of the asset.

Rental income from investment property is recognised in the statement of profit or loss on a straight-line basis over the period of the contract.

Dividend income is recognised when the right to receive payment is established.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

1.6 Revenue recognition - non-insurance continued

Other income

Revenue from vehicle recovery and repair services (accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers')

The Group's income also comprises vehicle repair services provided to other third-party customers. Income in respect of repairs to vehicles is recognised upon completion of the repair obligations. The price is determined using market rates for the services and materials used after discounts have been deducted where applicable.

Revenue from any goods provided is accounted for at the point of sale.

1.7 Restructuring and one-off costs

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

1.8 Goodwill and other intangible assets

Acquired goodwill, being the excess of the cost of an acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired, is initially recognised at cost and subsequently at cost less any accumulated impairment losses. Goodwill arising on the acquisition of subsidiaries is included in the statement of financial position category "goodwill and other intangible assets". The gain or loss on the disposal of a subsidiary includes the carrying value of any related goodwill.

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the statement of profit or loss over the assets' economic lives using methods that best reflect the pattern of economic benefits and is included in operating expenses. The estimated useful economic lives for software development costs are up to 10 years.

Expenditure on internally generated goodwill and indirect advertising costs is written off as incurred. Direct costs relating to the development of internal-use computer software and associated business processes are capitalised once technical feasibility and economic viability have been established. These costs include payroll costs, the costs of materials and services and directly attributable overheads. Capitalisation of costs ceases when the software is capable of operating as intended.

During and after development, accumulated costs are reviewed for impairment against the projected benefits that the software is expected to generate. Costs incurred prior to the establishment of technical feasibility and economic viability are expensed as incurred, as are all training costs and general overheads.

1.9 Property, plant and equipment

Items of property, plant and equipment (except investment property - see note 1.12) are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately.

Depreciation is charged to the statement of profit or loss on a straight-line basis so as to write off the depreciable amount of property, plant and equipment over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Land is not depreciated. The estimated useful lives are as follows:

Freehold and leasehold buildings	50 years or the period of the lease if shorter
Other equipment, including computer equipment, vehicles and property adaptation costs	2 to 15 years

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the disposal proceeds, if any, and the carrying amount of the item.

1.10 Right-of-use assets ("ROU") and lease liabilities

Where the Group is a lessee

At inception, the Group assesses whether a contract contains a lease arrangement, which involves assessing whether it obtains substantially all the economic benefits from the use of a specific asset, and it has the right to direct the use of that asset. The Group recognises a ROU asset and a lease liability at the commencement of the lease (when the underlying asset is available for use), except for short-term leases of 12 months or less and low-value leases which are expensed on a straight-line basis in the statement of profit or loss. The ROU asset is initially measured based on the present value of the lease payments, plus initial direct costs less any incentives received. Lease payments include fixed payments and variable payments. Variable payments relate to contractual rent increases linked to inflation indices. The ROU asset is depreciated over the lease term, or its economic useful life if shorter, and is subject to impairment testing if there is an indicator of impairment. When leases contain an extension or purchase option which is reasonably expected to be exercised this is included in the measurement of the lease.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date unless the interest rate implicit in the lease is readily determinable. The incremental borrowing rate is determined based on available risk-free market yield-to-maturity pricing linked to the lease amount and term, and includes a credit spread. The lease liability is subsequently measured at amortised cost using the effective interest rate method and remeasured, with a corresponding adjustment to the ROU asset, when there is a change in future lease payments, terms or reassessment of options.

The Group's property leases mainly relate to office space and vehicle repair centres. Leases in respect of motor vehicles relate to recovery and replacement vehicles, and management cars. The Group also leases certain IT equipment which is not a significant portion of the total leased asset portfolio.

Where the Group is a lessor

Leases where a significant proportion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Lease income from operating leases is recognised in the statement of profit or loss on a straight-line basis over the lease term.

Where assets are subject to finance leases, the present value of the lease payments, together with any unguaranteed residual value, is recognised as a receivable.

1.11 Impairment of intangible assets, goodwill and property, plant and equipment

At each reporting date, the Group assesses whether there is any indication that its intangible assets, goodwill, property, plant and equipment or ROU assets are impaired. If any such indication exists, the Group estimates the recoverable amount of the asset and the impairment loss, if any. Goodwill is tested for impairment annually or more frequently, if events or changes in circumstances indicate that it might be impaired. If an asset does not generate cash flows that are independent of those of other assets or groups of assets, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value-in-use.

Value-in-use is the present value of future cash flows from the asset or CGU, discounted at a rate that reflects market interest rates, adjusted for risks specific to the asset or CGU that have not been reflected in the estimation of future cash flows.

If the recoverable amount of an intangible or a tangible asset is less than its carrying value, an impairment loss is recognised immediately in the statement of profit or loss and the carrying value of the asset is reduced by the amount of the impairment loss.

A reversal of an impairment loss on intangible assets, property, plant and equipment or ROU assets is recognised as it arises provided the increased carrying value does not exceed the carrying amount that would have been determined had no impairment loss been recognised. Impairment losses on goodwill are not reversed.

1.12 Investment property

Investment property comprises freehold and leasehold properties that are held to earn rentals or for capital appreciation or both. Investment property is not depreciated but is stated at fair value based on valuations completed quarterly by independent registered valuers, who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued, and in accordance with guidance issued by the Royal Institution of Chartered Surveyors. Fair value is based on current prices for similar properties adjusted for the specific characteristics of each property. Any gain or loss arising from a change in fair value is recognised in the statement of profit or loss.

Investment property is derecognised when it has been either disposed of or permanently withdrawn from use and no future economic benefit is expected from disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the statement of profit or loss in the year of retirement or disposal.

1.13 Financial instruments

Financial assets and liabilities

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

On initial recognition, financial assets are measured at fair value net of transaction costs. Subsequently they are measured at amortised cost, FVOCI or FVTPL, depending on the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Group assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. The Group reclassifies financial assets when and only when its business model for managing those assets changes.

Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income is accounted for using the effective interest method. Such assets held by the Group include some of the Group's debt security portfolio, loans and receivables, trade and other receivables, and cash and cash equivalents.

Financial liabilities are measured at amortised cost, except for derivative financial liabilities, which are held at fair value.

Financial assets measured at fair value through other comprehensive income

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are recognised in the statement of financial position at their fair value, inclusive of transaction costs.

The Group elects at initial recognition to account for equity instruments at FVOCI. For these investments, dividends are recognised in the statement of profit or loss but fair value gains and losses are not subsequently reclassified to the statement of profit or loss following derecognition of the investment. The Group's has one equity investment which is measured at fair value through other comprehensive income, being an investment in unlisted insurtech-focused equity funds.

If the Group assesses the need to recognise a loss allowance on a financial asset carried at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income; however, the recognition of a loss allowance does not impact the carrying value of the asset on the statement of financial position. Cumulative gains and losses on equity instruments at fair value through other comprehensive income are not recycled to the statement of profit or loss.

Financial instruments measured at fair value through profit or loss

Financial assets are classified as FVTPL where they do not meet the criteria to be measured at amortised cost or FVOCI or where they are designated at FVTPL to reduce an accounting mismatch. The Group has elected to account for its debt securities, backing its insurance contracts as FVTPL to reduce the accounting mismatch caused by fluctuations in values of underlying insurance contracts due to changes in discount rates.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently valued at fair value at each statement of financial position date.

Financial assets measured at FVTPL are recognised in the statement of financial position at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the statement of profit or loss within the investment return in the period in which they occur.

Financial liabilities are measured at FVTPL where they are trading liabilities such as derivative financial instruments. Financial liabilities measured at FVTPL are recognised in the statement of financial position at their fair value. Fair value gains and losses are recognised in the statement of profit or loss in the period in which they occur.

The fair values of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active the Group establishes a fair value by using valuation techniques.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

1.13 Financial instruments continued

Impairment of financial assets

The ECL model is used to calculate impairment to be recognised for all financial assets measured at amortised cost and FVOCI. The general approach, which utilises the three-stage model, is used for financial investment and debt securities, whilst impairment for the remaining assets is measured using the simplified approach.

The assessment of credit risk and the estimation of an ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. The forward-looking aspect of IFRS 9 requires judgement as to how changes in economic factors affect ECLs.

The ECL three-stage model is based on forward looking information regarding changes in credit quality since inception.

The three stages of ECL are defined and assessed as follows:

Stage 1 - no significant increase in credit risk since inception;

Stage 2 - significant increase in credit risk since inception;

Stage 3 - asset is impaired.

For assets in stage 1, the allowance is calculated as the expected credit losses from events within 12 months after the reporting date. For assets in stage 2 and 3, the allowance is calculated as the expected credit loss from events in the remaining lifetime of each asset.

The loss allowance reduces the carrying value of the financial asset and is reassessed at each reporting date. ECL impairment charges are recognised in the statement of profit or loss within the investment return.

Note 3.3.3 explains how the Group assesses whether the credit risk of a financial asset has increased since initial recognition and the approach to estimating ECLs.

Derivatives and hedging

Derivative financial instruments are recognised initially at fair value on the date the derivative contract is entered into, and subsequently remeasured to their fair value at the end of each reporting period. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models. Gains and losses arising from changes in the fair value of a derivative are recognised as they arise in the statement of profit or loss unless the derivative is the hedging instrument in a qualifying hedge.

The Group enters into a small number of immaterial cash flow hedges and applies the hedge accounting requirements of IFRS 9. Hedge accounting relationships are formally documented at inception. The documentation includes the Group's risk management objective and strategy for undertaking the hedge, identifies the hedged item and the hedging instrument, the nature of the risk that is being hedged, and the way in which the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including identifying potential sources of hedge ineffectiveness).

In a cash flow hedge, the effective portion of the gain or loss on the economic hedging instrument is recognised in other comprehensive income. Any ineffective portion is recognised in the statement of profit or loss.

Derecognition of financial assets

A financial asset is derecognised when the contractual rights to receive the cash flows from that asset have expired or when the Group has transferred its rights to receive cash flows from the asset and either the Group has transferred substantially all the risks and rewards of ownership of the asset or the Group has neither transferred nor retained substantially all the risks and rewards of ownership and the Group has not retained control.

1.14 Cash and cash equivalents and borrowings

Cash and cash equivalents comprise cash in hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

Borrowings, comprising bank overdrafts, are measured at amortised cost using the effective interest rate method and are part of the Group's cash management approach and are repayable on demand.

1.15 Assets and liabilities held for sale

Non-current assets, including investment property, are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. Investment property is measured at fair value less costs to sell. Other non-current assets are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised in the statement of profit or loss for any initial or subsequent write down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increase in fair value less costs to sell of an asset but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale is recognised at the date of derecognition.

Non-current assets classified as held for sale are presented separately from the other assets in the statement of financial position and are not depreciated or amortised.

1.16 Financial liabilities

Financial liabilities are initially recognised at fair value net of transaction costs incurred. Other than derivatives which are recognised and measured at fair value, all other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

1.17 Subordinated liabilities

Subordinated liabilities comprise subordinated guaranteed dated notes which are initially measured at fair value net of transaction costs incurred. Subsequently, subordinated liabilities are measured at amortised cost using the effective interest rate method.

1.18 Provisions

The Group recognises a provision for a present legal or constructive obligation from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount can be reliably estimated.

When the Group has an onerous contract outside of the scope of IFRS 17, it recognises the present obligation under the contract as a provision. A contract is onerous when the unavoidable costs of meeting the contractual obligations exceed the expected future economic benefit.

Restructuring provisions are made, including redundancy costs, when the Group has a constructive obligation to restructure. An obligation exists when the Group has a detailed formal plan and has communicated the plan to those affected.

1.19 Short-term employee benefits

Liabilities recognised in respect of staff bonuses and rewards are measured at the undiscounted amount of benefits expected to be paid in exchange for the related service.

1.20 Pensions and other post-retirement benefits

The Group provides post-retirement benefits in the form of pensions and healthcare plans to eligible employees.

Contributions to the Group's defined contribution pension scheme are recognised in the statement of profit or loss when payable.

The Group's defined benefit pension scheme, as described in note 23, was closed in 2003. Scheme liabilities are measured on an actuarial basis, using the projected unit credit method, and discounted at a rate that reflects the current rate of return on a high-quality corporate bond of equivalent term and currency to the scheme liabilities.

Scheme assets are measured at their fair value. Any surplus or deficit of scheme assets over liabilities is recognised in the statement of financial position as an asset (surplus) or liability (deficit). The past service costs, together with the net interest on the net pension liability or asset, are charged or credited to operating expenses. Actuarial gains and losses are recognised in full in the period in which they occur outside the statement of profit or loss and presented in other comprehensive income under "Items that will not be reclassified subsequently to the statement of profit or loss".

Insurance assets resulting from a bulk annuity insurance policy 'buy-in' transaction result in the insurance asset exactly matching the pension liability. A 'buy-in' is not a settlement and the liability is not derecognised as the Group retains ultimate responsibility for funding the plan.

1.21 Taxation

The tax charge or credit represents the proportion of the tax payable and receivable arising in the current year only.

The current tax charge is based on the taxable profits for the year as determined in accordance with the relevant tax legislation, after any adjustments in respect of prior years. Taxable profit differs from net profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Provision for taxation is calculated using tax rates that have been enacted, or substantively enacted, by the statement of financial position date and is allocated over profits before taxation or amounts charged or credited to components of other comprehensive income or equity, as appropriate.

Deferred taxation is accounted for in full using the statement of financial position liability method on all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes.

Deferred tax liabilities are generally recognised for all taxable temporary timing differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets are reviewed at each statement of financial position date and reduced to the extent that it is probable that they will not be recovered.

Deferred tax assets and liabilities are calculated at the tax rates expected to apply when the assets are realised or liabilities are settled based on laws and rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the statement of profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current assets and liabilities on a net basis.

1.22 Share-based payment

The Group operates a number of share-based compensation plans under which it awards Ordinary Shares and share options to its employees. Such awards are generally subject to vesting conditions that can alter the amount of cash or shares to which an employee is entitled.

Vesting conditions include service conditions (requiring the employee to complete a specified period of service) and performance conditions (requiring the Group to meet specified performance targets).

The fair value of options granted is estimated using valuation techniques which incorporate exercise price, term, risk-free interest rates, the current share price and its expected volatility.

The cost of employee services received in exchange for an award of shares or share options granted is measured by reference to the fair value of the shares or share options on the date the award is granted and takes into account non-vesting conditions and market performance conditions (conditions related to the market price of the Company's Ordinary Shares).

The cost is expensed on a straight-line basis over the vesting period (the period during which all the specified vesting conditions must be satisfied) with a corresponding increase in equity in an equity-settled award. The cost is adjusted for vesting conditions (other than market performance conditions) so as to reflect the number of shares or share options that actually vest.

The cancellation of an award through failure to meet non-vesting conditions triggers an immediate expense for any unrecognised element of the cost of an award.

1.23 Capital instruments

The Group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms, or as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities.

The Tier 1 notes are classified as equity as they have a perpetual maturity and the Group has full discretion over interest payments, including ability to defer or cancel interest payments indefinitely.

The consideration for any Ordinary Share of the Company purchased by the Group for the benefit of the employee trusts is deducted from equity.

1.24 Dividends

Interim dividends on Ordinary Shares are recognised in equity in the period in which they are paid. Final dividends on Ordinary Shares are recognised when they have been approved at the AGM.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

1.25 Accounting developments

Amendments to IAS 12 – Income Taxes: 'International Tax Reform – Pillar Two Model Rules

During the year the UK Government enacted legislation to apply a global minimum tax rate of 15% to multinational businesses headquartered in the UK, as well as a new domestic UK minimum tax rate of 15%, in line with the Model Rules agreed by the Organisation for Economic Co-operation and Development ("OECD"). These rules will be effective for the Group's financial year beginning 1 January 2024. The Group has performed an assessment of its potential exposure to Pillar Two income taxes based upon the most recent information available regarding the financial performance of its constituent entities. Based on that assessment, the Pillar Two effective tax rate in the UK is expected to be above 15% and management is not currently aware of any circumstances under which this might change. Operations in other jurisdictions are de minimis. Therefore, the Group does not expect a potential exposure to Pillar Two top up taxes.

Other accounting developments

New IFRS standards and amendments that are issued, adopted by the UK, but are not effective until 1 January 2024 reporting period and have not been early adopted by the Group are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

In January 2020, the IASB issued 'Classification of Liabilities as Current or Non-current (Amendments to IAS 1)' which clarifies the requirements for classifying liabilities as current or non-current. More specifically these amendments:

- specify that an entity's right to defer settlement must exist at the end of the reporting period;
- clarify that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement of a liability;
- clarify how lending conditions affect classification; and
- clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

On 22 September 2022, the IASB issued 'Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)', which adds subsequent measurement requirements for sale and leaseback transactions.

On 25 May 2023, the IASB issued 'Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)' to add disclosure requirements, and 'signposts' within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements.

The following amendments are effective from 1 January 2025 but have not yet adopted by the UK.

The IASB issued amendments 'Lack of Exchangeability (Amendments to IAS 21 The Effect of Changes in Foreign Exchange Rates)' that provide guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.

2. Critical accounting judgements and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial information. The Group's principal accounting policies are set out on pages 179 to 190. Company law and IFRSs require the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable.

The critical accounting judgements and key sources of estimation uncertainty in applying the Group's accounting policies have been updated following adoption of IFRS 17 and IFRS 9, with the exception of fair value of investment properties, which remains a source of estimation uncertainty and is not affected by the transition to IFRS 17 and IFRS 9.

In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Group's accounting policies that are considered by the Board to be the most important and material to the portrayal of its financial condition are discussed below.

2.1 IFRS 17: Insurance and reinsurance contracts

Level of aggregation

Accounting judgement

The Group defines a portfolio as insurance contracts subject to similar risks and managed together. Contracts within the same product line are expected to be in the same portfolio as they have similar risks and are managed together. The assessment of which risks are similar and how contracts are managed requires the exercise of judgement. The general principles for defining the portfolio of insurance contracts for level of aggregation are equally applicable to reinsurance contracts held.

The Group manages insurance contracts issued by product. Contracts within each product are grouped together into different sub-groups for IFRS 17 reporting and disclosure purposes based on the criteria of similar risks which are managed together, the nature of product and profitability. Accordingly, insurance contracts are aggregated into groups for measurement purposes. All inwards contracts are measured under the PAA model and take the standard's default assumption that no groups are onerous unless facts and circumstances indicate otherwise. The Group aggregates portfolios of reinsurance contracts held issued by product which is consistent with how the reinsurance contract held portfolio is assessed and managed together operationally at product level.

PAA eligibilityAccounting judgement

IFRS 17 states that entities may adopt the PAA measurement model if at the inception of the group of contracts, the entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage (**LFRC**) for the group that would not differ materially from the one that would be produced, or if the coverage period of each contract in the group is one year or less. All insurance contracts issued by the Group, including the Motability contract that inceptioned in September 2023, are assessed for eligibility with the PAA measurement model on initial recognition, using the Group's PAA eligibility framework. Where insurance and reinsurance contracts do not automatically qualify for measurement using the PAA, the Group exercises accounting judgement in determining whether the LFRC produced under PAA measurement are sufficiently close to those produced under General Measurement Model (**GMM**) conditions so as to meet the requirements of the accounting standard for measurement using the simplified approach. Materiality is a key consideration in the quantitative assessment of results, and qualitative factors about the nature of the contracts including the timing and size of cash flows are considered when forming conclusions on PAA applicability.

Estimates of future cash flowsSource of estimation uncertainty

In estimating future cash flows, the Group will incorporate, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events. The estimates of future cash flows will reflect the Group's view of current conditions at the reporting date, ensuring the estimates of any relevant market variables are consistent with observable market prices. However, these cash flows are inherently uncertain in size, timing and are based on probability-weighted average expectations. The Group applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Group's previous accounting treatment under IFRS 4.

Risk adjustmentAccounting judgement

A risk adjustment for non-financial risk is determined to reflect the compensation that the Group would require for bearing non-financial risk and its degree of risk aversion. It is determined at Group level and allocated to groups of contracts based on the size of their reserves. More recent accident periods tend to be less developed with generally larger reserves than older contract periods, so that a higher proportion of the overall risk adjustment is allocated to these more uncertain groups of contracts. The risk adjustment for non-financial risk is determined using a confidence level technique. The risk adjustment is applied to the liability for incurred claims but not to the liability for remaining coverage.

The Group estimates the probability distribution of the expected present value of the future cash flows from the contracts at each reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at the target confidence level over the expected present value of the future cash flows allowing for the associated risks over all future years. The target confidence level is the 75th percentile for the liability for incurred claims. The risk adjustment is derived using the reserve risk distribution calculated in the internal economic capital model and consequently, is subject to model and parameter uncertainty. A sensitivity which demonstrates the impact of the confidence level being at the 80th percentile on profit before tax is included in the Chief Financial Officer Review in the Reserving section. Group diversification benefit is not considered at the individual insurance undertaking entity level but is considered in determining the confidence level at a consolidated level for disclosure purposes.

Discount ratesAccounting judgement

IFRS 17 requires entities to determine discount rates using either the 'bottom up' or 'top down' approach. The 'top down' approach involves using discount rate curves derived from a portfolio of reference assets adjusted to remove all characteristics of the assets that are not present in insurance contracts, but not requiring to eliminate the illiquidity premium. The Group selected to apply the 'bottom up' approach which requires the use of risk-free rate curves and adding the illiquidity premium. The standard does not specify how to derive the illiquidity premium.

The Group determines the risk-free discount rate using the Solvency II risk-free rates sourced from the Bank of England. For cash flows that are not in respect of PPOs, a small illiquidity premium is added to the risk-free rate, reflecting the short settlement tail. For PPOs, to reflect the different liquidity characteristics of the cash flows, the risk-free yield curves are adjusted by a generally higher illiquidity premium. The illiquidity premium is determined by using a fundamental spread approach by deducting the risk-free rate and credit risk premium from corresponding corporate bond reference portfolios. For non-PPOs, the reference portfolio is A-rated bonds with terms of 1 to 3 years and for PPOs, the reference portfolio is BBB-rated bonds with a remaining term of 15 or more years. Judgement is applied when determining the illiquidity premium with respect to allowances for past and future trends, considering changes in the economic environment.

Yield curves used to discount PPO and Non-PPO cash flows

Spot rate	1 year	3 year	15 year
PPOs	6.1 %	5.1 %	4.8 %
Non-PPOs	4.9 %	3.9 %	3.6 %

The impact of a 100bps change in the discount rate is shown in the Chief Financial Officer Review, in the Reserving section.

Notes to the Consolidated Financial Statements continued

2. Critical accounting judgements and key sources of estimation uncertainty continued

2.1 IFRS 17: Insurance and reinsurance contracts continued

Onerous contracts

Source of estimation uncertainty

In utilising the PAA measurement model approach, the Group assumes that no material contracts are onerous at initial recognition unless facts and circumstances indicate otherwise. If at any time during the coverage period the facts and circumstances indicate that a group of insurance contracts is onerous, the Group establishes a loss component as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the liability for remaining coverage of the group as determined above. Accordingly, by the end of the coverage period of the group of contracts the loss component will be zero. Where the Group recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or when further onerous underlying insurance contracts are added to a group, and the Group has a corresponding reinsurance contract held, the Group establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the expected recovery of the losses.

General insurance: Liability for Incurred Claims and amounts recoverable from reinsurance contracts held

Accounting judgement

We seek to adopt a prudent approach to assessing liabilities. The Liability for Incurred Claims ("LIC") reserves are the combination of best estimate of liabilities ("BEL") and a risk adjustment, which is set around the 75th percentile and provides a prudence margin on top of the BEL. The BEL is set on a discounted basis and includes an allowance for events not in data ("ENIDs"), set by reference to various actuarial scenario assessments. ENIDs also consider other short and long-term risks not reflected in the actuarial inputs, as well as the actuarial function's view on the uncertainties in relation to the BEL.

Source of estimation uncertainty

The Group makes provision for the full cost of outstanding claims from its general insurance business at the statement of financial position date, including claims estimated to have been incurred but not yet reported at that date and associated claims handling costs. Outstanding claims provisions net of related reinsurance recoveries at 31 December 2023 amounted to £2,734.9 million (2022: £2,551.6 million).

Claims reserves are assessed separately for large and attritional claims, typically using standard actuarial methods of projection. Key sources of estimation uncertainty include those arising from the selection of specific methods as well as assumptions for claims frequency and severity through the review of historical claims and emerging trends. The Group seeks to adopt a conservative approach to assessing claims liabilities.

The corresponding amount recoverable from reinsurance contracts held is calculated on an equivalent basis, with similar estimation uncertainty, as discussed in note 1.5. A credit exposure exists with respect to reinsurance contracts held, to the extent that any reinsurer is unable to meet its obligations.

The most common method of settling bodily injury claims is by a lump sum. When this includes an element of indemnity for recurring costs, such as loss of earnings or ongoing medical care, the settlement calculations apply the statutory discount rate (known as the Ogden discount rate) to reflect the fact that payment is made on a one-off basis rather than periodically over time. The current Ogden discount rate is minus 0.25% for England and Wales, with the equivalents being minus 0.75% in Scotland, and minus 1.5% in Northern Ireland.

The Group reserves its large bodily injury claims at the relevant discount rate for each jurisdiction, with the overwhelming majority now case reserved at minus 0.25% as most will be settled under the law of England and Wales. The Ogden discount rate will be reviewed again in 2024 and the Group has booked a probability weighted allowance for a discount rate change within its best estimate liabilities. Since 2021, we have reduced the level of Motor reinsurance purchased, resulting in higher net reserves for accident years 2021 to 2023. The impact of a potential change in the Ogden discount rate is shown in note 3.3.1.

If the claimant prefers, large bodily injury claims can be settled using a Periodic Payment Order ("PPO"). This is an alternative way to provide an indemnity for recurring costs, making regular payments, usually for the rest of the claimant's life. These claims are reserved for using an internal discount rate, which is progressively unwound over time. As it is likely to take time to establish whether a claimant will prefer a PPO or a lump sum, until a settlement method is agreed we make assumptions about the likelihood that claimants will opt for a PPO. This is known as the PPO propensity.

At 31 December 2023, the real discount rate for PPOs is 0.7% (2022: 0.6%, restated for IFRS 17), the combination of cash flow weighted inflation and discounting of 3.9% (2022: 4.2%, restated for IFRS 17), which allows for higher short-term inflation before reverting to a long term trend of 3.5%, and a yield curve based discount rate of 4.6% (2022: 4.8%, restated for IFRS 17).

The table in note 20.6 to the financial statements provides an analysis of outstanding PPO claims provisions on a discounted and an undiscounted basis at 31 December 2023 and 31 December 2022 and further details on sources of estimation uncertainty. Details of sensitivity analysis to the discount rate applied to PPO claims are shown in note 3.3.1.

Higher claims inflation remains a risk, given the continuing high level of consumer prices and wage inflation. In 2022, the consumer prices inflation was at its highest level for the past decade and is not expected to normalise until 2024. Pressure is likely to remain strong on wages, with potential implications for the cost of care. Global supply chain issues remain problematic, resulting in a risk of price increases for products and components in short supply. A range of general and specific scenarios for excess inflation have been considered in the reserving process. The Group has observed a slow-down in the processing of recoveries and liabilities with third party insurers which increases the estimation risk of these amounts. A range of data types and methods are used with historical comparators to assess the underlying position separate from the timing effects to mitigate the uncertainty and the Group has booked an additional provision to protect against the risk of less recoveries than estimated within the actuarial best estimate. There is also uncertainty regarding the remediation cost for Motor total loss claims on past business and following a detailed review, the

Group has strengthened its provision for this risk at the year end.

Motor accidental damage recovery reserves, which form part of the wider motor accidental damage reserves, are subject to estimation uncertainty, and as such are subject to regular review and assessment. To support the accurate estimation of such recoveries, the Claims Function performs regular assessment of recovery trends, including assessment by counterparty and year of loss, as well as executing period audits on a sample basis of recoveries. In addition, the Reserving function perform periodic 'deep dive' reviews of recoverable amounts to ensure the ongoing adequacy of the reserve.

Changes in the climate can impact both frequency and severity of losses, particularly for windstorm and flood events. This is taken into account in the planning process, pricing and through our capital model; the impact on reserves is only seen when major loss events occur.

Changes in claims frequency present greater uncertainty when calculating the LFRC, whereas uncertainty over the level of claims severity has a greater impact on both the LFRC and LIC reserves. Claims severity risk is particularly acute with respect to care costs for large bodily injury claims as well as input costs and replacement costs for damage claims. The sensitivity analysis in note 3.3.1 looks at a 200 basis point change in the claims inflation assumed in the actuarial best estimate over the next two years, which continues to remain relevant and is within the Group's booked reserves. The risk of material adjustments to the Group's estimates which could affect the carrying value in 2023 is highest in relation to long tail classes where inflation has been less evident to date. The Group therefore reserves for the risk of excess inflation on these classes within its ENID position.

The Group provides a best estimate for remediation cost, including the operational costs of performing such reviews, relating to Motor total loss claims settled between 1 September 2017 and 17 August 2022, and the pricing of Motor and Home policies following the implementation of the FCA's PPR reform from 1 January 2022. Management exercise judgement in assessing which customers should be remediated and apply estimation techniques in deriving the remediation amounts. The value of the past business review provisions at 31 December 2023 totals £130.2 million (2022: £45.9 million).

2.2 IFRS 9: Financial instruments

Classification of financial instruments

Accounting judgement

The Group exercises judgement in assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding. The Group assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales and has concluded on the classification category of each portfolio of financial instrument in accordance with IFRS 9.

2.3 Fair value of investment properties

Sources of estimation uncertainty

The Group holds a portfolio of investment properties, with a fair value at 31 December 2023 of £277.1 million (2022: £278.5 million). Where quoted market prices are not available, valuation techniques are used to value these properties. The fair value was determined using a methodology based on recent market transactions for similar properties, which have been adjusted for the specific characteristics of each property within the portfolio. The valuation in the financial statements is based on valuations by independent registered valuers and the techniques used include some unobservable inputs. The valuations used for investment properties are classified in the level 3 category of the fair value hierarchy (see note 37).

Any significant risk of a material adjustment to the carrying amount of the investment property portfolio within the next financial year will be dependent on a number of factors including the developments in the economic outlook which could result in volatility in market prices, rental yields or occupancy rates. Sensitivity analysis for the investment property portfolio has been independently calculated by the Group's registered valuers by flexing inputs of internal models to a reasonable alternative yield to ascertain the impact on property valuations (see note 18). There are no significant sources of estimation uncertainty in relation to climate-related matters in valuing the investment property portfolio.

2.4 Impairment provisions – financial assets

Accounting judgement

The measurement of the ECL allowance under IFRS 9 for financial assets measured at amortised cost and FVOCI requires significant judgements and assumption in particular, for the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by the outcome of modelled ECL scenarios, and the relevant inputs used.

The Group has a portfolio of financial investments measured at amortised cost, primarily comprising infrastructure debt and commercial real estate loans (total 31 December 2023: £363.2 million; 31 December 2022: £437.3 million). During the year the effect of changes in assessing the ECL relating to financial investments amounted to £0.9 million (2022: £0.9 million).

The Group has a small portfolio of debt securities measured at amortised cost (31 December 2023: £70.6 million; 31 December 2022: £97.2 million). During the year the effect of changes in assessing the ECL on these securities amounted to £0.2 million (2022: £0.2million).

Refer to analysis in note 3.3.3 and note 24 to the financial statements for further details on the Group's ECL methodology applied in the period.

Other than in relation to the implementation of IFRS 17 and IFRS 9, there have been no significant changes in the basis upon which judgement and estimates have been determined, compared to that applied as at 31 December 2022.

Notes to the Consolidated Financial Statements continued

3. Risk management

3.1 Enterprise Risk Management Strategy and Framework

The Enterprise Risk Management Strategy and Framework sets out, at a high level, the Group's approach and processes for managing risks. Further information can be found in the Risk management section of the Strategic report on page 86.

3.2 Risk and capital management modelling

The Board has ultimate responsibility for ensuring that the Group has sufficient funds to meet its liabilities as they fall due. The Group carries out detailed modelling of its assets, liabilities and the key risks to which these are exposed. This modelling includes the Group's own assessment of its solvency capital requirement ("**SCR**"), using its partial internal model approved by the PRA in 2016. The SCR quantifies the insurance, market, credit, operational and liquidity risks that the regulated entities are undertaking.

The Board is closely involved in the SCR process and reviews, challenges and approves its assumptions and results.

3.3 Principal risks from insurance activities and use of financial instruments

The Risk management section of the Strategic report also sets out all the risks assessed by the Group as principal risks. Detailed below is the Group's risk exposure arising from its insurance activities and use of financial instruments specifically in respect of insurance risk, market risk, credit risk, operational risk and liquidity risk.

The global geopolitical situation, including the ongoing war between Russia and Ukraine affected Europe's energy supply with inflation rate highs at the start of 2023, with rates reducing somewhat over the year. Interest rates reached their peak in Q3 2023. The global economic environment including the UK remains uncertain, driven by slow growth prospects with GDP growth remaining flat as increases in borrowing costs weigh on investment and consumption. The risk of a recession in the UK is still present and a persistent cost of living crisis would be heightened by further interest rate increases to ensure that the Government's 2% inflation target is met by the second quarter of 2025, has not been ruled out by the Bank of England, which would be expected to adversely impact both customers and businesses.

The Group's Investment and Treasury function continues to assess the impact of these adverse economic conditions on its investment portfolio holdings as part of its ongoing investment management oversight.

The implications of these risks are referred to in the Risk management section of the Strategic report on page 86.

Claims inflation

The Group's reserves and claims from underwritten policies are exposed to the risk of changes in claims development patterns arising from inflation. Uncertainty in claims reserves and underwriting risk has significantly increased due to the increase in future inflation volatility and its outlook, and the additional uncertainty when forecasting its impact on claims reserves.

The insurance sectors that the Group operates in are particularly affected by inflation and its impact on the costs of car parts, used car prices, services and care worker labour, and construction materials. This, in addition to the supply chain dislocation has led to materially increased claim severity on motor damage and home and commercial property claims, with a longer term risk of care worker inflation increasing motor large bodily injury claims. Details of the Group's sensitivity to claims inflation is included in note 3.3.1.

Climate change

The Group recognises that climate change potentially poses material long-term financial risks to the business and is receiving increased scrutiny from regulators and investors. Details on our risk management approach to climate change are included on pages 70 to 85, within the Task Force on Climate-related Financial Disclosures ("**TCFD**") report.

3.3.1 Insurance risk

The Group is exposed to insurance risk as a primary consequence of its business. Key insurance risks focus on the risk of loss due to fluctuations in the timings, amount, frequency and severity of an insured event relative to the expectations at the time of underwriting.

The Group is mainly exposed to the following insurance risks:

Reserve risk

Reserve risk relates to both premium and claims. This is the risk of understatement or overstatement of reserves arising from:

- the uncertain nature of claims, in particular large bodily injury claims;
- unexpected future impact of socio-economic trends or regulatory changes, for example changes to the Ogden discount rate;
- data issues and changes to the claims reporting process;
- operational failures;
- failure to recognise claims trends in the market including a slow-down in the processing of recoveries and liabilities with third party insurers which increases the estimation risk of these amounts; and
- changes in underwriting and business written so that past trends are not necessarily a predictor of the future.

Understatement of reserves may result in not being able to pay claims when they fall due. Alternatively, overstatement of reserves can lead to a surplus of funds being retained resulting in opportunity cost; for example, lost investment return or insufficient resource to pursue strategic projects and develop the business.

Reserve risk is managed through a range of processes and controls:

- regular reviews of the claims and premiums, in line with IFRS 17 requirements for the main classes of business by the internal actuarial team;
- the use of external actuaries to review periodically the actuarial best estimate reserves produced internally, either through peer review or through provision of independent reserve estimates;
- accompanying all reserve reviews with actuarial assessment of the uncertainties through a variety of techniques including bootstrapping and scenario analysis;
- use of reinsurance programmes, through Motor, liability, property catastrophe and travel, which are renewable annually;
- oversight of the reserving process by relevant senior management and the Board;
- regular reconciliation of the data used in the actuarial reviews against general ledger data and reconciliation of the claims data history against the equivalent data from prior reviews; and
- regular assessment of the uncertainty in the reserves to help the Board set management best estimate reserves.

The Group's reserves are subject to the risk of retrospective changes in judicial conditions such as changes in the Ogden discount rate. Detailed information on the Ogden discount rate is provided in note 20.6.

Uncertainty in claims reserves estimation is larger for claims such as PPOs for which annually indexed payments are made, typically over the lifetime of the injured party. Under IFRS 17 all claims reserves are held on a discounted basis and so are sensitive to changes in the discount rate, however this sensitivity tends to be more significant to the Group's PPO reserves given their longer duration.

The table below provides a sensitivity analysis of the potential net impact of a change in a single factor (the discount curve used for PPOs and other claims, Ogden discount rate, claims inflation or risk adjustment) with all other assumptions left unchanged. Other potential risks beyond the ones described could have additional financial impacts on the Group.

	Increase/(decrease) in profit before tax and equity gross of reinsurance ^{1,2}		Increase/(decrease) in profit before tax and equity net of reinsurance ^{1,2}	
	2023	2022	2023	2022
	£m	£m	£m	£m
At 31 December				
Discount curve - PPOs³				
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	95.0	87.1	39.0	35.2
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	(127.8)	(113.7)	(52.1)	(45.4)
Discount curve - other claims⁴				
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	55.9	39.7	37.2	27.1
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	(58.6)	(41.4)	(38.9)	(28.2)
Ogden discount rate⁵				
Impact of the Group reserving at a discount rate of 0.75% compared to minus 0.25% (2022: 0.75% compared to minus 0.25%)	105.1	85.7	48.1	24.8
Impact of the Group reserving at a discount rate of minus 1.25% compared to minus 0.25% (2022: minus 1.25% compared to minus 0.25%)	(220.6)	(180.4)	(97.0)	(48.2)
Claims inflation				
Impact of a decrease in claims inflation by 200 basis points for two consecutive years	112.8	96.9	71.7	64.5
Impact of an increase in claims inflation by 200 basis points for two consecutive years	(114.6)	(98.3)	(72.8)	(65.4)
Risk adjustment⁶				
Impact of a risk adjustment at the 70th percentile compared to the booked risk adjustment at the 75th percentile	73.1	74.1	36.6	33.7
Impact of a risk adjustment at the 80th percentile compared to the booked risk adjustment at the 75th percentile	(84.5)	(87.5)	(42.9)	(38.6)

Notes to the Consolidated Financial Statements continued

3. Risk management continued

3.3.1 Insurance risk continued

Notes:

1. These sensitivities exclude the impact of taxation.
2. These sensitivities reflect one-off impacts at the statement of financial position date and should not be interpreted as predictions.
3. The sensitivities relating to an increase or decrease in the real discount rate used for PPOs illustrate a movement in the time value of money from the assumed level of 0.7% for reserving. The PPO sensitivity has been calculated on the direct impact of the change in the real internal discount rate with all other factors remaining unchanged.
4. The sensitivities relating to an increase or decrease in the yield curve used to discount all reserves excluding PPOs illustrate a movement in the time value of money from the assumed level at the statement of financial position dates. The sensitivity has been calculated on the direct impact of the change in the discount curve with all other factors remaining unchanged.
5. Ogden discount rate sensitivity has been calculated on the direct impact of a permanent change in the discount rate in England and Wales with all other factors remaining unchanged. The Group will consider the statutory discount rate when setting the reserves but not necessarily provide on this basis. This is intended to ensure that reserves are appropriate for current and potential future developments.
6. The risk adjustment sensitivities are with respect to the discounted net risk adjustment at the statement of financial position dates.

The PPO sensitivity above is calculated on the basis of a change in the internal discount rate used for the actuarial best estimate reserves as at 31 December 2023. It does not take into account any second order impacts such as changes in PPO propensity or reinsurance bad debt assumptions.

There is the risk that claims are reserved or paid inappropriately, including the timing of such activity. However, there are claims management controls in place to mitigate this risk, as outlined below:

- claims are managed utilising a range of IT system-driven controls coupled with manual processes outlined in detailed policies and procedures to ensure claims are handled in an appropriate, timely and accurate manner;
- each member of staff has a specified handling authority, with controls preventing them handling or paying claims outside their authority, as well as controls to mitigate the risk of paying invalid claims. In addition, there are various outsourced claims handling arrangements, all of which are monitored closely by management, with similar principles applying in terms of the controls and procedures;
- loss adjusters are used in certain circumstances to handle claims to conclusion. This involves liaison with the policyholder, third parties, suppliers and the Claims Function;
- specialist bodily injury claims teams are responsible for handling these types of losses, with the nature of handling dependent on the level and type of claim. Claims exceeding a certain threshold are referred to the technical and large loss teams who also deal with all other claim types above defined limits or within specific criteria; and
- a process is in place to deal with major weather and other catastrophic events, known as the 'Surge Demand Plan'. A surge is the collective name given to an incident which significantly increases the volume of claims reported to the Group's Claims Function. The plan covers surge demand triggers, stages of incident, operational impact, communication and management information monitoring of the plan.

Underwriting risk

This is the risk that future claims experience on business written is materially different from the results expected, resulting in current-year losses. The Group predominantly underwrites personal lines insurance including motor, residential property, roadside assistance, creditor, travel and pet business. In Q3, under our new partnership, the Group began underwriting vehicle insurance for over 700 thousand members of the Motability scheme which is designed to enable disabled people, their families and their carers to lease a new car, scooter or powered wheelchair, using their disability benefit. The Group also underwrites commercial risks primarily for low-to-medium risk trades within the small and medium-sized enterprises market. Contracts are typically issued on an annual basis which means that the Group's liability usually extends for a 12-month period, after which the Group is entitled to decline to renew or can revise renewal terms by amending the premium or other policy terms and conditions such as the excess as appropriate.

The Solvency II definition of underwriting risk includes catastrophe risk and the risk of loss, or of adverse change in the value of the insurance liabilities resulting from significant uncertainty of pricing, underwriting and provisioning assumptions related to extreme or exceptional circumstances.

The key risks relating to climate change today are UK floods and major UK windstorms. The Group recognises that climate change may impact its business over the longer term. In particular, there is a risk that climate change affects the frequency and severity of extreme weather events (physical risk), which will change the Group's view of underwriting risk, reinsurance and pricing. The Group will continue to develop its risk management systems and monitoring tools over 2024, and accelerate the pre-emptive management actions of repricing and reinsurance as well as the strategic management actions relating to flood resilience and underwriting footprint following the second round of the Climate Biennial Exploratory Scenario ("CBES") analysis in early 2022. Low-frequency, high-severity weather losses are mitigated to a significant degree by the catastrophe reinsurance programme, the ceding of Home high flood risks to Flood Re, and the commercial direct underwriting strategy which reduces high flood risk exposure. The Group expects these specific risks to materialise in the medium to longer term (see page 72 for definition). Furthermore, there is a risk that the Group's insurance products will not meet its customers' needs as a result of changes in market dynamics and customer behaviour in relation to climate change, for example a rapid shift towards electric vehicle usage. The Group anticipates that its continued strategic and operational response to the transition to a lower-carbon economy will support mitigation of these risks and the associated impacts in the long term.

When underwriting policies, the Group is subject to concentration risk in a variety of forms, including:

- geographic concentration risk – the Group's business is almost wholly written in the UK general insurance market. The Group purchases a catastrophe reinsurance programme to protect against a modelled 1-in-200 year windstorm/storm surge and flood losses. The programme which ran from 1 July 2022 to 30 June 2023 was renewed on the 1 July for six months to 31 December 2023. It had a retention of £150 million per weather event and an upper limit of £1,400 million. Subsequently, it will be renewed annually on 1 January and will cover a 12 month period. The 2024 programme has a retention of £100 million per event with an upper limit, including retention, of £1,000 million. The size of the programme has reduced as a result of the sale of the Group's brokered commercial business, and subsequent quota share arrangements, announced in September 2023; and
- product concentration risk – the Group offers a diversified portfolio of products and a variety of brands sold through a range of distribution channels to its customers.

It is important to note that none of these risk categories are independent of the others and that giving due consideration to the relationship between these risks is an important aspect of the effective management of insurance risk.

Distribution risk

This is the risk of a material reduction in profit compared to plan due to the Group not writing its planned policy volumes in each segment.

Pricing risk

This is the risk of economic loss arising from business being incorrectly priced or inappropriately underwritten.

Reinsurance risk

This is the risk of inappropriate selection and/or placement of reinsurance arrangements, with either individual or multiple reinsurers, which renders the transfer of insurance risk to the reinsurer(s) inappropriate and/or ineffective.

Other risks include:

- reinsurance concentration risk – the concentration of credit exposure to any given counterparty;
- reinsurance capacity being reduced and/or withdrawn;
- underwriting risk appetite and reinsurance contract terms not being aligned;
- reinsurance contract terms being inappropriate or ineffective resulting in classes or types of business not being appropriately reinsured;
- non-adherence to the reinsurance policy terms and conditions, in terms of both policy management and claims not being handled within the reinsurance contract terms and conditions, or paid on an ex-gratia basis, resulting in reinsurance recoveries not being made in full;
- inappropriate or inaccurate management information and/or modelling being used to determine the value for money and purchasing of reinsurance (including aggregate modelling); and
- changes in the external legal, regulatory, social or economic environment (including changes resulting from climate change) altering the definition and application of reinsurance policy wordings or the effectiveness or value for money of reinsurance.

The Group uses reinsurance to:

- protect the underwriting result against low-frequency, high-severity losses through the transfer of catastrophe claims volatility to reinsurers;
- protect the underwriting result against unforeseen volumes of, or adverse trends in, large individual claims in order to reduce volatility, control the Group's capital requirements and improve stability of earnings; and/or
- transfer risk that is not within the Group's current risk appetite.

3.3.2 Market risk

Market risk is the risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

The Group is mainly exposed to the following market risk factors:

- spread risk;
- interest rate risk;
- property risk; and
- currency risk.

The Group has policies and limits approved by the Investment Committee for managing the market risk exposure. These set out the principles that the Group should adhere to for managing market risk and establishing the maximum limits the Group is willing to accept having considered strategy, risk appetite and capital resources.

The Group monitors its market risk exposure on a daily basis and, has established an aggregate exposure limit consistent with its risk objective to maintain capital adequacy. Interdependencies across risk types have also been considered within the aggregate exposure limit. The allocation of the Group's investments across asset classes has been approved by the Investment Committee. The Committee also determines policy and controls, covering such areas as risk, liquidity and performance. The Investment Committee meets at least three times a year to evaluate risk exposure, the current strategy, associated policies and investment guidelines and to consider investment recommendations submitted to it. Oversight of the implementation of decisions taken by the Investment Committee is via the first and second lines of defence.

In light of the global economic uncertainty, during the first three quarters of 2023, maturities from the in-house short and intermediate sterling credit portfolios had not been reinvested up to October, significantly increasing cash reserves and liquidity.

Notes to the Consolidated Financial Statements continued

3. Risk management continued

3.3.2 Market risk continued

During Q2 2023 the Group undertook a Strategic Asset Allocation exercise in relation its investment portfolio. The proposals from the strategic allocation exercise were reviewed by the Investment Committee and its recommendations are in the process of being approved by the Investment Committee on a phased basis. Following their approval, the first changes to the investment portfolio began to be implemented in Q4 2023. This involved increasing proportions invested in UK gilts and US credit holdings. Further changes are anticipated to be brought to the Investment Committee for approval during 2024. The net proceeds from the sale of the brokered commercial business have provided additional funds available for investment.

The investment management objectives are to:

- maintain the safety of the portfolio's principal both in economic terms and from a capital, accounting and reporting perspective;
- maintain sufficient liquidity to provide cash requirements for operations, including in the event of a catastrophe; and
- maximise the portfolio's total return within the constraints of the other objectives and the limits defined by the investment guidelines and capital allocation.

The Investment Committee has agreed long-term targets for the investment portfolio in relation to supporting the Group's objectives on climate change. These are: ensuring the Group's entire investment portfolio is net zero emissions by 2050 in line with the aims of the Race to Zero campaign; and an interim target of a 50% reduction in weighted average greenhouse gas emissions intensity by 2030 within the Group's corporate bonds portfolio, the largest part of its investment portfolio, compared to a 2020 baseline. See pages 79 to 80 for more information on investment portfolio targets, exclusions and preferences and pages 61 to 62 for the Group's approved Science-Based Targets.

The Group has a property portfolio and an infrastructure debt portfolio to generate a real return which, from an asset and liability matching perspective, is used to offset the liability arising from longer duration PPOs.

When setting the strategic asset allocation, the Group is subject to concentration risk in a variety of forms including:

- large exposures to individual assets (either bond issuers or deposit-taking institutions); and
- large exposures to different assets where movements in values and ratings are closely correlated.

Concentration risk on investments arises through excessive exposure to particular industry sectors, groups of business undertakings or similar activities. The Group may suffer significant losses in its investment portfolio as a result of over-exposure to particular sectors engaged in similar activities or having similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The table below analyses the distribution of debt securities by geographical area (commercial real estate loans and infrastructure debt are all within the UK):

	Corporate	Local government	Sovereign	Supranational	Debt securities total
	£m	£m	£m	£m	£m
At 31 December 2023					
Australia	119.8	—	—	—	119.8
Austria	3.1	—	—	—	3.1
Belgium	39.3	—	—	—	39.3
Canada	48.2	—	—	—	48.2
China	0.6	—	—	—	0.6
Denmark	18.2	—	—	—	18.2
Finland	8.9	—	—	—	8.9
France	229.3	—	—	—	229.3
Germany	140.8	—	—	—	140.8
Hong Kong	0.8	—	—	—	0.8
Italy	17.4	—	—	—	17.4
Japan	20.8	—	—	—	20.8
Luxembourg	4.8	—	—	—	4.8
Mexico	7.1	—	—	—	7.1
Netherlands	105.4	—	—	—	105.4
Norway	0.5	0.9	—	—	1.4
Portugal	6.5	—	—	—	6.5
South Africa	6.4	—	—	—	6.4
Spain	66.0	—	—	—	66.0
Sweden	23.4	—	—	—	23.4
Switzerland	55.0	—	—	—	55.0
United Kingdom	745.4	—	657.1	—	1,402.5
USA	933.7	—	23.7	—	957.4
Supranational	—	—	—	25.6	25.6
Total	2,601.4	0.9	680.8	25.6	3,308.7

Notes to the Consolidated Financial Statements continued

3. Risk management continued

3.3.2 Market risk continued

The table below analyses the distribution of debt securities by geographical area (commercial real estate loans and infrastructure debt are all within the UK):

At 31 December 2022 (restated¹)	Corporate £m	Local government £m	Sovereign £m	Supranational £m	Debt securities total £m
Australia	116.0	—	—	—	116.0
Austria	4.3	—	—	—	4.3
Belgium	31.6	—	—	—	31.6
Canada	59.8	—	—	—	59.8
Cayman Islands	3.7	—	—	—	3.7
China	0.6	—	—	—	0.6
Czech Republic	0.7	—	—	—	0.7
Denmark	17.9	—	—	—	17.9
Finland	7.7	—	—	—	7.7
France	237.0	5.9	—	—	242.9
Germany	175.7	—	—	—	175.7
Hong Kong	9.3	—	—	—	9.3
Ireland	1.4	—	—	—	1.4
Italy	16.1	—	—	—	16.1
Japan	18.8	—	—	—	18.8
Luxembourg	2.6	—	—	—	2.6
Mexico	7.0	—	—	—	7.0
Netherlands	100.0	—	—	—	100.0
New Zealand	10.0	—	—	—	10.0
Norway	17.7	—	—	—	17.7
Portugal	6.7	—	—	—	6.7
South Africa	6.0	—	—	—	6.0
Spain	56.5	—	—	—	56.5
Sweden	23.9	—	—	—	23.9
Switzerland	50.0	—	—	—	50.0
United Arab Emirates	3.5	—	—	—	3.5
United Kingdom	821.0	—	480.3	—	1,301.3
USA	895.5	—	31.0	—	926.5
Zambia	1.3	—	—	—	1.3
Supranational	—	—	—	25.2	25.2
Total	2,702.3	5.9	511.3	25.2	3,244.7

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

The table below analyses the distribution of debt securities by industry sector classifications:

At 31 December	2023		2022	
	£m	%	£m	%
Basic materials	43.0	1%	48.9	2%
Communications	135.7	4%	131.1	4%
Consumer, cyclical	244.2	7%	274.7	8%
Consumer, non-cyclical	216.2	7%	223.0	7%
Diversified	16.9	1%	14.3	0%
Energy	81.6	3%	81.2	3%
Financial	1,424.5	43%	1,452.6	45%
Industrial	145.8	4%	158.5	5%
Sovereign, supranational and local government	707.3	21%	542.3	16%
Technology	65.6	2%	50.2	2%
Transport	12.8	0%	12.7	0%
Utilities	215.1	7%	255.2	8%
Total	3,308.7	100%	3,244.7	100%

The table below analyses the distribution of infrastructure debt by industry sector classifications:

At 31 December	2023		2022	
	£m	%	£m	%
Social, of which:				
Education	93.0	44%	105.2	44%
Health	60.5	28%	63.8	27%
Other	43.9	20%	47.4	20%
Transport	16.8	8%	20.4	9%
Total	214.2	100%	236.8	100%

The Group uses its partial internal model to determine its regulatory capital requirements and monitors its market risk exposure based on a 99.5% value-at-risk measure. The Group also applies market risk stress and scenario testing for the economic impact of specific severe market conditions. The results of this analysis are used to enhance the understanding of market risk. The market risk minimum standard explicitly prohibits the use of derivatives for speculative or gearing purposes. However, the Group is able to and does use derivatives for hedging its currency risk and interest rate risk exposures.

Spread risk

This is the risk of loss from the sensitivity of the value of assets and investments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. The level of spread is the difference between the risk-free rate and actual rate paid on the asset, with larger spreads being associated with higher-risk assets. The Group is exposed to spread risk through its asset portfolio, most notably through its investment in corporate bonds.

Net interest rate risk

This is the risk of loss from changes in the term structure of interest rates or interest rate volatility which impact assets and liabilities. The Group's interest rate risk arises mainly from its debt, floating interest rate investments and assets and liabilities exposed to fixed interest rates.

The Group has subordinated Tier 2 notes with fixed coupon rates with a nominal value of £260 million that were issued on 5 June 2020 and perpetual Tier 1 notes with fixed coupon rates with a nominal value of £350 million that were issued on 7 December 2017.

The Group also invests in floating rate debt securities, whose investment income is influenced by the movement of the short-term interest rate. A movement of the short-term interest rate will affect the expected return on these investments.

The market value of the Group's financial investments with fixed coupons is affected by the movement of interest rates. For the majority of investments in US dollar and Euro debt securities, the Group hedges its exposure to US dollar and Euro interest rate risk using swaps, excluding £307.4 million of US dollar short-duration, high-yield bonds (2022: £286.8 million), £137.3 million of US dollar subordinated financial debt and £118.1 million of Euro subordinated financial debt (2022: £134.4 million and £93.6 million, respectively).

The Group is exposed to the following interest rate benchmarks within its hedging relationships: GBP SONIA, USD SOFR and EURIBOR. The hedged items include holdings of US dollar and Euro denominated fixed rate debt securities.

IBOR reform

During the year ended 31 December 2021, the Group transitioned to alternative benchmark rates for most of its relevant financial instruments, implementing the relevant risk-free rate benchmarks and other relevant agreements.

As at 31 December 2023, the Group has determined it has no remaining exposures (2022: nominal exposure of £238.2 million) from financial instruments subject to IBOR reform. Where legal documentation has not been completed, in the immediate future reference of rates will be linked to synthetic GBP LIBOR.

Notes to the Consolidated Financial Statements continued

3. Risk management continued

3.3.2 Market risk continued

Property risk

This is the risk of loss arising from sensitivity of assets and financial investments to the level or volatility of market prices, rental yields, or occupancy rates of properties. At 31 December 2023, the value of these property investments was £277.1 million (2022: £278.5 million). The property investments are located in the UK.

Currency risk

This is the risk of loss from changes in the level or volatility of currency exchange rates. Exposure to currency risk is generated by the Group's investments in US dollar and Euro denominated debt bonds.

The Group maintains exposure to US dollar securities through £763.1 million (2022: £751.0 million) of investments in US dollar bonds and Euro securities through £219.1 million (2022: £165.4 million) of Euro bonds. The foreign currency exposure of these investments is hedged by foreign currency forward contracts, maintaining a minimal unhedged currency exposure on these portfolios, as well as a low basis risk on the hedging contracts.

A limited exposure to currency risk also arises through the Group's insurance and other contractual liabilities. Currency risk is not material at Group level.

Use of derivatives

The Group uses derivatives to hedge against interest rate and currency risk.

The tables below analyse the maturity of the Group's derivative assets and liabilities:

	Notional amounts	Maturity and fair value			Total
	£m	Less than 1 year £m	1 – 5 years £m	Over 5 years £m	
At 31 December 2023	£m	£m	£m	£m	£m
Derivative assets					
At fair value through profit or loss					
Foreign exchange contracts (forwards)	1,568.7	27.1	–	–	27.1
Interest rate swaps	49.2	0.1	0.2	–	0.3
Total	1,617.9	27.2	0.2	–	27.4

	Notional amounts	Maturity and fair value			Total
	£m	Less than 1 year £m	1 – 5 years £m	Over 5 years £m	
At 31 December 2023	£m	£m	£m	£m	£m
Derivative liabilities					
At fair value through profit or loss					
Foreign exchange contracts (forwards)	908.4	8.2	–	–	8.2
Interest rate swaps	252.8	–	1.7	5.2	6.9
Designated as hedging instruments					
Foreign exchange contracts (forwards)	14.2	0.3	–	–	0.3
Total	1,175.4	8.5	1.7	5.2	15.4

	Notional amounts		Maturity and fair value			Total £m
	£m	Less than 1 year £m	1 – 5 years £m	Over 5 years £m		
At 31 December 2022						
Derivative assets						
At fair value through profit or loss						
Foreign exchange contracts (forwards)	1,014.4	24.2	—	—		24.2
Interest rate swaps	240.4	6.0	0.5	0.5		7.0
Designated as hedging instruments						
Foreign exchange contracts (forwards)	3.4	0.1	—	—		0.1
Total	1,258.2	30.3	0.5	0.5		31.3

	Notional amounts		Maturity and fair value			Total £m
	£m	Less than 1 year £m	1 – 5 years £m	Over 5 years £m		
At 31 December 2022						
Derivative liabilities						
At fair value through profit or loss						
Foreign exchange contracts (forwards)	1,190.4	28.4	—	—		28.4
Interest rate swaps	107.6	—	0.2	1.0		1.2
Total	1,298.0	28.4	0.2	1.0		29.6

Sensitivity analysis

The table below provides a sensitivity analysis of the impact on financial investments and derivatives of a change in a single factor that is reasonably possible, with all other assumptions left unchanged. Other potential risks beyond the ones described in the table could have an additional financial impact on the Group.

	Increase/(decrease) in profit before tax ¹ at 31 December	
	2023 £m	2022 £m
Spread		
Impact of a 100 basis points increase in spreads on financial investments ²	(72.1)	(82.3)
Interest rate		
Impact of a 100 basis points increase in interest rates on financial investments and derivatives ^{2,3}	(62.2)	(64.7)
Investment property		
Impact of a 15% decrease in property markets	(41.6)	(41.8)

Notes:

- These sensitivities exclude the impact of taxation and have not considered the impact of the general market changes on the value of the Group's insurance liabilities. They reflect one-off impacts at 31 December and should not be interpreted as predictions.
- The impact on profit or loss does not reflect any fair value movement in infrastructure debt, commercial real estate loans and private placement debt securities that would not be recorded in the financial statements under IFRS 9 as they are classified as loans and receivables and private placement respectively, which are carried at amortised cost. It is estimated that a fair value reduction in these asset categories resulting from a 100 basis points increase in spreads would have been £11.7 million (2022: £13.5 million) and a 100 basis points increase in interest rates would have been £2.8 million (2022: £3.7 million).
- The sensitivities set out above reflect one-off impacts at 31 December, with the exception of the statement of profit or loss interest rate sensitivity on financial investments and derivatives, which projects a movement in a full year's interest charge as a result of the increase in the interest rate applied to these assets or liabilities on those positions held at 31 December.

Notes to the Consolidated Financial Statements continued

3. Risk management continued

3.3.2 Market risk continued

The Group has a number of open interest rate and foreign exchange derivative positions. Collateral management arrangements are in place for significant counterparty exposures. At 31 December 2023, the Group has pledged £16.6 million in cash (2022: £19.2 million) to cover initial margins and out-of-the-money derivative positions. At 31 December 2023, counterparties have pledged £12.8 million in cash (2022: £7.1 million in cash) to the Group to cover in-the-money derivative positions.

The terms and conditions of collateral pledged for both assets and liabilities are market-standard. When securities are pledged they are required to be readily convertible to cash, and as such no policy has been established for the disposal of assets not readily convertible into cash.

3.3.3 Credit risk

This is the risk of loss resulting from defaults in obligations due and/or changes in credit standing of either issuers of securities, counterparties or any debtors to which the Group is exposed. The Group's credit risk policy sets out the assessment and determination of what constitutes credit risk for the Group. The Group is mainly exposed to counterparty default risk.

Counterparty default risk

This is the risk of loss from unexpected default or deterioration in the credit standing of the counterparties and debtors of Group undertakings. This risk is monitored by two forums: the Investment Risk Forum monitors credit spreads as indicators of potential losses on investments incurred but not yet realised; the Credit Risk Forum monitors reinsurance and corporate insurance counterparty default risk. The main responsibility of these forums is to ensure that all material aspects of counterparty default risk within the Group are identified, monitored and measured.

An account is deemed to have defaulted when the Group considers that a customer is in significant financial difficulty or that the customer meets certain quantitative and qualitative criteria regarding their ability to make contractual payments when due. This includes instances where the customer makes a declaration of significant financial difficulty, or the account has been transferred to recoveries and the relationship is terminated.

The main sources of counterparty default risk for the Group are:

- investments – this arises from the investment of funds in a range of investment vehicles permitted by the investment policy;
- reinsurance recoveries – this represents amounts receivable from the reinsurer to cover claims paid to policyholders. PPOs have the potential to increase the ultimate value of a claim and, by their very nature, to increase significantly the length of time to reach final payment. This can increase reinsurance counterparty default risk in terms of both amount and longevity;
- commercial credit – this arises as brokers collect premiums on behalf of the Group; and
- consumer credit – exposure from offering monthly instalments on annual insurance contracts.

The Group cedes insurance risk to reinsurers but, in return, assumes counterparty default risk against recoveries as it remains liable for claims payments to policyholders in case of reinsurer default. The financial security of the Group's panel of reinsurers is therefore important and both the quality and amount of the assumed counterparty default risk are subject to an approval process whereby reinsurance is only purchased from reinsurers that hold a credit rating of at least A- for short tail reinsurance and the majority of long tail reinsurance to be purchased from reinsurers rated A+ or above with a maximum of 10% of the risk to be placed with reinsurers with a rating between A- and A+ at the time cover is purchased. The reinsurance and credit manager monitors the credit rating of the Group's current and potential reinsurance counterparties on a regular basis. The Group aims to deal with a diverse range of reinsurers on its contracts to mitigate the credit and/or non-payment risks associated with its reinsurance exposures.

The following tables analyse the carrying value of the Group's financial, insurance and reinsurance contracts assets that bear counterparty default risk between those assets that have not been impaired by age in relation to due date and those that have been impaired.

The Group's maximum exposure to credit risk is represented by the carrying value of financial investments, cash and cash equivalent, the carrying value of loans and advances and the excess of reinsurance assets over amounts owed to reinsurers under funds withheld arrangements which are settled on a net basis. In addition, the Group operates 100% quota share reinsurance treaty on its brokered commercial business which was sold to RSA Insurance Limited on a funds withheld basis, which substantially reduces credit risk, as the Group retains the cash received from policyholders. The Group does not use credit derivatives or similar instruments to mitigate exposure.

All financial investments held at amortised cost have been assessed for impairment using the expected credit loss model under IFRS 9. The assessment has been made based on the externally available credit ratings of the entities.

Infrastructure debt and commercial real estate loans are held with well rated institutions and are held at book value, with impairment calculated in a similar manner to debt securities. All assets which require a calculation of impairment, are considered based on an external credit rating agency or an assessment from external asset managers. The credit rating of all assets is regularly monitored. As at the year-end reporting date, the vast majority of financial assets are of investment grade and considered low risk under IFRS 9. These therefore remain within stage 1 and a 12-month expected loss is used to calculate the impairment provision required. Any assets downgraded to below BBB or any sub BBB asset that is downgraded by 1 full credit rating, are considered by the Group to have significantly increased in credit risk, and therefore are stage 2 or stage 3 under IFRS 9.

	Neither past due nor impaired	Past due 1 - 90 days	Past due more than 90 days	Carrying value in the statement of financial position
	£m	£m	£m	£m
At 31 December 2023				
Reinsurance contract assets	1,340.4	5.5	0.1	1,346.0
Other receivables	32.9	2.0	0.3	35.2
Derivative financial instruments	27.4	—	—	27.4
Debt securities	3,308.7	—	—	3,308.7
Infrastructure debt	214.2	—	—	214.2
Commercial real estate loans	145.9	—	—	145.9
Cash and cash equivalents ¹	1,772.2	—	—	1,772.2
Other loans	3.1	—	—	3.1
Total	6,844.8	7.5	0.4	6,852.7

	Neither past due nor impaired	Past due 1 - 90 days	Past due more than 90 days	Carrying value in the statement of financial position
	£m	£m	£m	£m
At 31 December 2022				
Reinsurance contract assets	1,065.2	9.6	0.1	1,074.9
Other receivables	33.7	0.6	0.2	34.5
Derivative financial instruments	31.3	—	—	31.3
Debt securities	3,244.7	—	—	3,244.7
Infrastructure debt	236.8	—	—	236.8
Commercial real estate loans	198.9	—	—	198.9
Cash and cash equivalents ¹	1,003.6	—	—	1,003.6
Other loans	1.6	—	—	1.6
Total	5,815.8	10.2	0.3	5,826.3

Note:

1. This represents money market funds with no notice period for withdrawal and cash at bank and in hand.

Within the analysis of debt securities above are bank debt securities at 31 December 2023 of £973.7 million (2022: £961.2 million) that can be further analysed as: secured £11.1 million (2022: £11.2 million); unsecured £770.6 million (2022: £795.3 million); and subordinated £192.0 million (2022: £154.7 million).

The Group's maximum exposure to credit risk from Insurance contract assets is £5.4 million (2022: £17.3 million).

The tables below analyse the credit quality of debt securities that are neither past due nor impaired:

	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
At 31 December 2023							
Corporate	56.8	152.7	1,201.6	899.6	289.2	1.5	2,601.4
Supranational	25.6	—	—	—	—	—	25.6
Local government	0.9	—	—	—	—	—	0.9
Sovereign	4.7	676.1	—	—	—	—	680.8
Total	88.0	828.8	1,201.6	899.6	289.2	1.5	3,308.7

	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
At 31 December 2022							
Corporate	67.7	158.1	1,268.4	919.8	286.6	1.7	2,702.3
Supranational	25.2	—	—	—	—	—	25.2
Local government	—	5.9	—	—	—	—	5.9
Sovereign	31.0	480.3	—	—	—	—	511.3
Total	123.9	644.3	1,268.4	919.8	286.6	1.7	3,244.7

Notes to the Consolidated Financial Statements continued

3. Risk management continued

3.3.3 Credit risk continued

The tables below analyse the credit quality of financial and insurance assets that are neither past due nor impaired (excluding debt securities analysed above). The tables include reinsurance exposure, after provision. The Group's approach to reinsurance counterparty default risk is detailed on page 204.

	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
At 31 December 2023							
Reinsurance contract assets	—	290.5	1,047.5	2.4	—	—	1,340.4
Other receivables	0.4	1.7	4.8	0.3	—	25.7	32.9
Derivative financial instruments	—	26.4	0.4	0.6	—	—	27.4
Infrastructure debt	—	—	34.5	179.7	—	—	214.2
Commercial estate loans	12.1	47.9	51.6	28.6	5.7	—	145.9
Cash and cash equivalents ¹	1,624.2	14.0	133.0	0.9	—	0.1	1,772.2
Other loans	—	—	—	—	—	3.1	3.1
Total	1,636.7	380.5	1,271.8	212.5	5.7	28.9	3,536.1

	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
At 31 December 2022							
Reinsurance contract assets	—	440.7	622.2	0.9	—	1.4	1,065.2
Other receivables	—	0.1	0.3	—	—	33.3	33.7
Derivative financial instruments	—	7.9	23.4	—	—	—	31.3
Infrastructure debt	—	—	38.2	191.8	6.8	—	236.8
Commercial estate loans	15.7	64.1	88.1	24.0	7.0	—	198.9
Cash and cash equivalents ¹	878.8	7.8	116.1	0.9	—	—	1,003.6
Other loans	—	—	—	—	—	1.6	1.6
Total	894.5	520.6	888.3	217.6	13.8	36.3	2,571.1

Note:

1. This represents money market funds with no notice period for withdrawal and cash at bank and in hand.

Debt instruments measured at amortised cost.

The table below shows the credit quality and the maximum exposure to credit risk per the Group's internal credit rating model. The amounts presented are gross of ECL allowances:

	2023			2022		
	12 month expected credit loss	Lifetime expected credit loss	Total	12 month expected credit loss	Lifetime expected credit loss	Total
	£m	£m	£m	£m	£m	£m
AA+ to AA-	11.5	—	11.5	11.5	—	11.5
A+ to A-	16.0	—	16.0	42.8	—	42.8
BBB+ to BBB-	33.8	—	33.8	33.8	—	33.8
BB+ and below	—	10.1	10.1	—	10.1	10.1
Total	61.3	10.1	71.4	88.1	10.1	98.2

Loans and receivables measured at amortised cost:

The table below shows the credit quality and the maximum exposure to credit risk per the Group's internal credit rating model. The amounts presented are gross of ECL allowances:

	2023			2022		
	12 month expected credit loss	Lifetime expected credit loss	Total	12 month expected credit loss	Lifetime expected credit loss	Total
	£m	£m	£m	£m	£m	£m
AAA	12.1	—	12.1	15.7	—	15.7
AA+ to AA-	47.9	—	47.9	64.1	—	64.1
A+ to A-	86.2	—	86.2	126.4	—	126.4
BBB+ to BBB-	209.4	—	209.4	217.1	—	217.1
BB+ and below	—	28.9	28.9	—	35.9	35.9
Not rated	—	3.4	3.4	—	1.9	1.9
Total	355.6	32.3	387.9	423.3	37.8	461.1

The Group's Investment and Treasury team prepares internal ratings for instruments held in which its counterparties are rated using internal grades (AAA to BB+ and below). The ratings are determined incorporating both qualitative and quantitative information that builds on information from credit agencies, supplemented with information specific to the counterparty and other external information that could affect the counterparty's behaviour. These information sources are first used to determine whether an instrument has had a significant increase in credit risk.

The tables below analyse the change in the carrying amount and loss allowance of debt securities measured at amortised cost and the corresponding ECL.

	2023			2022		
	12 month expected credit loss	Lifetime expected credit loss	Total	12 month expected credit loss	Lifetime expected credit loss	Total
	£m	£m	£m	£m	£m	£m
Carrying amount						
Amortised cost as at 1 January	88.1	10.1	98.2	81.1	10.1	91.2
New assets originated or purchased	—	—	—	7.0	—	7.0
Assets derecognised or matured	(26.8)	—	(26.8)	—	—	—
Amortised cost as at 31 December	61.3	10.1	71.4	88.1	10.1	98.2

	2023			2022		
	12 month expected credit loss	Lifetime expected credit loss	Total	12 month expected credit loss	Lifetime expected credit loss	Total
	£m	£m	£m	£m	£m	£m
Loss allowance						
Loss allowance as at 1 January	(0.4)	(0.6)	(1.0)	(0.5)	(0.7)	(1.2)
Effect of changes in assessed ECL	0.1	0.1	0.2	0.1	0.1	0.2
Loss allowance as at 31 December	(0.3)	(0.5)	(0.8)	(0.4)	(0.6)	(1.0)

The tables below analyse the change in the carrying amount and loss allowance of loans and receivables measured at amortised cost and the corresponding ECL.

	2023			2022		
	12 month expected credit loss	Lifetime expected credit loss	Total	12 month expected credit loss	Lifetime expected credit loss	Total
	£m	£m	£m	£m	£m	£m
Carrying amount						
Amortised cost as at 1 January	423.3	37.8	461.1	435.8	35.9	471.7
New assets originated or purchased	—	1.5	1.5	40.8	1.9	42.7
Assets derecognised or matured	(75.5)	—	(75.5)	(56.1)	—	(56.1)
Accrued interest capitalised	0.8	—	0.8	2.8	—	2.8
Transfer to 12 month ECL	7.0	(7.0)	—	—	—	—
Amortised cost as at 31 December	355.6	32.3	387.9	423.3	37.8	461.1

Notes to the Consolidated Financial Statements continued

3. Risk management continued

3.3.3 Credit risk continued

	2023			2022		
	12 month expected credit loss	Lifetime expected credit loss	Total	12 month expected credit loss	Lifetime expected credit loss	Total
	£m	£m	£m	£m	£m	£m
Loss allowance						
Loss allowance as at 1 January	(1.5)	(22.3)	(23.8)	(2.2)	(20.7)	(22.9)
Transfer to lifetime ECL	(0.1)	0.1	—	—	—	—
Effect of changes in assessed ECL	0.5	(1.4)	(0.9)	0.7	(1.6)	(0.9)
Loss allowance as at 31 December	(1.1)	(23.6)	(24.7)	(1.5)	(22.3)	(23.8)

3.3.4 Operational risk

This is the risk of loss due to inadequate or failed internal processes, people, systems, or from external events. Material sources of operational risk for the Group include:

Change risk

This is the risk of failing to manage the Group's business change portfolio resulting in conflicting priorities and failure to deliver strategic outcomes to time, cost or quality.

Technology and infrastructure risk

This is the risk that the IT infrastructure is insufficient to deliver the Group's strategy.

Supplier management and outsourcing risk

This is the risk of failing to implement a robust framework for the sourcing, appointment and ongoing contract management of third-party suppliers, outsourced service providers and intra-group relationships. This includes both domestic and offshore outsourcing activities.

Cyber risk

This is the risk of loss or corruption to Group or customer data, intellectual property or failure of business-critical systems resulting in reputational damage, regulatory censure, supervision, fines and/or loss of competitive advantage.

Partnership contractual obligations

This is the risk of contractual obligations not being delivered for business partners resulting in damaged reputation, the loss of contract at renewal, significant liability payments and/or the early termination of a partnership scheme.

The Group has in place agreed policies and standards to establish and monitor key controls relating to operational risk.

Risk concentrations and management

The Group is subject to concentration in its operational risks through, for example, its IT systems and change programmes; which include the risk of loss in a number of scenarios such as system outages and data security breaches. Technology remains at the heart of the Group operations and focus is on upgrading Group IT systems and capabilities, aimed at expanding the Group's digital offerings, capitalising on the Group's data, improving customer experience and overall increasing operational efficiency.

The Group proactively manages its operational risks to mitigate potential customer harm, regulatory or legal censure, financial and reputational impacts. The Group has in place operational processes and systems, including prevention and detection measures. These include processes which seek to ensure the Group can absorb and/or adapt to internal or external events that could impact customer operations and the wider business, as well as to learn from these situations to improve the Group's overall risk and control systems moving forward.

The Group's risk management framework is designed to enable it to capture risk information in a complete and consistent way, enabling proactive trend analysis, root cause analysis and read across to facilitate early warnings and a 'learning' risk environment.

3.3.5 Liquidity risk

This is the risk of being unable to access cash from the sale of investments or other assets in order to settle financial obligations as they fall due.

The measurement and management of the Group's liquidity risk is undertaken within the limits and other policy parameters of the Group's liquidity risk appetite and is detailed in the liquidity risk minimum standard. As part of this process, the Investment and Treasury team is required to put in place a liquidity plan which must consider expected and stressed scenarios for cash inflows and outflows that is reviewed at least annually by the Investment Committee. Compliance is monitored in respect of both the minimum standard and the regulatory requirements of the PRA.

The following table analyses the carrying value of financial investments and cash and cash equivalents, by contractual maturity, which can fund the repayment of liabilities as they crystallise.

	Within 1 year	1 – 3 years	3 – 5 years	5 – 10 years	Over 10 years	Total
	£m	£m	£m	£m	£m	£m
At 31 December 2023						
Debt securities	566.1	1,542.0	598.2	503.6	98.8	3,308.7
Infrastructure debt	20.4	32.8	41.2	81.8	38.0	214.2
Commercial real estate loans	46.5	55.5	43.9	–	–	145.9
Cash and cash equivalents ¹	1,772.2	–	–	–	–	1,772.2
Other loans	–	0.4	2.7	–	–	3.1
Total	2,405.2	1,630.7	686.0	585.4	136.8	5,444.1

	Within 1 year	1 – 3 years	3 – 5 years	5 – 10 years	Over 10 years	Total
	£m	£m	£m	£m	£m	£m
At 31 December 2022						
Debt securities	798.6	979.0	807.3	530.9	128.9	3,244.7
Infrastructure debt	18.9	34.8	41.2	91.2	50.7	236.8
Commercial real estate loans	55.9	63.3	79.7	–	–	198.9
Cash and cash equivalents ¹	1,003.6	–	–	–	–	1,003.6
Other loans	–	–	1.6	–	–	1.6
Total	1,877.0	1,077.1	929.8	622.1	179.6	4,685.6

Note:

1. This represents money market funds with no notice period for withdrawal and cash at bank and in hand.

The following table analyses the undiscounted cash flows of insurance liabilities based on the future cash flows expected to be paid out in the periods presented, and financial and other liabilities by maturity dates.

	Less than 1 year	1 – 3 years	3 – 5 years	5 – 10 years	Over 10 years	Total	Carrying value
	£m	£m	£m	£m	£m	£m	£m
At 31 December 2023							
Subordinated liabilities	10.4	20.8	20.8	296.4	–	348.4	258.8
Insurance contract liabilities	2,050.0	1,365.1	781.0	564.4	602.7	5,363.2	3,874.0
Borrowings	82.4	–	–	–	–	82.4	82.4
Lease liabilities	12.7	22.3	23.0	51.4	27.3	136.7	106.1
Provisions	30.3	0.4	0.1	–	–	30.8	30.8
Trade and other payables	157.4	6.1	0.1	–	–	163.6	163.6
Total	2,343.2	1,414.7	825.0	912.2	630.0	6,125.1	4,515.7

	Less than 1 year	1 – 3 years	3 – 5 years	5 – 10 years	Over 10 years	Total	Carrying value
	£m	£m	£m	£m	£m	£m	£m
At 31 December 2022							
Subordinated liabilities	10.4	20.8	20.8	306.8	–	358.8	258.6
Insurance contract liabilities	1,460.7	902.0	474.7	371.2	1,498.3	4,706.9	3,394.3
Borrowings	65.2	–	–	–	–	65.2	65.2
Lease liabilities	10.9	17.6	14.3	32.2	27.8	102.8	81.6
Provisions	9.6	0.5	0.1	–	–	10.2	10.2
Trade and other payables	140.7	6.1	0.2	–	–	147.0	147.0
Total	1,697.5	947.0	510.1	710.2	1,526.1	5,390.9	3,956.9

Notes to the Consolidated Financial Statements continued

3. Risk management continued

3.3.5 Liquidity risk continued

The following table analyses the undiscounted cash flows of derivative financial instruments, by contractual maturity.

	Within 1 year	1 – 3 years	3 – 5 years	5 – 10 years	Total	Carrying value
	£m	£m	£m	£m	£m	£m
At 31 December 2023						
Derivative assets	27.6	(0.1)	(0.1)	—	27.4	27.4
Derivative liabilities	(14.4)	(1.0)	—	—	(15.4)	(15.4)
Total	13.2	(1.1)	(0.1)	—	12.0	12.0
At 31 December 2022						
Derivative assets	31.7	—	(0.1)	—	31.6	31.3
Derivative liabilities	(29.6)	—	—	—	(29.6)	(29.6)
Total	2.1	—	(0.1)	—	2.0	1.7

3.4 Capital management

At 31 December 2023, the Group's capital position was comprised of shareholders' equity of £2,058.2 million (31 December 2022: £1,845.3 million) and Tier 1 notes of £346.5 million (31 December 2022: £346.5 million). In addition, the Group's consolidated statement of financial position also included £258.8 million of subordinated loan capital (31 December 2022: £258.6 million) which is classified as Tier 2 for Solvency II purposes.

The Group manages capital in accordance with the Group's capital management minimum standard, the aims of which are to manage capital efficiently and generate long-term sustainable value for shareholders, while balancing operational, regulatory, credit rating agency and policyholder requirements. The Group seeks to hold capital resources such that, in normal circumstances, the solvency capital ratio is around the middle of the target range of 140% to 180%. At 31 December 2023, the Group's solvency capital ratio was 197% (31 December 2022: 147%)

The Group's regulatory capital position is assessed against the Solvency II framework. From 1 July 2016, the Group gained approval to assess its SCR using a partial internal model, including a full internal model for the U K Insurance Limited underwriting entity. The model is calibrated to a 99.5% confidence interval and considers business written to date and one year of future written business over a one-year time horizon, in line with Solvency II requirements.

During the year, the Group and its regulated entities complied with all external capital requirements.

3.5 Capital adequacy (unaudited)

Using the Group's partial internal model, there is a capital surplus of approximately £1.10 billion above an estimated SCR of £1.13 billion as at 31 December 2023 (31 December 2022: £0.57 billion and £1.21 billion respectively). The Group's capital requirements and solvency position are produced and presented to the Board on a regular basis.

4. Segmental analysis

The Chief Operating decision makers, being the Acting Chief Executive Officer and the Chief Financial Officer, regularly review the operating results at the segmental level as described below and disclosed in the tables in this note to assess performance and make decisions about allocation of resources.

Motor

This segment consists of personal motor insurance together with the associated legal protection cover. The Group sells motor insurance direct to customers through its own brands Direct Line, Churchill, Privilege and Darwin, and through partnership brands such as vehicle manufacturers and through price comparison websites ("PCWs").

Home

This segment consists of home insurance together with associated legal protection cover. The Group sells home insurance products through its brands Direct Line, Churchill and Privilege, and its partnership brands (Royal Bank of Scotland and NatWest), as well as through PCWs.

Rescue and other personal lines

This segment consists of rescue products which are sold direct through the Group's own brand, Green Flag, and other personal lines insurance, including travel, pet and creditor sold through its own brands Direct Line, Churchill and Privilege, and through partnership brands and through PCWs.

Commercial

This segment consists of commercial insurance for small and micro-sized enterprises sold direct through the Group's brands Direct Line for Business and Churchill. Both brands sell products directly to customers and Churchill also sells products through PCWs.

Brokered commercial business and run-off¹ partnerships

On 6 September 2023 the Group announced the sale of its brokered commercial insurance business to Royal & Sun Alliance Insurance Limited. Under the terms of the agreement, the Group has retained the back book of the business written and earned prior to 1 October 2023 (the "Risk Transfer Date"). Business written subsequent to the Risk Transfer Date is subject to a quota share arrangement between the two companies. Over time the two companies intend to enter into discussions regarding the potential transfer of the back book of policies written prior to the Risk Transfer Date.

The Group has exited, or is seeking to exit, three partnerships which will reduce its exposure to low margin packaged bank accounts so it can redeploy capital to higher return segments. The run-off partnerships relate to a Rescue partnership with NatWest Group that expired in December 2022 and Travel partnerships with NatWest Group and Nationwide Building Society which expire in 2024, where the Group has indicated that it will not be seeking to renew.

The Group has aggregated and excluded the results of the brokered commercial business and run-off partnerships from its ongoing results and has restated all relevant comparatives across the report. Results relating to ongoing operations will be clearly labelled. The segmental analysis has been amended to reflect the changes. The profit/(loss) before restructuring and one-off costs relating to the brokered commercial business and run-off partnerships in 2023 was £50.0 million profit and £28.0 million loss (2022: £17.9 million profit and £13.6 million loss respectively).

Inter-segmental transactions

No inter-segment transactions occurred in the year ended 31 December 2023 (2022: £nil). If any transaction were to occur, transfer prices between operating segments would be set on an arm's-length basis in a manner similar to transactions with third parties. Segment income, expenses and results will include those transfers between business segments which will then be eliminated on consolidation.

For each operating segment, there are no individual policyholders or customers that represent 10% or more of the Group's total revenue.

The table below analyses the Group's revenue and results by reportable segment for the year ended 31 December 2023.

	Motor £m	Home £m	RoPL ^{1,2} £m	Commercial £m	Total Group - ongoing operations ³ £m	Brokered commercial business £m	Run-off partnerships ¹ £m	Restructuring and one-off costs	Total Group £m
Insurance revenue	1,805.4	539.7	272.9	234.9	2,852.9	600.8	148.0	–	3,601.7
Insurance service expenses	(2,145.2)	(477.4)	(229.5)	(187.4)	(3,039.5)	(564.3)	(177.7)	(24.8)	(3,806.3)
Allocation of reinsurance premiums paid	(240.5)	(36.1)	(3.7)	(25.1)	(305.4)	(163.4)	(1.4)	–	(470.2)
Amounts recoverable from reinsurers	248.7	24.0	2.3	5.2	280.2	140.8	2.4	–	423.4
Insurance service result	(331.6)	50.2	42.0	27.6	(211.8)	13.9	(28.7)	(24.8)	(251.4)
Investment return	179.3	39.2	10.7	11.8	241.0	59.0	3.0	–	303.0
Net finance expenses from insurance contracts issued	(146.2)	(15.9)	(1.5)	(6.8)	(170.4)	(21.9)	(1.5)	–	(193.8)
Net finance (expenses)/income from reinsurance contracts held	25.5	0.9	0.1	1.0	27.5	0.4	0.1	–	28.0
Investment return and net insurance finance result	58.6	24.2	9.3	6.0	98.1	37.5	1.6	–	137.2
Other operating income	4.2	0.4	15.3	1.5	21.4	0.4	–	–	21.8
Other operating expenses	(5.6)	(3.1)	(12.8)	(0.7)	(22.2)	(1.8)	(0.9)	(34.7)	(59.6)
(Loss)/earnings before other finance costs	(274.4)	71.7	53.8	34.4	(114.5)	50.0	(28.0)	(59.5)	(152.0)
Gain on disposal									443.9
Other finance costs									(14.5)
Profit before tax									277.4

Notes to the Consolidated Financial Statements continued

4. Segmental analysis continued

The table below analyses the Group's assets and liabilities by reportable segment at 31 December 2023³.

	Motor £m	Home £m	RoPL ^{1,2} £m	Commercial £m	Total Group - ongoing operations £m	Brokered commercial business £m	Run-off partnerships ¹ £m	Total Group £m
Goodwill	134.0	45.8	28.7	—	208.5	—	—	208.5
Assets held for sale	8.7	1.6	0.4	0.7	11.4	2.3	0.2	13.9
Other segment assets	4,356.6	783.1	230.6	324.9	5,695.2	1,059.6	88.6	6,843.4
Reinsurance contract assets	1,076.4	36.6	3.6	23.0	1,139.6	203.6	2.8	1,346.0
Insurance contract assets	—	—	—	—	—	—	5.4	5.4
Reinsurance contract liabilities	(16.9)	(4.7)	(1.5)	(3.4)	(26.5)	(89.6)	(0.5)	(116.6)
Insurance contract liabilities	(3,305.9)	(583.1)	(155.9)	(250.1)	(4,295.0)	(866.0)	(77.8)	(5,238.8)
Other segment liabilities	(415.1)	(73.2)	(19.6)	(31.4)	(539.3)	(108.7)	(9.1)	(657.1)
Segment net assets	1,837.8	206.1	86.3	63.7	2,193.9	201.2	9.6	2,404.7

Notes:

- Ongoing operations and run-off partnerships – See glossary on pages 261 to 264 for definitions and appendix A – Alternative performance measures on pages 265 to 268 for reconciliation to financial statement line items.
- See glossary on page 263 for definitions. The Group incurred £59.5 million of restructuring and one-off costs in 2023, which were predominantly driven by work carried out in relation to the Group's two past business reviews, cost efficiency initiatives and impairments.
- This segmental analysis is prepared using a combination of asset and liability balances directly attributable to each operating segment and an apportionment of assets and liabilities managed at a Group-wide level. This does not represent the Group's view of the capital requirements for its operating segments.

The table below analyses the Group's restated revenue and results by reportable segment for the year ended 31 December 2022.

	Motor £m	Home £m	RoPL ^{1,2} £m	Commercial £m	Total Group - ongoing operations ³ £m	Brokered commercial business £m	Run-off partnerships ² £m	Restructuring and one-off costs £m	Total Group £m
Insurance revenue	1,555.3	560.7	282.1	211.8	2,609.9	496.4	122.8	—	3,229.1
Insurance service expenses	(1,636.2)	(540.8)	(223.4)	(192.9)	(2,593.3)	(419.5)	(132.7)	—	(3,145.5)
Allocation of reinsurance premiums paid	(77.2)	(26.5)	(2.3)	(22.1)	(128.1)	(36.9)	(0.7)	—	(165.7)
Amounts recoverable from/(payable to) reinsurers	87.4	3.1	(0.7)	(1.8)	88.0	8.4	—	—	96.4
Insurance service result	(70.7)	(3.5)	55.7	(5.0)	(23.5)	48.4	(10.6)	—	14.3
Investment return	(140.3)	(29.8)	(7.1)	(8.1)	(185.3)	(39.6)	(2.2)	—	(227.1)
Net finance income/(expenses) from insurance contracts issued	81.8	5.0	1.2	3.4	91.4	11.1	(0.1)	—	102.4
Net finance expenses from reinsurance contracts held	(94.8)	(0.4)	—	(1.2)	(96.4)	(5.1)	—	—	(101.5)
Investment return and net insurance finance result	(153.3)	(25.2)	(5.9)	(5.9)	(190.3)	(33.6)	(2.3)	—	(226.2)
Other operating income	(6.4)	0.5	11.4	1.6	7.1	1.2	—	—	8.3
Other operating expenses	(21.9)	(2.5)	(8.5)	(0.8)	(33.7)	1.9	(0.7)	(45.3)	(77.8)
(Loss)/earnings before other finance costs	(252.3)	(30.7)	52.7	(10.1)	(240.4)	17.9	(13.6)	(45.3)	(281.4)
Other finance costs									(20.4)
Loss before tax									(301.8)

The table below analyses the Group's restated assets and liabilities by reportable segment at 31 December 2022³.

	Motor £m	Home £m	RoPL ^{1,2} £m	Commercial £m	Total Group - ongoing operations £m	Brokered commercial business £m	Run-off partnerships ¹ £m	Total Group £m
Goodwill	130.4	45.8	28.7	—	204.9	10.1	—	215.0
Assets held for sale	25.4	5.0	1.5	1.9	33.8	6.8	0.3	40.9
Other segment assets	3,818.4	736.1	246.1	287.2	5,087.8	939.3	48.5	6,075.6
Reinsurance contract assets	956.1	19.1	1.4	20.0	996.6	78.0	0.3	1,074.9
Insurance contract assets	—	—	—	—	—	—	17.3	17.3
Reinsurance contract liabilities	—	(5.2)	(1.2)	(2.6)	(9.0)	(4.5)	(0.4)	(13.9)
Insurance contract liabilities	(2,860.2)	(567.0)	(171.5)	(214.9)	(3,813.6)	(755.5)	(56.7)	(4,625.8)
Other segment liabilities	(367.5)	(72.9)	(22.0)	(27.6)	(490.0)	(97.1)	(5.1)	(592.2)
Segment net assets	1,702.6	160.9	83.0	64.0	2,010.5	177.1	4.2	2,191.8

Notes:

- Ongoing operations and run-off partnerships – See glossary on pages 261 to 264 for definitions and appendix A – Alternative performance measures on pages 265 to 268 for reconciliation to financial statement line items.
- See glossary on page 263 for definitions.
- This segmental analysis is prepared using a combination of asset and liability balances directly attributable to each operating segment and an apportionment of assets and liabilities managed at a Group-wide level. This does not represent the Group's view of the capital requirements for its operating segments.

5. Insurance service result

	2023 £m	2022 £m restated ¹
Insurance revenue	3,601.7	3,229.1
Insurance service expenses		
Incurred claims and other claims expenses	(2,860.3)	(2,435.3)
Past service – incurred claims	(80.9)	118.0
Other directly attributable expenses	(907.9)	(871.0)
Other directly attributable claims income ²	42.8	42.8
Total insurance service expenses	(3,806.3)	(3,145.5)
Expenses from reinsurance contracts held		
Reinsurance premium paid	(613.0)	(141.6)
Movement in asset for remaining coverage	142.8	(24.1)
Allocation of reinsurance premiums paid	(470.2)	(165.7)
Insurance claims recoverable from reinsurance contracts held		
Claims recovered	495.7	92.2
Past service – claim recoveries	(63.1)	12.6
Other directly attributable expenses	(3.4)	—
Effect of non-performance risk of reinsurers	(5.8)	(8.4)
Total amounts recoverable from reinsurance contracts held	423.4	96.4
Total insurance service result	(251.4)	14.3

Note:

- Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
- This includes vehicle replacement referral fees, salvage income and legal services fees which have been assessed as part of the IFRS 17 contract boundary.

Notes to the Consolidated Financial Statements continued

6. Investment return and net insurance financial result

	2023 £m	2022 £m restated ¹
Amounts recognised in profit or loss		
Interest income calculated using effective interest rate method:		
Debt securities	78.9	78.7
Cash and cash equivalents	65.2	13.9
Infrastructure debt	14.8	7.9
Commercial real estate loans	12.9	8.8
Total interest income calculated using effective interest rate method	171.8	109.3
Rental income from investment property	16.1	15.6
Other interest and similar income	16.1	15.6
Investment income	187.9	124.9
Investment fees	(9.3)	(9.5)
Net investment income	178.6	115.4
Net fair value gains/(losses) on financial assets held at fair value through profit or loss:		
Debt securities	134.1	(370.7)
Derivatives	(6.4)	69.5
Equity investments	(0.7)	(1.6)
Total net fair value gains/(losses) on financial assets held at fair value through profit or loss:	127.0	(302.8)
Net fair value losses on investment property	(1.9)	(39.1)
Net credit impairment losses on financial investments	(0.7)	(0.6)
Investment return	303.0	(227.1)
Insurance finance (expense)/income from insurance contracts issued:		
Interest accreted to insurance contracts using current financial assumptions	(193.8)	102.4
Reinsurance finance income/(expense) from reinsurance contracts issued:		
Interest accreted to reinsurance contracts using current financial assumptions	28.0	(101.5)
Insurance and reinsurance finance (expenses)/income	(165.8)	0.9
Total investment return, insurance and reinsurance finance income/(expenses)	137.2	(226.2)
Amounts recognised in other comprehensive income		
Net fair value gains/(losses) on equity investments measured at fair value through other comprehensive income	2.7	(0.6)

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

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

	2023 £m	2022 £m restated ¹
(Losses)/gains on hedging instruments:		
Foreign exchange forward contracts ²	43.0	(184.1)
Associated foreign exchange risk	(48.5)	184.7
Net (losses)/gains on foreign exchange contracts	(5.5)	0.6
Interest rate swaps:		
(Losses)/gains on interest rate swaps ²	(0.9)	68.9
Total (losses)/gains on hedging instruments	(6.4)	69.5

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
2. Foreign exchange forward contracts and interest rate swaps are measured at fair value through the statement of profit or loss, other than a small number of immaterial cash flow hedges.

The Group holds fixed rate USD and EUR denominated bonds whose fair value is exposed to movements in interest rates. In order to economically hedge the interest rate risk of these bonds the Group enters into interest rate swaps, paying a fixed rate and receiving a floating rate.

7. Other operating expenses

	2023 £m	2022 £m restated ¹
Non-directly attributable IT and other operating expenses	33.4	42.2
Non-directly attributable staff expenses	15.7	10.5
Impairment of intangible and fixed assets	10.5	25.1
Total other operating expenses	59.6	77.8

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

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

	At 31 December		Average for the year	
	2023	2022	2023	2022
Insurance operations	7,015	6,523	6,743	6,828
Repair centre operations	1,715	1,508	1,620	1,433
Support	1,401	1,356	1,321	1,407
Total	10,131	9,387	9,684	9,668

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

	2023 £m	2022 £m
Wages and salaries	421.4	391.6
Social security costs	47.7	43.9
Pension costs	28.7	26.5
Share-based payments	13.9	8.2
Total	511.7	470.2

Of the total aggregate remuneration, £15.7 million relates to other operating expenses with the remainder included within the Insurance service result as part of other directly attributable expenses, see note 5 for further details.

Notes to the Consolidated Financial Statements continued

7. Other operating expenses continued

The table below analyses Auditor's remuneration in respect of the Group's operations.

	2023	2022
	£m	£m
Fees payable for the audit of:		
The Company's annual accounts	0.5	0.4
The Company's subsidiaries	3.3	2.6
Total audit fees	3.8	3.0
Audit-related assurance services	0.4	0.2
Other assurance services	0.2	—
Non-audit services	1.6	—
Total¹	6.0	3.2

Notes:

1. Total audit fees, excluding VAT.
2. An additional non-audit service has been provided in 2024 for fees of £0.4 million for reporting accountant services.

Aggregate Directors' emoluments

The table below analyses the total amount of Directors' remuneration in accordance with Schedule 5 to the Accounting Regulations.

	2023	2022
	£m	£m
Salaries, fees, bonuses and benefits in kind	3.7	2.6
Gains on exercise of share options	0.3	1.8
Total	4.0	4.4

Further information about the remuneration of individual Directors is provided in the Directors' Remuneration Report.

At 31 December 2023, no Directors (2022: no Directors) had retirement benefits accruing under the defined contribution pension scheme in respect of qualifying service. During the year ended 31 December 2023, one Director exercised share options (2022: two Directors).

8. Other finance costs

	2023	2022
	£m	£m
		restated ¹
Interest expense on subordinated liabilities	10.5	17.8
Net interest received on interest rate swap	—	(2.2)
Unrealised losses on interest rate swap	—	2.4
Amortisation of arrangement costs, discount on issue and fair value hedging adjustment of subordinated liabilities	0.2	(0.8)
Interest expense on lease liabilities	3.8	3.1
Other interest expense	—	0.1
Total	14.5	20.4

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

9. Gain on disposal of business

On 6 September 2023, the Group announced that it had entered into an agreement with Royal & Sun Alliance Insurance Limited ("RSA"), a wholly-owned subsidiary of Intact Financial Corporation, to dispose of its brokered commercial business. The disposal was structured through several agreements, including:

- A business transfer agreement, which related to the transfer of the new business franchise and certain operations, brands, employees, contractors, data, third party contracts and premises, with the operational transfer targeted to occur in Q2 2024. Certain aspects of the overall business transfer are expected to take place following the initial operational transfer, whereupon RSA will start to write relevant business. On completion of the transaction on 26 October 2023 when the cash consideration was received, the Group lost control of the net assets in relation to the brokered commercial business and as a result, these net assets have been de-recognised in the consolidated statement of financial position and the gain on disposal recognised in the consolidated statement of profit or loss.
- A quota share arrangement relating to the reinsurance of new and certain existing brokered commercial business with effect from 1 October 2023, the risk transfer date, which transferred the economics of the business from this date. The arrangement included business written but not yet earned prior to the risk transfer date and new policies from the risk transfer date until the date of operational transfer. If approved by the Court, and in due course, a subsequent insurance business transfer scheme to transfer these policies to RSA will take place under Part VII of the Financial Services and Markets Act 2000.
- Certain administration and transitional services arrangements to be entered into in connection with operational transfer, including the servicing of policies during the transition.

The Group has retained the back book in relation to business written and earned before 1 October 2023.

On 19 October 2023, the Group's shareholders approved the sale transaction. The cash consideration of £520 million was received on 26 October 2023.

There is potential for further consideration of up to £30 million contingent upon certain earn-out provisions relating to the financial performance of the business. At 31 December 2023, the fair value of the contingent consideration was determined to be nil due to inherent uncertainty at this point on how the disposed business will perform until the conclusion of the earn out period.

A pre-tax gain on disposal of £443.9 million, net of transaction costs, has been recognised in the consolidated statement of profit or loss.

The operations of the brokered commercial business have not been classified as discontinued operations since they do not represent a separate major line of business or geographical operations.

The proceeds from the transaction will be used to enhance the capital strength of the Group and for general corporate purposes.

	2023 £m
Cash consideration	520.0
Less: Net assets disposed of	(6.3)
Transaction cost	(50.3)
Assets written-off and impaired as part of disposal	(19.5)
Gain on disposal - pre-tax impact	443.9

The table below summarises the statement of financial position of brokered commercial business as at date of disposal:

	2023 £m
Assets	
Intangible assets	6.9
Property, plant & equipment	0.5
Right of use assets	0.6
Prepayments, accrued income and other assets	0.2
Total assets	8.2
Liabilities	
Trade and other payables	(0.1)
Provisions	(0.8)
Lease liabilities	(1.0)
Total liabilities	(1.9)
Net assets disposed of	6.3

Notes to the Consolidated Financial Statements continued

10. Tax charge/(credit)

	2023 £m	2022 £m restated ¹
Current taxation:		
Charge/(credit) for the year	24.3	(9.8)
Over-provision in respect of prior period	(2.6)	(3.0)
	21.7	(12.8)
Deferred taxation (note 13):		
Charge/(credit) for the year	29.5	(61.0)
Under-provision for the year-provision in respect of prior year	3.3	3.9
	32.8	(57.1)
Current taxation	21.7	(12.8)
Deferred taxation (note 11)	32.8	(57.1)
Tax charge/(credit) for the year	54.5	(69.9)

Note:

- Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

The following table analyses the difference between the actual income tax (credit)/charge and the expected income tax (credit)/charge computed by applying the standard rate of corporation tax of 23.5%¹ (2022: 19.0%).

	2023 £m	2022 £m restated ²
Profit/(loss) for the year	277.4	(301.8)
Expected tax charge/(credit)	65.2	(57.3)
Effects of:		
Previously unrecognised capital losses now offset against capital gains	(12.4)	—
Disallowable expenses	3.7	3.4
Non-taxable items	(0.1)	(0.3)
Movement in deferred tax asset/liability not recognised	(0.1)	—
Higher tax rates on overseas earnings	—	0.1
Effect of change in corporation taxation rate ¹	0.2	(15.2)
Under-provision in respect of prior year	0.7	0.9
Revaluation of property	1.2	1.7
Deductible Tier 1 notes coupon payment in equity	(3.9)	(3.2)
Tax charge/(credit) for the year	54.5	(69.9)
Effective income tax rate	19.6%	23.2%

Notes:

- In the Finance Act 2021, the UK Government enacted, on 10 June 2021, an increase in the UK corporation tax rate from 19% to 25% effective from 1 April 2023. As a consequence the closing deferred tax assets and liabilities have been recognised at the tax rates expected to apply when the temporary differences reverse. The impact of these changes on the tax (credit)/charge for the year is set out in the table above.
- Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

11. Current and deferred tax

The aggregate current and deferred tax relating to items that are credited to equity is £0.3 million (2022: £0.2 million).

The table below analyses the major deferred tax assets and liabilities recognised by the Group and movements thereon.

	Provisions and other temporary differences	Retirement benefit obligations	Depreciation in excess of capital allowances	Share-based payments	Transitional adjustments on adoption of IFRS 9	Transitional adjustments on adoption of IFRS 17	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2022 (restated)	6.0	(3.1)	(4.7)	3.5	(1.7)	29.4	29.4
(Charge)/credit to the statement of profit or loss	(1.4)	0.2	(4.3)	(1.7)	67.1	(2.8)	57.1
Credit to other comprehensive income	—	2.5	—	—	—	—	2.5
Credit direct to equity	—	—	—	—	—	—	—
At 31 December 2022¹	4.6	(0.4)	(9.0)	1.8	65.4	26.6	89.0
(Charge)/credit to the statement of profit or loss	(2.9)	0.1	2.0	0.9	(6.3)	(26.6)	(32.8)
Credit direct to equity	—	—	—	0.3	—	—	0.3
At 31 December 2023	1.7	(0.3)	(7.0)	3.0	59.1	—	56.5

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

A deferred tax asset of £59.1 million (2022: £65.4 million) relates to future tax relief on adoption of IFRS 9 which is spread evenly over 10 years from 1 January 2023. A deferred tax asset of £Nil (2022: £26.6 million) relates to tax relief on adoption of IFRS 17 which is applicable in 2023. Other deferred tax assets will be recovered over a period of 1 to 12 years.

As at 31 December 2023, the Group has an unrecognised deferred tax asset of £0.1 million (2022: £13.0 million) in relation to capital losses, of which £Nil (2022 £11.8 million) relates to realised losses and £0.1 million (2022 £1.2 million) related to unrealised losses.

Deferred tax assets have been recognised in respect of IFRS 9 transitional tax adjustments and all other temporary differences because it is probable that these assets will be recovered, with the exception of unrecognised capital losses, where recovery is uncertain as it is dependent on realising future capital gains. The deferred tax asset in respect of IFRS 9 transitional tax adjustments is relieved for tax over 10 years from the adoption of IFRS 9 on 1 January 2023. Other deferred tax assets will be recovered over a period of one to 12 years.

Recovery of deferred tax assets is dependent on future taxable profits, which are expected to arise in future years without the combination of factors that led to the trading losses for 2023 and 2022, and without the one off gain on disposal of the brokered commercial business in 2023. Probability of recovery has been assessed based on the group's forecasts for the next four years which anticipate a return to profitability, and it is assumed that sufficient profits will continue to be realised in subsequent years for offset of the remaining future tax deductions.

12. Dividends and appropriations

	2023	Full year 2022
	£m	£m
Amounts recognised as distributions to equity holders in the period:		
2022 interim dividend of 7.6 pence per share paid on 9 September 2022	—	99.0
2021 final dividend of 15.1 pence per share paid on 17 May 2022	—	198.9
	—	297.9
Coupon payments in respect of Tier 1 notes ¹	16.6	16.6
	16.6	314.5
Proposed dividends:		
2023 final dividend of 4 pence per share	52.5	—

Note:

1. Coupon payments on the Tier 1 notes issued in December 2017 are treated as an appropriation of retained profits and, accordingly, are accounted for when paid.

The proposed final dividend for 2023 has not been included as a liability in these financial statements.

The trustees of the employee share trusts waived their entitlement to dividends on shares held to meet obligations arising on the Long-Term Incentive Plan, Deferred Annual Incentive Plan and Restricted Share Plan awards, which reduced the total dividends paid for the year ended 31 December 2022 by £2.0 million. No dividends were paid or proposed during the year ended 31 December 2023.

Notes to the Consolidated Financial Statements continued

13. Earnings/(loss) per share

Earnings per share is calculated by dividing earnings attributable to the owners of the Company less coupon payments in respect of Tier 1 notes by the weighted average number of Ordinary Shares during the year.

Basic

Basic earnings per share is calculated by dividing the earnings attributable to the owners of the Company less coupon payments in respect of Tier 1 notes by the weighted average number of Ordinary Shares during the period, excluding Ordinary Shares held as employee trust shares.

Diluted

Diluted earnings per share is calculated by dividing the earnings attributable to the owners of the Company less coupon payments in respect of Tier 1 notes by the weighted average number of Ordinary Shares during the period, excluding Ordinary Shares held as employee trust shares, adjusted for the dilutive potential Ordinary Shares. The Company has share options and contingently issuable shares as categories of dilutive potential Ordinary Shares. All awards are to be satisfied using market-purchased shares.

	2023 £m	2022 £m restated ¹
Earnings/(loss) attributable to the owners of the Company	222.9	(231.9)
Coupon payments in respect of Tier 1 notes	(16.6)	(16.6)
Profit/(loss) for the calculation of earnings per share	206.3	(248.5)
Weighted average number of Ordinary Shares in issue for the purpose of basic earnings per share (millions)	1,299.0	1,304.3
Effect of dilutive potential of share options and contingently issuable shares (millions) ²	17.3	—
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	1,316.3	1,304.3
Basic earnings/(loss) per share (pence)	15.9	(19.1)
Diluted earnings/(loss) per share (pence)	15.7	(19.1)

Note:

- Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
- As at 31 December 2022, 15.0 million share options and contingently issuable shares are not included in the calculation of diluted earnings per share because they are antidilutive. These options could potentially dilute basic earnings per share in the future.

During 2022 the Group repurchased 19,324,855 Ordinary Shares for an aggregate consideration of £50.1 million.

The shares were subsequently cancelled giving rise to a capital redemption reserve of an equivalent amount to their nominal value as required by the Companies Act 2006.

14. Net asset value per share and return on equity

Net asset value per share is calculated as total shareholders' equity (which excludes Tier 1 notes) divided by the number of Ordinary Shares at the end of the period excluding shares held by employee share trusts.

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

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

	2023 £m	2022 £m restated ¹
Net assets	2,058.2	1,845.3
Goodwill and other intangible assets ²	(818.6)	(822.2)
Tangible net assets	1,239.6	1,023.1
Number of Ordinary Shares (millions)	1,311.4	1,311.4
Shares held by employee trusts (millions)	(13.7)	(13.2)
Closing number of Ordinary Shares (millions)	1,297.7	1,298.2
Net asset value per share (pence)	158.6	142.1
Tangible net asset value per share (pence)	95.5	78.8

Notes:

- Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
- Goodwill has arisen on acquisition by the Group of subsidiary companies and on acquisition of new accident repair centres. Intangible assets primarily comprise software development costs.

Return on equity

The table below details the calculation of return on equity:

	2023 £m	2022 £m restated ¹
Earnings/(losses) attributable to the owners of the Company	222.9	(231.9)
Coupon payments in respect of Tier 1 notes	(16.6)	(16.6)
Profit/(loss) for the calculation of return on equity	206.3	(248.5)
Opening shareholders' equity	1,845.3	2,450.6
Closing shareholders' equity	2,058.2	1,845.3
Average shareholders' equity	1,951.8	2,148.0
Return on equity	10.6%	(11.6%)

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

15. Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 January 2022	215.0	1,182.1	1,397.1
Acquisitions and additions	—	108.4	108.4
Disposals and write-off	—	(71.7)	(71.7)
At 31 December 2022	215.0	1,218.8	1,433.8
Acquisitions and additions	3.6	124.1	127.7
Disposals and write-off ¹	(10.1)	(14.1)	(24.2)
At 31 December 2023	208.5	1,328.8	1,537.3
Accumulated amortisation and impairment			
At 1 January 2022	—	574.6	574.6
Amortisation charge for the year	—	92.7	92.7
Disposals and write-off	—	(71.7)	(71.7)
Impairment losses ²	—	16.0	16.0
At 31 December 2022	—	611.6	611.6
Amortisation charge for the year	—	100.6	100.6
Disposals and write-off ¹	—	(8.1)	(8.1)
Impairment losses ²	—	14.6	14.6
At 31 December 2023	—	718.7	718.7
Carrying amount			
At 31 December 2023	208.5	610.1	818.6
At 31 December 2022	215.0	607.2	822.2

Notes:

- Disposals and write-off of goodwill arose from the sale of the brokered commercial business. The sale of the brokered commercial business is detailed further in note 9. Disposals and write-off of other intangible assets include fully amortised intangible assets no longer utilised by the Group in its operating activities.
- Impairment losses relate to capitalised software development costs for ongoing IT projects primarily relating to development of new systems, and intangible assets no longer utilised by the Group in its operating activities following the sale of the brokered commercial business. Of this amount, £5.4 million (2022: £16.0 million) is included within Other operating expenses and £9.2 million (2022: £nil) is included within Gain on disposal of business.

Included within other intangible assets are assets still under development of £100.8 million (2022: £95.1 million). The increase of £5.7 million is primarily due to the building of a new Home platform and development of new capabilities for the Group's Motor platform. The assets still under development at 31 December 2023 relate mainly to finance and core technology projects which are expected to be ready for use in 2024. These assets are tested for impairment during the Group's annual impairment review at each reporting date.

Other intangible assets relate mainly to internally generated software. For year ended 31 December 2023, other intangible assets additions, which are internally generated, are £122.8 million (2022: £106.1 million).

Notes to the Consolidated Financial Statements continued

15. Goodwill and other intangible assets continued

Goodwill arose on the acquisition of U K Insurance Limited (£141.0 million), Churchill Insurance Company Limited (£70.0 million) and accident repair networks (£4.0 million) and is allocated to reportable segments. The addition to goodwill in the year ended 31 December 2023 of £3.6 million arose from the purchase of By Miles Group Limited ("By Miles") and the purchase of the business and assets of a vehicle repair centre to further expand the Group's wholly owned DLG Auto Services network. The acquisitions are further detailed in note 38.

Goodwill is allocated to cash generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose. The units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the reportable segments (Note 4).

The Group's testing for impairment of goodwill and intangible assets includes the comparison of the recoverable amount of each CGU to which goodwill and other intangible assets have been allocated with its carrying value and is updated annually for goodwill, at each reporting date for other intangibles, and whenever there are indications of impairment.

A segment-level summary of the goodwill allocation is presented below:

	2023	2022
	£m	£m
Motor	134.0	130.4
Home	45.8	45.8
Rescue and other personal lines	28.7	28.7
Commercial	—	10.1
Total	208.5	215.0

There is no goodwill impairment for the year ended 31 December 2023 (2022: £nil).

Goodwill is tested for impairment by comparing the carrying value of the CGU to which the goodwill relates to the recoverable value of that CGU. The recoverable amount is the value in use of the CGU unless otherwise stated.

Value in use is calculated as the discounted value of expected future profits of each business, using the Group's strategic plan covering a five year period. The long-term growth rates have been based on gross domestic product rates adjusted for inflation. The risk discount rates incorporate observable market long-term government bond yields and average industry betas adjusted for an appropriate risk premium based on independent analysis.

Key assumptions used in the value in use calculation are presented below:

Segment	Assumptions 2023		Assumptions 2022	
	Terminal growth rate	Pre-tax discount rate	Terminal growth rate	Pre-tax discount rate
	%	%	%	%
Motor	1.5	11.3	1.5	11.4
Home	1.5	11.3	1.5	11.4
Rescue and other personal lines	1.5	11.3	1.5	11.4
Commercial	—	—	1.5	11.4

Management considers that no reasonably possible changes to the key assumptions would reduce a CGU's headroom to £nil.

Sensitivity information on the key assumptions have been presented below, as management consider it to be helpful for users:

Segment	Change to key assumptions needed to reduce headroom to nil			
	Headroom under key assumptions	Reduction to future profits in the Groups strategic plan ²	Reduction in terminal growth rate	Increase in pre-tax discount rate
	£m	%	% (abs)	% (abs)
Motor	1,333.0	41.5	12.2	6.2
Home	307.8	58.8	35.1	12.0
Rescue and other personal lines	508.6	83.6	n/a ¹	34.1

1. No change in this metric could reduce the headroom to nil.

2. In the equivalent disclosure included within the 2022 annual report and accounts, the 'discount in forecast pre-tax profits' sensitivity metric incorrectly referenced a 1% movement, rather than the 10% sensitivity scenario reflected in the figures in the table.

16. Property, plant and equipment

	Land and buildings £m	Other equipment £m	Total £m
Cost			
At 1 January 2022	56.7	185.3	242.0
Additions	–	11.7	11.7
Disposals	–	(7.0)	(7.0)
Assets held for sale	(19.8)	(15.8)	(35.6)
At 31 December 2022	36.9	174.2	211.1
Acquisition of subsidiary	–	2.7	2.7
Additions	–	18.9	18.9
Disposals	–	(8.8)	(8.8)
At 31 December 2023	36.9	187.0	223.9
Accumulated depreciation and impairment			
At 1 January 2022	4.4	123.8	128.2
Depreciation charge for the year	0.8	11.6	12.4
Disposals	–	(5.5)	(5.5)
Assets held for sale	(0.6)	(7.1)	(7.7)
At 31 December 2022	4.6	122.8	127.4
Depreciation charge for the year	0.5	10.5	11.0
Disposals	–	(6.1)	(6.1)
At 31 December 2023	5.1	127.2	132.3
Carrying amount			
At 31 December 2023	31.8	59.8	91.6
At 31 December 2022	32.3	51.4	83.7

The Group is satisfied that the aggregate fair value of property, plant and equipment is not less than its carrying value.

17. Right-of-use assets

	Property £m	Motor vehicles £m	IT equipment £m	Total £m
Cost				
At 1 January 2022	116.6	10.9	1.2	128.7
Additions	4.4	2.4	–	6.8
Disposals	–	(3.7)	(1.2)	(4.9)
At 31 December 2022	121.0	9.6	–	130.6
Additions	30.9	5.5	–	36.4
Disposals	(6.9)	(5.0)	–	(11.9)
At 31 December 2023	145.0	10.1	–	155.1
Accumulated depreciation and impairment				
At 1 January 2022	44.2	7.4	1.0	52.6
Depreciation charge for the year	7.1	2.6	0.2	9.9
Disposals	–	(3.7)	(1.2)	(4.9)
At 31 December 2022	51.3	6.3	–	57.6
Depreciation charge for the year	9.1	2.8	–	11.9
Disposals	(5.8)	(4.7)	–	(10.5)
At 31 December 2023	54.6	4.4	–	59.0
Carrying amount				
At 31 December 2023	90.4	5.7	–	96.1
At 31 December 2022	69.7	3.3	–	73.0

The average contract duration at inception for Property is 20 years, and for Motor vehicles is three years. The maturity analysis of lease liabilities is presented in note 36.

Notes to the Consolidated Financial Statements continued

18. Investment property

	Retail £m	Retail warehouse £m	Supermarkets £m	Industrials £m	Hotels £m	Alternative sector £m	Total £m
At 1 January 2022	26.6	22.7	56.9	134.2	58.4	18.2	317.0
Capitalised expenditure	0.3	0.2	—	0.1	—	—	0.6
Fair value adjustments	(1.6)	(1.6)	(5.8)	(22.3)	(8.1)	0.3	(39.1)
At 31 December 2022¹	25.3	21.3	51.1	112.0	50.3	18.5	278.5
Capitalised expenditure	0.1	—	—	0.4	—	—	0.5
Fair value adjustments	(1.0)	(0.5)	(4.0)	3.3	0.2	0.1	(1.9)
At 31 December 2023¹	24.4	20.8	47.1	115.7	50.5	18.6	277.1

Note:

1. The cost included in the carrying value at 31 December 2023 is £217.0 million (2022: £216.4 million).

The investment properties are measured at fair value derived from valuation work carried out at the statement of financial position date by independent property valuers. The valuation conforms to international valuation standards. The fair value was determined using a methodology based on recent market transactions for similar properties, which have been adjusted for the specific characteristics of each property within the portfolio. This approach to valuation is consistent with the methodology used in the year ended 31 December 2022.

Lease agreements with tenants are drawn up in line with local practice and the Group has no exposure to leases that include contingent rents.

The following tables provide a sensitivity analysis for +/- 5 basis points and +/- 50 basis points movement in tenants' rental income and impact on property valuation in sterling:

2023		-50bp	-5bp	Baseline as at 31 December 2023	+5bp	+50bp
Equivalent yield	%	5.31	5.81	5.87	5.92	6.42
Value	£m	253.5	274.6	277.1	279.8	305.7

2022		-50bp	-5bp	Baseline as at 31 December 2022	+5bp	+50bp
Equivalent yield	%	4.98	5.47	5.53	5.58	6.07
Value	£m	253.5	275.4	278.5	280.9	308.1

19. Subsidiaries

The principal subsidiary undertakings of the Group, over which it exercises 100% voting power, are shown below. Their capital consists of Ordinary Shares which are unlisted. All subsidiaries (a full list of which is included in note 2 of the Parent Company's financial statements) are included in the Group's consolidated financial statements.

Name of subsidiary	Company registration number	Place of incorporation and operation	Principal activity
DL Insurance Services Limited	03001989	United Kingdom	Management services
U K Insurance Limited	01179980	United Kingdom	General insurance

The Group acquired four subsidiary entities in 2023. These were: By Miles Group Limited, By Miles Limited, By Miles Payment Services Limited and By Miles Technology Services Limited. It did not dispose of any subsidiaries in the year ended 31 December 2023 (31 December 2022: 10-15 Livery Street was dissolved on 29 December 2022).

20. Insurance contract assets and liabilities - gross and reinsurance

Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

20.1 Insurance and reinsurance contract assets and liabilities by segment

	Motor £m	Home £m	RoPL ¹ £m	Commercial £m	Total Group - ongoing operations ¹ £m	Brokered commercial business and run-off partnerships ¹ £m	Total Group £m
2023							
Insurance contract assets	—	—	—	—	—	5.4	5.4
Insurance contract liabilities	(3,305.9)	(583.1)	(155.9)	(250.1)	(4,295.0)	(943.8)	(5,238.8)
Net insurance contract liabilities	(3,305.9)	(583.1)	(155.9)	(250.1)	(4,295.0)	(938.4)	(5,233.4)
Reinsurance contract assets	1,076.4	36.6	3.6	23.0	1,139.6	206.4	1,346.0
Reinsurance contract liabilities	(16.9)	(4.7)	(1.5)	(3.4)	(26.5)	(90.1)	(116.6)
Net reinsurance contract assets	1,059.5	31.9	2.1	19.6	1,113.1	116.3	1,229.4
2022							
Insurance contract assets	—	—	—	—	—	17.3	17.3
Insurance contract liabilities	(2,860.2)	(567.0)	(171.5)	(214.9)	(3,813.6)	(812.2)	(4,625.8)
Net insurance contract liabilities	(2,860.2)	(567.0)	(171.5)	(214.9)	(3,813.6)	(794.9)	(4,608.5)
Reinsurance contract assets	956.1	19.1	1.4	20.0	996.6	78.3	1,074.9
Reinsurance contract liabilities	—	(5.2)	(1.2)	(2.6)	(9.0)	(4.9)	(13.9)
Net reinsurance contract assets	956.1	13.9	0.2	17.4	987.6	73.4	1,061.0

	Motor £m	Home £m	RoPL ¹ £m	Commercial £m	Total Group - ongoing operations ¹ £m	Brokered commercial business and run-off partnerships ¹ £m	Total Group £m
2023							
Insurance contracts assets/(liabilities)							
Remaining coverage	(514.7)	(177.9)	(84.2)	(91.9)	(868.7)	(283.8)	(1,152.5)
Excluding loss component	(514.7)	(177.9)	(84.2)	(91.9)	(868.7)	(283.8)	(1,152.5)
Loss component	—	—	—	—	—	—	—
Incurred claims	(2,791.2)	(405.2)	(71.7)	(158.2)	(3,426.3)	(654.6)	(4,080.9)
Estimate of present value cash flows	(2,647.6)	(385.3)	(68.8)	(150.0)	(3,251.7)	(622.3)	(3,874.0)
Risk adjustment	(143.6)	(19.9)	(2.9)	(8.2)	(174.6)	(32.3)	(206.9)
Total insurance contracts assets/(liabilities)	(3,305.9)	(583.1)	(155.9)	(250.1)	(4,295.0)	(938.4)	(5,233.4)
2022							
Insurance contracts assets/(liabilities)							
Remaining coverage	(451.7)	(141.5)	(91.7)	(86.4)	(771.3)	(224.0)	(995.3)
Excluding loss component	(451.7)	(141.5)	(91.7)	(86.4)	(771.3)	(224.0)	(995.3)
Loss component	—	—	—	—	—	—	—
Incurred claims	(2,408.5)	(425.5)	(79.8)	(128.5)	(3,042.3)	(570.9)	(3,613.2)
Estimate of present value cash flows	(2,259.6)	(400.4)	(76.0)	(119.4)	(2,855.4)	(538.9)	(3,394.3)
Risk adjustment	(148.9)	(25.1)	(3.8)	(9.1)	(186.9)	(32.0)	(218.9)
Total insurance contracts assets/(liabilities)	(2,860.2)	(567.0)	(171.5)	(214.9)	(3,813.6)	(794.9)	(4,608.5)

Notes to the Consolidated Financial Statements continued

20. Insurance contract assets and liabilities - gross and reinsurance continued

	Motor	Home	RoPL ¹	Commercial	Total Group - ongoing operations ¹	Brokered commercial business and run-off partnerships ¹	Total Group
	£m	£m	£m	£m	£m	£m	£m
2023							
Reinsurance contracts assets/(liabilities)							
Remaining coverage	(16.9)	(4.7)	(1.5)	(3.4)	(26.5)	(90.1)	(116.6)
Excluding loss recovery component	(16.9)	(4.7)	(1.5)	(3.4)	(26.5)	(90.1)	(116.6)
Loss recovery component	—	—	—	—	—	—	—
Incurred claims	1,076.4	36.6	3.6	23.0	1,139.6	206.4	1,346.0
Estimate of present value cash flows	1,012.7	32.8	3.1	21.0	1,069.6	194.8	1,264.4
Risk adjustment	63.7	3.8	0.5	2.0	70.0	11.6	81.6
Total reinsurance contracts assets/(liabilities)	1,059.5	31.9	2.1	19.6	1,113.1	116.3	1,229.4
2022							
Reinsurance contracts assets/(liabilities)							
Remaining coverage	13.3	(5.2)	(1.2)	(2.6)	4.3	(4.9)	(0.6)
Excluding loss recovery component	13.3	(5.2)	(1.2)	(2.6)	4.3	(4.9)	(0.6)
Loss recovery component	—	—	—	—	—	—	—
Incurred claims	942.8	19.1	1.4	20.0	983.3	78.3	1,061.6
Estimate of present value cash flows	866.6	13.5	0.6	17.2	897.9	68.4	966.3
Risk adjustment	76.2	5.6	0.8	2.8	85.4	9.9	95.3
Total reinsurance contracts assets/(liabilities)	956.1	13.9	0.2	17.4	987.6	73.4	1,061.0

Note:

1. Ongoing operations and run-off partnerships – See glossary on pages 261 to 263 for definitions and appendix A – Alternative performance measures on pages 265 to 268 for reconciliation to financial statement line items.

20.2.1 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for incurred claims – total Group

	Insurance contracts issued - liability for incurred claims			Reinsurance contracts held - amounts recovered on incurred claims			Net
	Estimate of present value cash flows	Risk adjustment for non-financial risk	Total	Estimate of present value cash flows	Risk adjustment for non-financial risk	Total	Total
	£m	£m	£m	£m	£m	£m	£m
Insurance/reinsurance contract assets as at 1 January 2022	–	–	–	1,043.8	99.7	1,143.5	1,143.5
Insurance/reinsurance contract liabilities as at 1 January 2022	(3,470.8)	(221.3)	(3,692.1)	–	–	–	(3,692.1)
Net insurance/reinsurance contract liabilities/assets as at 1 January 2022	(3,470.8)	(221.3)	(3,692.1)	1,043.8	99.7	1,143.5	(2,548.6)
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(2,369.9)	(65.4)	(2,435.3)	75.6	16.6	92.2	(2,343.1)
Past service – incurred claims	50.2	67.8	118.0	33.6	(21.0)	12.6	130.6
Effect of non-performance risk of reinsurers				(8.4)		(8.4)	(8.4)
Insurance service result¹	(2,319.7)	2.4	(2,317.3)	100.8	(4.4)	96.4	(2,220.9)
Insurance/reinsurance finance expenses/income	102.4		102.4	(101.5)		(101.5)	0.9
Total amounts recognised in comprehensive income	(2,217.3)	2.4	(2,214.9)	(0.7)	(4.4)	(5.1)	(2,220.0)
Cash flows:							
Claims and other expenses paid/recovered	2,293.8		2,293.8	(76.8)		(76.8)	2,217.0
Total cash flows	2,293.8		2,293.8	(76.8)		(76.8)	2,217.0
Insurance/reinsurance contract assets as at 31 December 2022	–	–	–	966.3	95.3	1,061.6	1,061.6
Insurance/reinsurance contract liabilities as at 31 December 2022	(3,394.3)	(218.9)	(3,613.2)	–	–	–	(3,613.2)
Net insurance/reinsurance contract liabilities/assets as at 31 December 2022	(3,394.3)	(218.9)	(3,613.2)	966.3	95.3	1,061.6	(2,551.6)
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(2,787.8)	(72.5)	(2,860.3)	464.6	27.7	492.3	(2,368.0)
Past service – incurred claims	(165.4)	84.5	(80.9)	(21.7)	(41.4)	(63.1)	(144.0)
Effect of non-performance risk of reinsurers				(5.8)		(5.8)	(5.8)
Insurance service result¹	(2,953.2)	12.0	(2,941.2)	437.1	(13.7)	423.4	(2,517.8)
Insurance/reinsurance finance expenses/income	(193.8)		(193.8)	28.0		28.0	(165.8)
Total amounts recognised in comprehensive income	(3,147.0)	12.0	(3,135.0)	465.1	(13.7)	451.4	(2,683.6)
Cash flows:							
Claims and other expenses paid/recovered	2,667.3		2,667.3	(167.0)		(167.0)	2,500.3
Total cash flows	2,667.3		2,667.3	(167.0)		(167.0)	2,500.3
Insurance/reinsurance contract assets as at 31 December 2023	–	–	–	1,264.4	81.6	1,346.0	1,346.0
Insurance/reinsurance contract liabilities as at 31 December 2023	(3,874.0)	(206.9)	(4,080.9)	–	–	–	(4,080.9)
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	(3,874.0)	(206.9)	(4,080.9)	1,264.4	81.6	1,346.0	(2,734.9)

Note:

1- The amounts recognised in Insurance service result for the year of £2,941.2 million (2022: £2,317.3 million) does not include other directly attributable expenses of £907.9 million (2022: £871.0 million) and other directly attributable claims income of £42.8 million (2022: £42.8 million) as these are not recognised within liabilities for incurred claims. Please see note 5.

Notes to the Consolidated Financial Statements continued

20. Insurance contract assets and liabilities - gross and reinsurance continued

20.2 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for remaining coverage - total Group

	Insurance contracts issued - liability for remaining coverage			Reinsurance contracts held - asset for remaining coverage			Net Total £m
	Excluding loss component	Loss component	Total	Excluding loss recovery component	Loss recovery component	Total	
	£m	£m	£m	£m	£m	£m	
Insurance/reinsurance contract assets as at 1 January 2022	—	—	—	38.2	—	38.2	38.2
Insurance/reinsurance contract liabilities as at 1 January 2022	(1,033.4)	—	(1,033.4)	(3.6)	—	(3.6)	(1,037.0)
Net insurance/reinsurance contract liabilities/assets as at 1 January 2022	(1,033.4)	—	(1,033.4)	34.6	—	34.6	(998.8)
Insurance revenue/reinsurance expenses	3,229.1	—	3,229.1	(165.7)	—	(165.7)	3,063.4
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	—	—	—	—	—	—	—
Losses/ loss recovery and reversal of losses from onerous contracts	—	—	—	—	—	—	—
Insurance service result	3,229.1	—	3,229.1	(165.7)	—	(165.7)	3,063.4
Insurance/reinsurance finance expenses/income	—	—	—	—	—	—	—
Total amounts recognised in comprehensive income	3,229.1	—	3,229.1	(165.7)	—	(165.7)	3,063.4
Cash flows:							
Premium received/paid	(3,191.0)	—	(3,191.0)	130.5	—	130.5	(3,060.5)
Total cash flows	(3,191.0)	—	(3,191.0)	130.5	—	130.5	(3,060.5)
Insurance/reinsurance contract assets as at 31 December 2022	17.3	—	17.3	13.3	—	13.3	30.6
Insurance/reinsurance contract liabilities as at 31 December 2022	(1,012.6)	—	(1,012.6)	(13.9)	—	(13.9)	(1,026.5)
Net insurance/reinsurance contract liabilities/assets as at 31 December 2022	(995.3)	—	(995.3)	(0.6)	—	(0.6)	(995.9)
Insurance revenue/reinsurance expenses	3,601.7	—	3,601.7	(470.2)	—	(470.2)	3,131.5
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	—	—	—	—	—	—	—
Losses/ loss recovery and reversal of losses from onerous contracts	—	—	—	—	—	—	—
Insurance service result	3,601.7	—	3,601.7	(470.2)	—	(470.2)	3,131.5
Insurance/reinsurance finance expenses/income	—	—	—	—	—	—	—
Total amounts recognised in comprehensive income	3,601.7	—	3,601.7	(470.2)	—	(470.2)	3,131.5
Cash flows:							
Premium received/paid	(3,758.9)	—	(3,758.9)	354.2	—	354.2	(3,404.7)
Total cash flows	(3,758.9)	—	(3,758.9)	354.2	—	354.2	(3,404.7)
Insurance/reinsurance contract assets as at 31 December 2023	5.4	—	5.4	—	—	—	5.4
Insurance/reinsurance contract liabilities as at 31 December 2023	(1,157.9)	—	(1,157.9)	(116.6)	—	(116.6)	(1,274.5)
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	(1,152.5)	—	(1,152.5)	(116.6)	—	(116.6)	(1,269.1)

20.3.1 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for incurred claims – ongoing operations

	Insurance contracts issued - liability for incurred claims			Reinsurance contracts held - amounts recovered on incurred claims			Net
	Estimate of present value cash flows	Risk adjustment for non-financial risk	Total	Estimate of present value cash flows	Risk adjustment for non-financial risk	Total	Total
	£m	£m	£m	£m	£m	£m	£m
Insurance/reinsurance contract assets as at 1 January 2022	–	–	–	959.2	89.1	1,048.3	1,048.3
Insurance/reinsurance contract liabilities as at 1 January 2022	(2,855.8)	(187.4)	(3,043.2)	–	–	–	(3,043.2)
Net insurance/reinsurance contract liabilities/assets as at 1 January 2022	(2,855.8)	(187.4)	(3,043.2)	959.2	89.1	1,048.3	(1,994.9)
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(1,988.7)	(52.6)	(2,041.3)	68.1	13.7	81.8	(1,959.5)
Past service – incurred claims	(1.8)	53.1	51.3	31.2	(17.4)	13.8	65.1
Effect of non-performance risk of reinsurers				(7.6)		(7.6)	(7.6)
Insurance service result¹	(1,990.5)	0.5	(1,990.0)	91.7	(3.7)	88.0	(1,902.0)
Insurance/reinsurance finance expenses/income	91.4		91.4	(96.4)		(96.4)	(5.0)
Total amounts recognised in comprehensive income	(1,899.1)	0.5	(1,898.6)	(4.7)	(3.7)	(8.4)	(1,907.0)
Cash flows:							
Claims and other expenses paid/recovered	1,899.5		1,899.5	(56.6)		(56.6)	1,842.9
Total cash flows	1,899.5		1,899.5	(56.6)		(56.6)	1,842.9
Insurance/reinsurance contract assets as at 31 December 2022	–	–	–	897.9	85.4	983.3	983.3
Insurance/reinsurance contract liabilities as at 31 December 2022	(2,855.4)	(186.9)	(3,042.3)	–	–	–	(3,042.3)
Net insurance/reinsurance contract liabilities/assets as at 31 December 2022	(2,855.4)	(186.9)	(3,042.3)	897.9	85.4	983.3	(2,059.0)
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(2,280.2)	(57.1)	(2,337.3)	330.9	20.7	351.6	(1,985.7)
Past service – incurred claims	(163.2)	69.4	(93.8)	(29.4)	(36.1)	(65.5)	(159.3)
Effect of non-performance risk of reinsurers				(5.8)		(5.8)	(5.8)
Insurance service result¹	(2,443.4)	12.3	(2,431.1)	295.7	(15.4)	280.3	(2,150.8)
Insurance/reinsurance finance expenses/income	(170.4)		(170.4)	27.5		27.5	(142.9)
Total amounts recognised in comprehensive income	(2,613.8)	12.3	(2,601.5)	323.2	(15.4)	307.8	(2,293.7)
Cash flows:							
Claims and other expenses paid/recovered	2,217.5		2,217.5	(151.5)		(151.5)	2,066.0
Total cash flows	2,217.5		2,217.5	(151.5)		(151.5)	2,066.0
Insurance/reinsurance contract assets as at 31 December 2023	–	–	–	1,069.6	70.0	1,139.6	1,139.6
Insurance/reinsurance contract liabilities as at 31 December 2023	(3,251.7)	(174.6)	(3,426.3)	–	–	–	(3,426.3)
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	(3,251.7)	(174.6)	(3,426.3)	1,069.6	70.0	1,139.6	(2,286.7)

Note:

1- The amounts recognised in Insurance service result do not include other directly attributable expenses and other directly attributable claims income, as these are not recognised within liabilities for incurred claims.

Notes to the Consolidated Financial Statements continued

20. Insurance contract assets and liabilities - gross and reinsurance continued

20.3.2 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for remaining coverage - ongoing operations

	Insurance contracts issued - liability for remaining coverage			Reinsurance contracts held - asset for remaining coverage			Net Total £m
	Excluding loss component	Loss component	Total	Excluding loss recovery component	Loss recovery component	Total	
	£m	£m	£m	£m	£m	£m	
Insurance/reinsurance contract assets as at 1 January 2022	–	–	–	38.2	–	38.2	38.2
Insurance/reinsurance contract liabilities as at 1 January 2022	(762.1)	–	(762.1)	(3.4)	–	(3.4)	(765.5)
Net insurance/reinsurance contract liabilities/assets as at 1 January 2022	(762.1)	–	(762.1)	34.8	–	34.8	(727.3)
Insurance revenue/reinsurance expenses	2,609.9	–	2,609.9	(128.1)	–	(128.1)	2,481.8
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	–	–	–	–	–	–	–
Losses/ loss recovery and reversal of losses from onerous contracts	–	–	–	–	–	–	–
Insurance service result	2,609.9	–	2,609.9	(128.1)	–	(128.1)	2,481.8
Insurance/reinsurance finance expenses/income	–	–	–	–	–	–	–
Total amounts recognised in comprehensive income	2,609.9	–	2,609.9	(128.1)	–	(128.1)	2,481.8
Cash flows:							
Premium received/paid	(2,619.1)	–	(2,619.1)	97.6	–	97.6	(2,521.5)
Total cash flows	(2,619.1)	–	(2,619.1)	97.6	–	97.6	(2,521.5)
Insurance/reinsurance contract assets as at 31 December 2022	–	–	–	13.3	–	13.3	13.3
Insurance/reinsurance contract liabilities as at 31 December 2022	(771.3)	–	(771.3)	(9.0)	–	(9.0)	(780.3)
Net insurance/reinsurance contract liabilities/assets as at 31 December 2022	(771.3)	–	(771.3)	4.3	–	4.3	(767.0)
Insurance revenue/reinsurance expenses	2,852.9	–	2,852.9	(305.4)	–	(305.4)	2,547.5
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	–	–	–	–	–	–	–
Losses/ loss recovery and reversal of losses from onerous contracts	–	–	–	–	–	–	–
Insurance service result	2,852.9	–	2,852.9	(305.4)	–	(305.4)	2,547.5
Insurance/reinsurance finance expenses/income	–	–	–	–	–	–	–
Total amounts recognised in comprehensive income	2,852.9	–	2,852.9	(305.4)	–	(305.4)	2,547.5
Cash flows:							
Premium received/paid	(2,950.3)	–	(2,950.3)	274.6	–	274.6	(2,675.7)
Total cash flows	(2,950.3)	–	(2,950.3)	274.6	–	274.6	(2,675.7)
Insurance/reinsurance contract assets as at 31 December 2023	–	–	–	–	–	–	–
Insurance/reinsurance contract liabilities as at 31 December 2023	(868.7)	–	(868.7)	(26.5)	–	(26.5)	(895.2)
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	(868.7)	–	(868.7)	(26.5)	–	(26.5)	(895.2)

20.4.1 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for incurred claims – brokered commercial business and run-off partnerships

	Insurance contracts issued - liability for incurred claims			Reinsurance contracts held - amounts recovered on incurred claims			Net
	Estimate of present value cash flows	Risk adjustment for non-financial risk	Total	Estimate of present value cash flows	Risk adjustment for non-financial risk	Total	
	£m	£m	£m	£m	£m	£m	
Insurance/reinsurance contract assets as at 1 January 2022	—	—	—	84.5	10.6	95.1	95.1
Insurance/reinsurance contract liabilities as at 1 January 2022	(615.0)	(33.9)	(648.9)	—	—	—	(648.9)
Net insurance/reinsurance contract liabilities/assets as at 1 January 2022	(615.0)	(33.9)	(648.9)	84.5	10.6	95.1	(553.8)
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(381.2)	(12.8)	(394.0)	7.5	2.9	10.4	(383.6)
Past service – incurred claims	51.9	14.7	66.6	2.3	(3.6)	(1.3)	65.3
Effect of non-performance risk of reinsurers				(0.7)		(0.7)	(0.7)
Insurance service result¹	(329.3)	1.9	(327.4)	9.1	(0.7)	8.4	(319.0)
Insurance/reinsurance finance expenses/income	11.0		11.0	(5.1)		(5.1)	5.9
Total amounts recognised in comprehensive income	(318.3)	1.9	(316.4)	4.0	(0.7)	3.3	(313.1)
Cash flows:							
Claims and other expenses paid/recovered	394.4		394.4	(20.1)		(20.1)	374.3
Total cash flows	394.4		394.4	(20.1)		(20.1)	374.3
Insurance/reinsurance contract assets as at 31 December 2022	—	—	—	68.4	9.9	78.3	78.3
Insurance/reinsurance contract liabilities as at 31 December 2022	(538.9)	(32.0)	(570.9)	—	—	—	(570.9)
Net insurance/reinsurance contract liabilities/assets as at 31 December 2022	(538.9)	(32.0)	(570.9)	68.4	9.9	78.3	(492.6)
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(507.6)	(15.4)	(523.0)	133.8	7.1	140.9	(382.1)
Past service – incurred claims	(2.2)	15.1	12.9	7.7	(5.4)	2.3	15.2
Effect of non-performance risk of reinsurers				—		—	—
Insurance service result¹	(509.8)	(0.3)	(510.1)	141.5	1.7	143.2	(366.9)
Insurance/reinsurance finance expenses/income	(23.4)		(23.4)	0.5		0.5	(22.9)
Total amounts recognised in comprehensive income	(533.2)	(0.3)	(533.5)	142.0	1.7	143.7	(389.8)
Cash flows:							
Claims and other expenses paid/recovered	449.8		449.8	(15.6)		(15.6)	434.2
Total cash flows	449.8		449.8	(15.6)		(15.6)	434.2
Insurance/reinsurance contract assets as at 31 December 2023	—	—	—	194.8	11.6	206.4	206.4
Insurance/reinsurance contract liabilities as at 31 December 2023	(622.3)	(32.3)	(654.6)	—	—	—	(654.6)
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	(622.3)	(32.3)	(654.6)	194.8	11.6	206.4	(448.2)

Note:

1- The amounts recognised in Insurance service result do not include other directly attributable expenses and other directly attributable claims income, as these amounts are not recognised within liabilities for incurred claims.

Notes to the Consolidated Financial Statements continued

20. Insurance contract assets and liabilities - gross and reinsurance continued

20.4.2 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for remaining coverage - brokered commercial business and run-off partnerships

	Insurance contracts issued - liability for remaining coverage			Reinsurance contracts held - asset for remaining coverage			Net Total £m
	Excluding loss component	Loss component	Total	Excluding loss recovery component	Loss recovery component	Total	
	£m	£m	£m	£m	£m	£m	
Insurance/reinsurance contract assets as at 1 January 2022	–	–	–	–	–	–	–
Insurance/reinsurance contract liabilities as at 1 January 2022	(271.2)	–	(271.2)	(0.2)	–	(0.2)	(271.4)
Net insurance/reinsurance contract liabilities/assets as at 1 January 2022	(271.2)	–	(271.2)	(0.2)	–	(0.2)	(271.4)
Insurance revenue/reinsurance expenses	619.2	–	619.2	(37.6)	–	(37.6)	581.6
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	–	–	–	–	–	–	–
Losses/ loss recovery and reversal of losses from onerous contracts	–	–	–	–	–	–	–
Insurance service result	619.2	–	619.2	(37.6)	–	(37.6)	581.6
Insurance/reinsurance finance expenses/income	–	–	–	–	–	–	–
Total amounts recognised in comprehensive income	619.2	–	619.2	(37.6)	–	(37.6)	581.6
Cash flows:							
Premium received/paid	(572.0)	–	(572.0)	32.9	–	32.9	(539.1)
Total cash flows	(572.0)	–	(572.0)	32.9	–	32.9	(539.1)
Insurance/reinsurance contract assets as at 31 December 2022	17.3	–	17.3	–	–	–	17.3
Insurance/reinsurance contract liabilities as at 31 December 2022	(241.3)	–	(241.3)	(4.9)	–	(4.9)	(246.2)
Net insurance/reinsurance contract liabilities/assets as at 31 December 2022	(224.0)	–	(224.0)	(4.9)	–	(4.9)	(228.9)
Insurance revenue/reinsurance expenses	748.8	–	748.8	(164.8)	–	(164.8)	584.0
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	–	–	–	–	–	–	–
Losses/ loss recovery and reversal of losses from onerous contracts	–	–	–	–	–	–	–
Insurance service result	748.8	–	748.8	(164.8)	–	(164.8)	584.0
Insurance/reinsurance finance expenses/income	–	–	–	–	–	–	–
Total amounts recognised in comprehensive income	748.8	–	748.8	(164.8)	–	(164.8)	584.0
Cash flows:							
Premium received/paid	(808.6)	–	(808.6)	79.6	–	79.6	(729.0)
Total cash flows	(808.6)	–	(808.6)	79.6	–	79.6	(729.0)
Insurance/reinsurance contract assets as at 31 December 2023	5.4	–	5.4	–	–	–	5.4
Insurance/reinsurance contract liabilities as at 31 December 2023	(289.2)	–	(289.2)	(90.1)	–	(90.1)	(379.3)
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	(283.8)	–	(283.8)	(90.1)	–	(90.1)	(373.9)

20.5 Insurance and reinsurance contract assets and liabilities - claims development tables**Gross insurance liabilities**

	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Accident year	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of ultimate gross claims costs:										
At end of accident year	2,135.9	2,169.8	2,226.8	2,337.6	2,085.7	1,786.5	1,912.8	2,283.2	2,755.0	
One year later	(57.4)	(95.8)	(142.6)	(129.6)	(72.0)	(79.4)	(5.7)	132.9		
Two years later	(131.5)	(63.9)	(108.8)	(48.7)	(43.5)	(13.8)	(34.7)			
Three years later	(58.5)	(89.5)	(38.0)	(6.0)	3.7	35.9				
Four years later	(28.7)	(42.9)	(20.4)	25.5	14.1					
Five years later	(21.9)	(13.5)	1.5	23.8						
Six years later	1.0	(12.0)	21.6							
Seven years later	22.4	9.2								
Eight years later	(18.2)									
Current estimate of cumulative claims	1,843.1	1,861.4	1,940.1	2,202.6	1,988.0	1,729.2	1,872.4	2,416.1	2,755.0	
Cumulative payments to date	(1,741.1)	(1,797.4)	(1,850.1)	(1,993.2)	(1,759.5)	(1,414.3)	(1,474.8)	(1,806.2)	(1,336.4)	
Gross liability recognised in the statement of financial position	102.0	64.0	90.0	209.4	228.5	314.9	397.6	609.9	1,418.6	3,434.9
2014 and prior										1,761.6
Claims handling provision										109.6
Adjustment for non-financial risk										289.3
Effect of discounting										(1,571.6)
Other LIC										57.1
Total										4,080.9

Net insurance contract liabilities

	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Accident year	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of ultimate net claims costs:										
At end of accident year	1,920.1	1,934.4	2,012.0	2,141.0	1,922.8	1,623.6	1,758.1	2,184.2	2,241.9	
One year later	(79.5)	(31.4)	(95.9)	(82.2)	(37.2)	(54.0)	2.4	168.1		
Two years later	(63.4)	(47.2)	(61.4)	(20.7)	(40.7)	(39.2)	(13.0)			
Three years later	(29.4)	(43.4)	(17.7)	(24.0)	(4.5)	50.0				
Four years later	(21.8)	(15.2)	(27.5)	7.3	11.6					
Five years later	(22.8)	(10.1)	(9.4)	24.1						
Six years later	(1.8)	(11.6)	9.5							
Seven years later	1.3	(3.8)								
Eight years later	(3.6)									
Current estimate of cumulative claims	1,699.1	1,771.7	1,809.6	2,045.5	1,852.0	1,580.4	1,747.5	2,352.3	2,241.9	
Cumulative payments to date	(1,671.0)	(1,746.7)	(1,765.8)	(1,945.6)	(1,718.7)	(1,375.2)	(1,442.8)	(1,804.9)	(1,088.6)	
Gross liability recognised in the statement of financial position	28.1	25.0	43.8	99.9	133.3	205.2	304.7	547.4	1,153.3	2,540.7
2014 and prior										919.5
Claims handling provision										91.4
Adjustment for non-financial risk										158.7
Effect of discounting										(800.7)
Other LIC										(174.7)
Total										2,734.9

Notes to the Consolidated Financial Statements continued

20. Insurance contract assets and liabilities - gross and reinsurance continued

20.6 Analysis of outstanding PPO claims provisions on a discounted and an undiscounted basis

The Group settles some large bodily injury claims as PPOs rather than lump sum payments.

The table below analyses the outstanding PPO claims provisions on a discounted and an undiscounted basis at 31 December 2023 and 31 December 2022. These represent the total cost of PPOs rather than any costs in excess of purely Ogden-based settlements.

	Discounted 2023 £m	Undiscounted 2023 £m	Discounted 2022 £m	Undiscounted 2022 £m
At 31 December				
Gross claims				
Approved PPO claims provisions	542.6	1,603.4	518.7	1,394.0
Anticipated PPOs	112.5	300.7	124.5	328.2
Total	655.1	1,904.1	643.2	1,722.2
Reinsurance				
Approved PPO claims provisions	(300.1)	(905.2)	(290.5)	(795.3)
Anticipated PPOs	(79.7)	(228.8)	(84.7)	(242.9)
Total	(379.8)	(1,134.0)	(375.2)	(1,038.2)
Net of reinsurance				
Approved PPO claims provisions	242.5	698.2	228.2	598.7
Anticipated PPOs	32.8	71.9	39.8	85.3
Total	275.3	770.1	268.0	684.0

The provisions for PPOs have been categorised as either claims which have already been determined by the courts as PPOs (approved PPO claims provisions) or those expected to settle as PPOs in the future (anticipated PPOs). The Group has estimated the likelihood of large bodily injury claims settling as PPOs. The anticipated PPOs in the table above are based on historically observed propensities adjusted for the assumed Ogden discount rate.

In the majority of cases, the inflation agreed in the settlement is the Annual Survey of Hours and Earnings SOC 6115 inflation published by the Office for National Statistics, for which the long-term cashflow-weighted average rate is assumed to be 3.9% (2022: 4.2%). The Group has estimated a cashflow-weighted average rate of interest used for the calculation of present values as 4.6% (2022: 4.8%, which results in a real discount rate of 0.7% (2022: 0.6%). The Group will continue to review the inflation and discount rates used to calculate these insurance reserves.

21. Prepayments, accrued income and other assets

	2023 £m	2022 £m restated ¹
Prepayments	73.8	83.5
Accrued income from contracts with customers and other assets	27.7	21.4
Total	101.5	104.9

Note:

1. Prior period comparatives have been restated on transition to IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

22. Derivative financial instruments

	2023	2022
	£m	£m
Derivative assets		
At fair value through profit or loss:		
Foreign exchange contracts (forwards)	27.1	24.2
Interest rate swaps	0.3	7.0
Designated as hedging instruments:		
Foreign exchange contracts (forwards) ¹	–	0.1
Total	27.4	31.3
Derivative liabilities		
At fair value through profit or loss:		
Foreign exchange contracts (forwards)	8.2	28.4
Interest rate swaps	6.9	1.2
Designated as hedging instruments:		
Foreign exchange contracts (forwards) ¹	0.3	–
Total	15.4	29.6

Note:

1. Foreign exchange contracts (forwards) are designated as cash flow hedges in relation to supplier payments.

23. Retirement benefit obligations

Defined contribution scheme

The pension charge in respect of the defined contribution scheme for the year ended 31 December 2023 was £28.7 million (2022: £26.5 million).

Defined benefit scheme

The Group's defined benefit pension scheme was closed in 2003, although the Group remains the sponsoring employer for obligations to current and deferred pensioners based on qualifying years' service and final salaries. The defined benefit scheme is legally separated from the Group with a trustee who is required by law to act in the interests of the scheme and of all the relevant stakeholders. The trustee of the pension scheme is responsible for the investment policy with regard to the assets of the scheme.

In October 2022, the trustee completed a £53.9 million bulk annuity insurance buy-in transaction whereby the assets of the pension scheme were replaced with an insurance asset. The policy purchased is designed to provide cash flows that exactly match the value and timing of the benefits to the defined benefit scheme's members, so removing the risks impacting funding levels such as changes in interest rates and inflation expectations or the performance of the previously invested assets for the members covered by the policy. The non-insured assets are now primarily intended to cover the costs of meeting any additional liability for members of the defined contribution section who have a defined benefit underpin that exceeds the value of the defined contribution funds as well as being available to meet expenses.

The weighted average duration of the defined benefit obligations at 31 December 2023 is 16 years (2022: 17 years) using accounting assumptions.

The table below sets out the principal assumptions used in determining the defined benefit scheme obligations:

	2023	2022
	%	%
Rate of increase in pension payment	2.5	2.5
Rate of increase in deferred pensions	2.5	2.6
Discount rate	4.5	4.8
Inflation rate	3.1	3.3

No assumption has been made for salary growth as there are no obligations in the scheme that are linked to future increases in salaries.

Post-retirement mortality assumptions

	2023	2022
Life expectancy at age 60 now:		
Males	87.0	87.2
Females	89.0	89.2
Life expectancy at age 60 in 20 years' time:		
Males	88.9	89.2
Females	90.8	91.0

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23. Retirement benefit obligations

The table below analyses the fair value of the scheme assets by type of asset.

	2023	2022
	£m	£m
Insurance policies ¹	51.8	48.8
Index-linked bonds	0.5	0.3
Government bonds	0.3	0.5
Liquidity fund ²	–	0.1
Defined contribution section funds ³	1.4	1.7
Other	1.7	2.0
Total	55.7	53.4

Notes:

- Insurance policies are valued at the present value of the related obligations.
- The liquidity fund is an investment in an open-ended fund incorporated in the Republic of Ireland which targeted capital stability and income in the UK. It is invested in short-term fixed income and variable rate securities (such as treasury bills) listed or traded on one or more recognised exchanges.
- The defined contribution section funds relate to members in that section who have a defined benefit underpin that exceeds the value of the defined contribution funds. The investments are largely in a diversified growth fund. The corresponding liability is included in the defined benefit scheme obligation (see the movement in net pension surplus table on page 236).

The majority of debt instruments held directly or through the liquidity fund have quoted prices in active markets.

Movement in net pension surplus

	Fair value of defined benefit scheme assets	Present value of defined benefit scheme obligations	Net pension surplus
	£m	£m	£m
At 1 January 2022	108.2	(96.1)	12.1
Statement of profit or loss:			
Net interest income/(cost) ¹	2.1	(1.9)	0.2
Administration costs	(0.9)	–	(0.9)
Statement of comprehensive income:			
Remeasurement losses			
Return on plan assets excluding amounts included in the net interest on the defined benefit asset	(53.3)	–	(53.3)
Actuarial gains on defined benefit scheme			
Experience gains	–	0.3	0.3
Gains from change in demographic assumptions	–	0.5	0.5
Gains from change in financial assumptions	–	42.7	42.7
Benefits paid	(2.7)	2.7	–
At 31 December 2022	53.4	(51.8)	1.6
Statement of profit or loss:			
Net interest income/(cost) ¹	2.5	(2.4)	0.1
Administration costs	(0.5)	–	(0.5)
Statement of comprehensive income:			
Remeasurement gains			
Return on plan assets excluding amounts included in the net interest on the defined benefit asset	2.7	–	2.7
Actuarial losses on defined benefit scheme			
Experience losses	–	(1.3)	(1.3)
Gains from change in demographic assumptions	–	0.4	0.4
Losses from change in financial assumptions	–	(1.7)	(1.7)
Benefits paid	(2.4)	2.4	–
At 31 December 2023	55.7	(54.4)	1.3

Note:

- The net interest income/(cost) in the statement of profit or loss has been included under other operating expenses.

The table below details the history of the scheme for the current and prior years:

	2023	2022	2021	2020	2019
	£m	£m	£m	£m	£m
Present value of defined benefit scheme obligations	(54.4)	(51.8)	(96.1)	(98.7)	(90.3)
Fair value of defined benefit scheme assets	55.7	53.4	108.2	107.7	100.0
Net pension surplus	1.3	1.6	12.1	9.0	9.7
Experience (losses)/gains on scheme liabilities	(1.3)	0.3	(5.8)	2.4	0.4
Return on plan assets excluding amounts included in the net interest on the defined benefit asset	2.7	(53.3)	2.2	9.0	4.4

Sensitivity analysis

The sensitivity analysis has been calculated by valuing the pension scheme liabilities using the amended assumptions shown in the table below and keeping the remaining assumptions the same as disclosed in the table above, except in the case of the inflation sensitivity where other assumptions that depend on assumed inflation have also been amended correspondingly. The pension cost has been determined allowing for the estimated impact on the scheme's assets. Following the purchase of the insurance policy to cover the benefits of the defined benefit section members, the scheme's asset and liabilities move by the same amount in respect of these members, hence has no impact on pension cost. The selection of these movements to illustrate the sensitivity of the defined benefit obligation to key assumptions should be viewed as illustrative, rather than providing a view on the likely size of any change.

	Impact on present value of defined benefit scheme obligations	
	2023	2022
	£m	£m
Discount rate		
1.0% increase in discount rate (2022: 1.0% increase in discount rate)	(7.4)	(7.3)
1.0% decrease in discount rate (2022: 1.0% decrease in discount rate)	8.7	8.7
Inflation rate		
1.0% increase in inflation rate (2022: 1.0% increase in inflation rate)	2.7	2.8
1.0% decrease in inflation rate (2022: 1.0% decrease in inflation rate)	(2.7)	(2.6)
Life expectancy		
1-year increase in life expectancy	2.4	2.6
1-year decrease in life expectancy	(2.4)	(2.6)

The most recent funding valuation of the Group's defined benefit scheme was carried out as at 1 October 2023. This showed an excess of assets over liabilities. The Group agreed with the trustee to make contributions of up to £1.5 million per annum in 2023 and 2024, in the event that a deficit subsequently emerges on the anniversary of the funding valuation date.

At the date of signing these financial statements, no contributions are expected to be payable in 2024 (2023: £nil).

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24. Financial investments

	2023 £m	2022 £m restated ¹
Debt securities measured at fair value through the profit or loss		
Corporate	2,530.8	2,605.1
Supranational	25.6	25.2
Local government	0.9	5.9
Sovereign	680.8	511.3
Total	3,238.1	3,147.5
Debt securities measured at amortised cost		
Corporate	70.6	97.2
Total	70.6	97.2
Total debt securities	3,308.7	3,244.7
Of which:		
Fixed interest rate ²	3,307.5	3,231.1
Floating interest rate	1.2	13.6
Loans and receivables measured at amortised cost		
Infrastructure debt	214.2	236.8
Commercial real estate loans	145.9	198.9
Other loans	3.1	1.6
Total loans and receivables	363.2	437.3
Unquoted equity investments measured at fair value through other comprehensive income ^{3,4}	18.9	13.3
Unquoted equity investments measured at fair value through the profit or loss ³	0.7	0.8
Quoted equity investments measured at fair value through the profit or loss ³	0.1	0.3
Total	3,691.6	3,696.4

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
2. The Group swaps a fixed interest rate for a floating rate of interest on its US dollar and Euro corporate debt securities by entering into interest rate derivatives. The hedged amount at 31 December 2023 was £419.4 million (2022: £401.8 million).
3. Equity investments consist of quoted shares and insurtech-focused equity funds. The insurtech-focused equity funds are valued based on external valuation reports received from a third-party fund manager.
4. On initial recognition the Group made an irrevocable election to classify some equity investments as FVOCI given the instruments are strategic in nature, and are not held for trading.

Amounts arising from expected credit loss: financial investments measured at amortised cost

The table below shows the gross carrying value of financial investments in stages 1 – 3:

	Gross carrying amount	ECL allowance	Carrying amount	Carrying amount	Carrying amount
	2023	2023	2023	31 Dec 2022	1 Jan 2022
	£m	£m	£m	£m	£m
Stage 1	416.8	(1.3)	415.5	509.6	514.3
Stage 2	13.6	(1.0)	12.6	17.9	15.6
Stage 3	28.9	(23.2)	5.7	7.0	8.8
Total	459.3	(25.5)	433.8	534.5	538.7

The following table shows the Group's updated expected credit loss allowances for financial investments measured at amortised cost should there be a three-notch downgrade. This reflects an immediate downgrade on the issuers current credit ratings. The key driver of such a scenario could be a change in the economic outlook which could impact the portfolio as a whole, or a response to an unexpected negative event, for a specific company or industry.

	ECL 2023 £m	3 notch immediate downgrade 2023 £m	ECL 2022 £m	3 notch immediate downgrade 2022 £m
Infrastructure debt	(16.6)	(19.2)	(17.0)	(20.6)
Commercial real estate loans	(7.7)	(10.5)	(6.5)	(10.2)
Debt securities held at amortised cost	(0.8)	(2.7)	(1.0)	(3.6)
Other loans	(0.4)	(0.4)	(0.3)	(0.3)
Total	(25.5)	(32.8)	(24.8)	(34.7)

25. Cash and cash equivalents and borrowings

	2023 £m	2022 £m
Short term deposits with credit institutions ¹	1,624.2	878.8
Cash at bank and in hand	148.0	124.8
Cash and cash equivalents	1,772.2	1,003.6
Bank overdrafts ²	(82.4)	(65.2)
Cash and cash equivalents and borrowings³	1,689.8	938.4

Notes:

1. This represents money market funds.
2. Bank overdrafts represent short-term timing differences between transactions posted in the records of the Group and transactions flowing through the accounts at the bank.
3. Cash and bank overdrafts total is included for the purposes of the consolidated cash flow statement.

The effective interest rate on short-term deposits with credit institutions for the year ended 31 December 2023 was 4.57% (2022: 1.46%) and average maturity was 10 days (2022: 10 days).

Of the total amount of short-term deposits with credit institutions of £1,624.2 million (2022: £878.8 million), £241.8 million (2022: £nil) is invested within money market funds under the 100% quota share reinsurance treaty for the brokered commercial business, which is operated on a funds withheld basis. This entitles the reinsurer to the investment return earned on underlying collateral assets held in money market funds. The Group has appointed a custodian for the asset while retaining ownership of the funds withheld assets collateral.

26. Assets held for sale

	2023 £m	2022 £m
Property, plant and equipment	13.9	37.0
Investment property	–	3.9
Total assets held for sale	13.9	40.9

The Group has been able to reduce the number of office sites it needs by changing the way it uses its premises so that they support collaboration, training and teamwork rather than being an everyday place of work for most people.

Assets held for sale at 31 December 2023 relate to an office site in Leeds (including retail space within the property) that is no longer required. At 31 December 2022, assets held for sale also included an office site and retail space in Bromley and an office site in Ipswich that were subsequently sold during 2023.

A net impairment loss of £5.1 million (2022: £8.9 million) is included within operating expenses (as part of restructuring and one-off costs) for the write down of the carrying value of these properties to their held for sale values.

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27. Share capital

Issued and fully paid: equity shares	2023			2022		
	Number of shares	Share capital	Transfer to capital redemption reserve ³	Number of shares	Share capital	Transfer to capital redemption reserve ³
	millions	£m	£m	millions	£m	£m
Ordinary Shares of 10 ¹⁰ / ₁₁ pence each ¹						
At 1 January	1,311.4	143.1	6.9	1,330.7	145.2	4.8
Shares cancelled following buyback ²	–	–	–	(19.3)	(2.1)	2.1
At 31 December	1,311.4	143.1	6.9	1,311.4	143.1	6.9

Notes:

- The shares have full voting, dividend and capital distribution rights (including on wind-up) attached to them; these do not confer any rights of redemption.
- During 2022, the Group repurchased 19,324,855 Ordinary Shares for an aggregate consideration of £50.1 million.
- Shares bought back were subsequently cancelled giving rise to a capital redemption reserve of an equivalent amount to their nominal value as required by the Companies Act 2006.

Additional information including the number of shares authorised for issue is available in the Directors' Report which starts on page 158.

Employee trust shares

The Group satisfies share-based payments under the Group's share plans primarily through shares purchased in the market and held by employee share trusts.

At 31 December 2023, 13,688,971 Ordinary Shares (2022: 13,214,811 Ordinary Shares) were owned by the employee share trusts at a cost of £29.9 million (2022: £39.0 million). These Ordinary Shares are carried at cost and at 31 December 2023 had a market value of £24.9 million (2022: £29.2 million).

28. Other reserves

Capital reserves

	2023	2022
	£m	£m
Capital contribution reserve ¹	100.0	100.0
Capital redemption reserve ²	1,356.9	1,356.9
Total	1,456.9	1,456.9

Notes:

- Arose on the cancellation of a debt payable to a shareholder.
- £1,350.0 million arose on the reduction of nominal value of each share in issue with a corresponding transfer to capital redemption reserve. No further additions were made in 2023, (2022: additions of £2.1 million when shares repurchased through buyback were cancelled).

29. Tier 1 notes

	2023	2022
	£m	£m
Tier 1 notes	346.5	346.5

On 7 December 2017, the Group issued £350 million of fixed rate perpetual Tier 1 notes with a coupon rate of 4.75% per annum.

The Group has an optional redemption date of 7 December 2027. If the notes are not repaid on that date, a fixed rate of interest per annum will be reset. The notes are direct, unsecured and subordinated obligations of the issuer ranking pari passu and without any preference amongst themselves.

The Tier 1 notes are treated as a separate category within equity and the coupon payments are recognised outside of the profit after tax result and directly in shareholders' equity.

The Group has the option to cancel the coupon payment. Cancellation becomes mandatory if the Solvency condition¹ is not met at the time of, or following, coupon payment; there is non-compliance with the SCR or the minimum capital requirement; the Group has insufficient distributable reserves; or the relevant regulator requires the coupon payment to be cancelled.

Note:

- All payments shall be conditional upon the Group being solvent at the time of payment and immediately after payment. The issuer will be solvent if (i) it is able to pay its debts owed to senior creditors as they fall due and (ii) its assets exceed its liabilities.

30. Subordinated liabilities

	2023	2022
	£m	£m
Subordinated Tier 2 notes	258.8	258.6

On 5 June 2020, the Group issued subordinated Tier 2 notes at a fixed rate of 4.0%. The notes have a redemption date of 5 June 2032 and may be redeemed at the option of the Group commencing on 5 December 2031 until the maturity date.

The notes are unsecured and subordinated obligations of the Group and rank pari passu and without any preference among themselves. In the event of a winding-up or of bankruptcy, they are to be repaid only after the claims of all other senior creditors have been met and will rank at least pari passu with the claims of holders of other Tier 2 capital.

The Group has the option, in certain circumstances, to defer interest payments on the notes but to date has not exercised this right.

31. Share-based payments

The Group operates equity-settled, share-based compensation plans in the form of a Long-Term Incentive Plan ("**LTIP**"), a Restricted Shares Plan, a Deferred Annual Incentive Plan ("**DAIP**") and Direct Line Group Share Incentive Plans, including both the Free Share awards and a Buy-As-You-Earn Plan, details of which are set out below. All awards are to be satisfied using market-purchased shares.

Long-Term Incentive Plan

Executive Directors and certain members of senior management are eligible to participate in the LTIP with awards granted in the form of nil-cost options. Under the plan, the shares vest at the end of a three-year period dependent upon continued employment by the Group and also the Group achieving predefined performance conditions associated with total shareholder return ("**TSR**"), return on tangible equity ("**RoTE**"), from 2022 emissions and from 2023 operating earnings per share ("**Operating EPS**"). The Executive Directors are subject to an additional two-year holding period following the three-year vesting period.

An award was made in the year ended 31 December 2023 of 8.0 million Ordinary Shares with an estimated fair value of £10.9 million at the 2023 grant date (2022: 4.5 million Ordinary Shares with an estimated fair value of £10.7 million).

The estimated fair value of the LTIP share awards with market-based performance conditions was calculated using a Monte Carlo simulation model.

The table below details the inputs into the model:

	2023	2022
Weighted average assumptions during the year:		
Share price (pence)	139	243
Exercise price (pence)	0	0
Volatility of share price	32%	29%
Average comparator volatility	35%	41%
Expected life	3 years	3 years
Risk-free rate	3.54 %	2.09%

Expected volatility was determined by considering the actual volatility of the Group's share price since its initial public offering and that of a group of listed UK insurance companies.

Plan participants are entitled to receive additional shares in respect of dividends paid to shareholders over the vesting period. Therefore, no deduction has been made from the fair value of awards in respect of dividends.

Expected life was based on the contractual life of the awards and adjusted based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

Restricted Shares Plan

The purpose of the Restricted Shares Plan is to facilitate the wider participation in Group share-based awards of eligible employees. These awards can be granted in the form of a nil-cost option at any time during the year, generally have no performance criteria, and vest over periods ranging up to seven years from the date of the grant, subject to continued employment. During the year awards were made of 7.8 million Ordinary Shares (2022: 1.0 million Ordinary Shares) with an estimated fair value of £11.6 million (2022: £2.6 million) using the market value at the date of grant.

Deferred Annual Incentive Plan

To incentivise delivery of performance over a one-year operating cycle, Executive Directors and certain members of senior management are eligible for awards under the Annual Incentive Plan ("**AIP**"), of which at least 40% is granted in the form of a nil-cost option under the DAIP with the remainder being settled in cash following year end. During the year no awards were made (2022: 1.6 million Ordinary Shares). The 2022 award had a fair value of £4.2 million using the market value at the date of grant.

The awards outstanding at 31 December 2023 have no performance criteria attached; there is a requirement that the employee remains in employment with the Group for three years from the date of grant.

Direct Line Group Share Incentive Plans: Free Share awards

No free share awards have been granted to eligible employees since 2021.

Direct Line Group Share Incentive Plans: Buy-As-You-Earn Plan

The Buy-As-You-Earn Plan entitles employees to purchase shares from pre-tax pay for between £10 and £150 per month and receive one matching share for every two shares purchased at nil-cost.

In the year ended 31 December 2023, matching share awards were granted of 1.0 million Ordinary Shares (2022: 0.7 million Ordinary Shares) with an estimated fair value of £1.7 million (2022: £1.7 million). The fair value of each matching share award is estimated using the market value at the date of grant.

Notes to the Consolidated Financial Statements continued

31. Share-based payments continued

Under the plan, the shares vest at the end of a three-year period dependent upon continued employment with the Group together with continued ownership of the associated purchased shares up to the point of vesting.

Movement in total share awards

	Number of share awards	
	2023 millions	2022 millions
At 1 January	28.7	28.4
Granted during the year ¹	16.8	9.8
Forfeited during the year	(8.1)	(4.3)
Exercised during the year	(3.4)	(5.2)
At 31 December	34.0	28.7
Exercisable at 31 December	3.8	2.2

Note:

1. In accordance with the rules of the LTIP, Restricted Shares Plan and DAIP, additional awards of 3.3 million shares were granted during the year ended 31 December 2023 (2022: 2.0 million) in respect of the equivalent dividend.

In respect of the outstanding options at 31 December 2023, the weighted average remaining contractual life is 1.50 years (2022: 1.56 years). No share awards expired during the year (2022: nil).

The weighted average share price for awards exercised during the year ended 31 December 2023 was £1.63 (2022: £2.41).

The Group recognised total expenses in the year ended 31 December 2023 of £13.9 million (2022: £8.2 million) relating to equity-settled share-based compensation plans.

Further information on share-based payments, in respect of Executive Directors, is provided in the Directors' Remuneration Report.

32. Provisions

Movement in provisions during the year

	Restructuring	Other ²	Total
	£m	£m	£m
At 1 January 2023 (restated)¹	8.7	1.5	10.2
Additional provision	29.7	0.3	30.0
Utilisation of provision	(7.0)	–	(7.0)
Released to the statement of profit or loss	(1.9)	(0.5)	(2.4)
At 31 December 2023	29.5	1.3	30.8

Notes:

- Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
- Other includes a number of individually immaterial provisions.

Of the above, no amount is due to be settled outside of 12 months (2022: £Nil).

Restructuring includes a number of restructuring programmes within the Group, including office site closures and staff restructuring along with an impairment charge. There are no material uncertainties in timings, amounts or assumptions used.

33. Trade and other payables

	2023	2022
	£m	£m restated ¹
Accruals	141.6	132.4
Trade creditors	2.2	2.2
Other taxes	12.3	7.9
Other creditors	1.1	1.2
Deferred income	6.4	3.3
Total	163.6	147.0

Note:

- Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

34. Notes to the consolidated cash flow statement

		2023	2022
		£m	£m
	Notes		restated ¹
Profit/(loss) for the year		222.9	(231.9)
Adjustments for:			
Net Investment return excluding investment fees	6	(312.3)	217.6
Finance costs	8	14.5	20.4
Net defined benefit pension scheme expense	23	0.4	0.7
Equity-settled share-based payment charge		13.9	8.2
Tax charge/(credit)	10	54.5	(69.9)
Depreciation and amortisation charge		123.5	115.0
Impairment of intangible assets	15	5.4	16.0
Impairment provision movements on non-performance reinsurance contracts		52.4	37.4
Impairment on assets held for sale	26	5.1	8.9
Loss on disposal of property, plant and equipment and ROU assets		4.1	1.5
Transaction costs paid on disposal of business		(25.1)	—
Profit on disposal of business	9	(443.9)	—
Operating cash flows before movements in working capital		(284.6)	123.9
Movements in working capital:			
Net (increase)/decrease in reinsurance contract assets		(323.5)	69.3
Net (increase)/decrease in insurance contract assets		11.9	(17.4)
Net increase/(decrease) in reinsurance contract liabilities		102.7	10.3
Net decrease in other receivables		(0.6)	(6.2)
Net decrease in accrued income and other assets		3.2	19.3
Net increase/(decrease) in trade and other payables		9.9	(23.1)
Net increase/(decrease) in insurance contract liabilities		613.0	(99.8)
Cash generated from operations		132.0	76.3
Taxes paid		(30.9)	(44.5)
Cash flow hedges		(0.6)	0.3
Net cash generated from operating activities before investment of insurance assets		100.5	32.1
Interest received		176.7	133.0
Rental income received from investment property	6	16.1	15.6
Purchase of investment property	18	(0.6)	(0.6)
Proceeds on disposal/maturity of financial investments measured through profit or loss		1,062.4	1,696.2
Proceeds from maturity of debt securities measured at amortised cost		26.5	—
Advances made for commercial real estate loans		(5.4)	(40.8)
Repayments of infrastructure debt and commercial real estate loans		81.8	57.2
Purchases of debt securities measured at amortised cost		—	(7.0)
Purchase of equity investments		(3.0)	(7.7)
Purchase of financial investments measured at fair value through profit or loss		(1,049.0)	(1,075.9)
Advances for other loans		(1.1)	(1.9)
Cash generated from investment of insurance assets		304.4	768.1

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

Notes to the Consolidated Financial Statements continued

34. Notes to the consolidated cash flow statement continued

The table below details changes in liabilities arising from the Group's financing activities:

	Leases		Subordinated liabilities	
	2023 £m	2022 £m	2023 £m	2022 £m
At 1 January	81.6	84.2	258.6	513.6
Repayment of subordinated liabilities ¹	–	–	–	(250.0)
Interest paid on subordinated liabilities	–	–	(10.4)	(22.0)
Lease repayments	(14.6)	(12.0)	–	–
Financing cash flows	(14.6)	(12.0)	(10.4)	(272.0)
Additions from acquisition of business	0.8	–	–	–
Additions/disposals of leases	34.5	6.3	–	–
Interest on lease liabilities	3.8	3.1	–	–
Amortisation of arrangement costs and discount on issue of subordinated liabilities	–	–	0.2	0.3
Amortisation of fair value hedging	–	–	–	(1.1)
Accrued interest expense on subordinated liabilities	–	–	10.4	17.8
Other changes	39.1	9.4	10.6	17.0
At 31 December	106.1	81.6	258.8	258.6

Note:

- As described in note 30, the Group repaid in full the £250 million 9.25% subordinated Tier 2 notes due 2042 on 27 April 2022 when it had its first option to repay. The interest rate swap hedging these notes expired on the same date. Associated transaction costs were £0.1 million.

35. Commitments and contingent liabilities

The Group did not have any material commitments and contingent liabilities at 31 December 2023 (2022: none).

36. Leases

Operating lease commitments where the Group is the lessor

The following table analyses future aggregate minimum lease payments receivable under non-cancellable operating leases in respect of property leased to third-party tenants:

	2023 £m	2022 £m
Within one year	14.8	13.8
Between 1 and 2 years	13.8	12.6
Between 2 and 3 years	12.9	11.1
Between 3 and 4 years	11.0	10.4
Between 4 and 5 years	9.1	8.8
Later than 5 years	66.8	59.8
Total^{1,2}	128.4	116.5

Notes:

- In the table above, the amounts disclosed for year ended 31 December 2023 exclude total future aggregate minimum lease payments receivable of £0.1 million which relate to leases to third-party tenants on properties the Group has classified as assets held for sale.
- At year ended 31 December 2023: £126.5 million of the total operating lease commitments where the Group is the lessor relates to the lease of investment properties detailed in note 18 (2022: £114.2 million).

The investment properties held by the Group consist of 18 in total, all based in the UK with exposure predominantly to the South of England operating in the following sectors; retail, retail warehouse, supermarkets, industrial, hotels and alternative sectors.

The investment properties are leased to tenants under operating leases with rental income for the majority paid a quarter in advance with an average unexpired lease to expiry (including break clauses and tenants currently in rent free periods) of 9.8 years (2022: 10.5 years). 49% (2022: 49%) of rental income is RPI/index linked.

Where considered necessary to reduce credit risk, the Group may obtain guarantees from parent companies for the term of the lease.

Other lease disclosures

At 31 December 2023 the Group had no commitments to property leases not yet commenced (2022: total future cash outflows of £29.0 million).

The following table analyses the amounts that have been included in the consolidated statement of profit or loss for leases:

	31 Dec 2023	31 Dec 2022
	£m	£m
Depreciation of ROU assets	11.9	9.9
Gain on modification of leases	—	—
Loss/(gain) on disposal of leases	1.4	(0.5)
Interest on lease liabilities	3.8	3.1
Short-term leases ²	2.2	1.6
Low-value leases ²	1.4	1.4
Impairment on ROU assets	—	—
Income from subleasing ROU assets	—	—
Total	20.7	15.5

Notes:

1. Total cash outflows in respect of leases was £18.2 million (2022: £15.0 million) which includes amounts expensed for short-term leases and leases of low-value assets.
2. At years ended 31 December 2023 and 31 December 2022, expenses relating to short-term leases and leases of low-value assets were not included in the measurement of lease liabilities as they were not considered significant.

Lease commitments where the Group is the lessee

Lease liabilities total £106.1 million (2022: £81.6 million). Future contractual aggregate minimum lease payments are as follows:

	2023	2022
	£m	£m
Within one year	12.7	10.9
In the second to fifth year inclusive	45.3	31.9
After five years	78.7	60.0
Sub total	136.7	102.8
Less effect of discounting and unearned interest	(30.6)	(21.2)
Total	106.1	81.6

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed.

The lease agreements do not impose any covenants other than the security interest in the leased assets that are held by the lessor.

Notes to the Consolidated Financial Statements continued

37. Fair value

Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. There were no changes in valuation techniques during the year.

For disclosure purposes, fair value measurements are classified as level 1, 2 or 3 based on the degree to which fair value is observable:

- Level 1 financial assets are measured in whole or in part by reference to published quotes in an active market. In an active market quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis.
- Level 2 financial assets and liabilities are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. These include debt securities held at FVTPL for which pricing is obtained via pricing services, but where prices have not been determined in an active market, or financial assets with fair values based on broker quotes or assets that are valued using the Group's own models whereby the majority of assumptions are market-observable. Derivatives are valued using broker quotes or appropriate valuation models. Model inputs include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of underlying instruments. Level 2 also includes quoted equity investments that the Group holds for which prices are available however, the market transactions upon which those prices are based are not considered to be regularly occurring.
- Level 3 fair value measurements used for investment properties, debt securities measured at amortised cost, infrastructure debt, commercial real estate loans, unquoted equity investments and other loans are those derived from a valuation technique that includes inputs for the asset that are unobservable. Debt securities measured at amortised cost are private placed securities which do not trade on active markets, these are valued using discounted cash flow models designed to appropriately reflect the credit and illiquidity of these instruments. The key unobservable input elements from the discount rate used across private debt securities is the credit spread which is based on the credit quality of the assets and the illiquidity premium. Infrastructure debt and commercial real estate are loans which do not trade on active markets. Valuations are derived from external asset managers' credit assessment and pricing models. These aim to take into account movements in broader credit spreads and are aligned to varying degrees with external credit rating equivalents. Unlisted equity investments are comprised of: investments in private equity funds, which are valued at the proportion of the Group's holding of the net asset value reported by the investment vehicle and are based on several unobservable inputs including market multiples and cash flow forecasts; and unquoted equity shares in a strategic investment.

Comparison of carrying value to fair value of financial instruments and assets where fair value is disclosed

	Carrying value	Level 1	Level 2	Level 3	Fair value
	£m	£m	£m	£m	£m
At 31 December 2023					
Assets held at fair value through profit or loss:					
Investment property	277.1	–	–	277.1	277.1
Derivative assets	27.4	–	27.4	–	27.4
Debt securities	3,238.1	680.8	2,555.8	1.5	3,238.1
Listed equity investments	0.1	–	0.1	–	0.1
Unlisted equity investments	0.7	–	–	0.7	0.7
Assets held at fair value through other comprehensive income:					
Equity investments	18.9	–	–	18.9	18.9
Assets held at amortised cost:					
Debt securities	70.6	–	16.2	49.4	65.6
Infrastructure debt	214.2	–	–	213.9	213.9
Commercial real estate loans	145.9	–	–	145.4	145.4
Other loans	3.1	–	–	3.1	3.1
Total	3,996.1	680.8	2,599.5	710.0	3,990.3
Liabilities held at fair value through profit or loss:					
Derivative liabilities	15.4	–	15.4	–	15.4
Other financial liabilities:					
Subordinated liabilities	258.8	–	212.8	–	212.8
Total	274.2	–	228.2	–	228.2

	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m
At 31 December 2022 (restated¹)					
Assets held at fair value through profit or loss:					
Investment property	278.5	—	—	278.5	278.5
Derivative assets	31.3	—	31.3	—	31.3
Debt securities	3,147.5	511.3	2,636.2	—	3,147.5
Listed equity investments	0.3	—	0.3	—	0.3
Unlisted equity investments	0.8	—	—	0.8	0.8
Assets held at fair value through other comprehensive income:					
Equity investments	13.3	—	—	13.3	13.3
Assets held at amortised cost:					
Debt securities	97.2	—	28.6	61.0	89.6
Infrastructure debt	236.8	—	—	235.7	235.7
Commercial real estate loans	198.9	—	—	198.1	198.1
Other loans	1.6	—	—	1.9	1.9
Total	4,006.2	511.3	2,696.4	789.3	3,997.0
Liabilities held at fair value through profit or loss:					
Derivative liabilities	29.6	—	29.6	—	29.6
Other financial liabilities:					
Subordinated liabilities	258.6	—	204.9	—	204.9
Total	288.2	—	234.5	—	234.5

Note:

1. Prior period comparatives have been restated on transition to IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

Differences arise between carrying value and fair value where the measurement basis of the asset or liability is not fair value (for example; assets and liabilities carried at amortised cost). Fair values of the following assets and liabilities approximate their carrying values:

- cash and cash equivalents;
- borrowings; and
- trade and other payables.

The movements in assets held at fair value and classified as level 3 in the fair value hierarchy relate to investment property and unquoted equity investments. Investment property is analysed in note 18 along with further details on the Group's valuation approach. A summary of realised and unrealised gains or losses in relation to investment property at fair value are presented in note 6.

There were no changes in the categorisation of assets between levels 1, 2 and 3 for assets and liabilities held by the Group since 31 December 2022.

The table below shows the unobservable inputs used by the Group in the fair value measurement of its investment property:

	Fair value £m		Valuation technique	Unobservable input	Range (weighted average)	
	2023	2022			2023	2022
Investment property	277.1¹	278.5 ¹	Income capitalisation	Equivalent yield (note 18)	4.50% – 7.96% (average 5.77%)	4.23% – 7.61% (average 5.62%)
				Estimated rental value per square foot	£7.00 – £35.00 (average £16.38)	£6.50 – £32.92 (average £13.59)

Note:

1. The methodology of valuation reflects commercial property held within U K Insurance Limited.

Notes to the Consolidated Financial Statements continued

The table below analyses the movement in assets carried at fair value classified as level 3 in the fair value hierarchy:

	Investment property	Unquoted equity investments held at FVOCI	Unquoted equity investments held at FVTPL
	£m	£m	£m
At 1 January 2023 (restated')	278.5	13.3	0.8
Additions	0.5	3.0	–
(Reduction)/increase in fair value in the period	(1.9)	3.3	(0.1)
Disposals	–	(0.6)	–
Foreign exchange movement	–	(0.1)	–
At 31 December 2023	277.1	18.9	0.7

Note:

1. Opening balances have been restated on transition to IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

38. Acquisitions

By Miles Group Limited

On 24 April 2023 the Group acquired 100% of the share capital of By Miles Group Limited ("By Miles") for a nominal consideration. Details of the business combination are as follows:

	21 April 2023
	£m
Amount settled in cash	–
Recognised amounts of identifiable net assets:	
Intangible assets	0.6
Property, plant and equipment	1.9
Cash and cash equivalents	1.1
Trade and other receivables	0.5
Trade and other payables	(1.6)
Borrowings	(5.2)
Net identifiable assets and liabilities	(2.7)
Goodwill	2.7

By Miles is a Managing General Agent and provider of real-time pay-by-mile insurance policies. The amount settled in cash was £1. Acquisition-related expenses of £0.4 million have been recognised in the consolidated statement of profit or loss.

Goodwill recognised on the acquisition relates to expected growth, synergies and the value of the By Miles proposition which cannot be separately recognised as an intangible asset. The goodwill has been allocated to the Motor segment. None of the goodwill is expected to be deductible for tax purposes.

The fair value of trade and other receivables acquired is equal to the gross contractual amount receivable of £0.5m.

By Miles has contributed £4.7 million to the Group's other operating income and a loss of £3.2 million to the Group's consolidated profit before tax from the acquisition date to 31 December 2023. Had the acquisition occurred on 1 January 2023, By Miles would have contributed £5.7 million to the Group's other operating income and a loss of £6.2 million to profit before tax. Amounts have been calculated using consistent accounting policies to those used by the Group.

Vehicle repair workshop

On 1 April 2023, the Group acquired the business and assets of a vehicle repair centre to further expand the Group's wholly owned DLG Auto Services network. Details of the business combination are as follows:

	1 April 2023
	£m
Amount settled in cash	1.7
Recognised amounts of identifiable net assets:	
ROU assets	0.8
Property, plant and equipment	0.8
Lease liabilities	(0.8)
Net identifiable assets and liabilities	0.8
Goodwill	0.9

Goodwill represents the value attributed to the business by the Group as part of its ongoing strategy of developing its repair network. The Group measured the acquired lease liabilities and matching ROU assets using the present value of the remaining lease payments at the date of acquisition.

No disclosure has been made for revenue and profit before tax generated as the Group does not manage its business at this level.

39. Related parties

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

Subject to the preceding sentence, there were no sales or purchases of products and services to or from related parties in the year ended 31 December 2023 (2022: £nil).

Compensation of key management

	2023	2022
	£m	£m
Termination benefits	1.0	—
Short-term employee benefits	6.6	7.6
Post-employment benefits	0.2	0.2
Share-based payments	2.5	3.5
Total	9.3	11.3

For the purposes of IAS 24 'Related party disclosures', key management personnel comprise the Directors and Non-Executive Directors and the members of the Executive Committee.

Notes to the Consolidated Financial Statements continued

40.1 First time adoption of new accounting standards

The Group assessed its business model for managing the financial assets held by the Group and classified its financial assets into the appropriate IFRS 9 categories. The impact of the reclassification was as follows:

Financial asset	Measurement category		IAS 39 1 January 2022 £m	Remeasurement		IFRS 9 1 January 2022 £m restated ¹
	IAS 39	IFRS 9		ECL	Other	
Debt securities measured at FVTPL	Available-for-sale	Fair value through profit or loss	4,084.6	—	—	4,084.6
Debt securities measured at amortised cost	Held-to-maturity	Amortised cost	91.2	(1.2)	—	90.0
Equity Investments	Fair value through OCI	Fair value through OCI	6.2	—	—	6.2
Equity Investments	Fair value through profit or loss	Fair value through profit or loss	0.8	—	—	0.8
Infrastructure debt	Amortised cost	Amortised cost	250.8	(1.8)	—	249.0
Commercial real estate loans	Amortised cost	Amortised cost	200.8	(0.6)	—	200.2
Other loans ²	Amortised cost	Amortised cost	—	(0.5)	—	(0.5)
Cash and cash equivalents	Amortised cost	Amortised cost	955.7	—	—	955.7
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss	35.9	—	—	35.9

Notes:

- Prior period comparatives have been restated on transition to IFRS 9 'Financial Instruments'. See note 1 for further details.
- Relates to a loan contract agreed with the nature recovery charity, Heal, where the first draw down of the facility was not made until August 2022.

The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2022 results in additional allowance for impairment as follows:

	£m
Loss allowance as at 31 December 2021 under IAS 39	20.1
Additional impairment recognised at 1 January 2022 on:	
Debt securities measured at amortised cost	1.2
Infrastructure debt	1.8
Commercial real estate loans	0.6
Other loans	0.5
Loss allowance at 1 January 2022 under IFRS 9	24.2

40.2 First time adoption of new accounting standards

Impact on the consolidated statement of comprehensive income for the period ended 31 December 2022.

	31 December 2022 £m	First-time adoption of IFRS 9 £m	First-time adoption of IFRS 17 £m	31 December 2022 £m restated ¹
(Loss)/profit for the year attributable to the owners of the Company	(39.5)	(202.0)	9.6	(231.9)
Other comprehensive (loss)/income for the year for the period net of tax	(210.8)	203.2	—	(7.6)
Total comprehensive (loss)/income for the year for the period attributable to the owners of the Company	(250.3)	1.2	9.6	(239.5)
(Loss)/earnings per share				
Basic (loss)/earnings per share (pence)	(4.3)	(15.5)	0.7	(19.1)
Diluted (loss)/earnings per share (pence)	(4.3)	(15.5)	0.7	(19.1)

Note:

- Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See note 1 for further details.

40.3 First time adoption of new accounting standards

Impact on the consolidated statement of financial position as at 1 January 2022.

	1 January 2022	First-time adoption of IFRS 9	First-time adoption of IFRS 17		1 January 2022
	£m	£m	Presentation changes £m	Measurement changes £m	£m restated ¹
Assets					
Goodwill and other intangible assets	822.5	—	—	—	822.5
Property, plant and equipment	113.8	—	—	—	113.8
Right-of-use assets	76.1	—	—	—	76.1
Investment property	317.0	—	—	—	317.0
Reinsurance contract assets ^{2,3}	1,211.8	—	(4.4)	(25.7)	1,181.7
Deferred acquisition costs	186.6	—	—	(186.6)	—
Deferred tax assets	—	0.2	—	29.2	29.4
Current tax assets	14.4	—	—	—	14.4
Other receivables ²	762.8	—	(734.4)	—	28.4
Prepayments, accrued income and other assets	125.1	(0.9)	—	—	124.2
Derivative financial instruments	35.9	—	—	—	35.9
Retirement benefit asset	12.1	—	—	—	12.1
Financial investments	4,633.6	(3.3)	—	—	4,630.3
Cash and cash equivalents	955.7	—	—	—	955.7
Assets held for sale	41.2	—	—	—	41.2
Total assets	9,308.6	(4.0)	(738.8)	(183.1)	8,382.7
Equity					
Shareholders' equity	2,550.2	(3.5)	—	(96.1)	2,450.6
Tier 1 notes	346.5	—	—	—	346.5
Total equity	2,896.7	(3.5)	—	(96.1)	2,797.1
Liabilities					
Subordinated liabilities	513.6	—	—	—	513.6
Insurance contract liabilities ²	3,680.5	—	(365.0)	1,410.1	4,725.6
Reinsurance contract liabilities ³	—	—	—	3.6	3.6
Unearned premium reserve	1,500.7	—	—	(1,500.7)	—
Borrowings	59.2	—	—	—	59.2
Derivative financial instruments	19.5	—	—	—	19.5
Provisions ²	96.4	—	(48.3)	—	48.1
Trade and other payables ²	457.3	—	(325.5)	—	131.8
Lease liabilities	84.2	—	—	—	84.2
Deferred tax liabilities	0.5	(0.5)	—	—	—
Total liabilities	6,411.9	(0.5)	(738.8)	(87.0)	5,585.6
Total equity and liabilities	9,308.6	(4.0)	(738.8)	(183.1)	8,382.7

Notes:

- Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See note 1 for further details.
- Following publication of the Group's H1 2023 Interim Report, the Group has reclassified some elements of the following balances into insurance contract liabilities and reinsurance contract assets: Other receivables (£176.7 million asset in the interim report), provisions (£96.4 million liability in the interim report) and trade and other payables (£133.9 million liability in the interim report). The balance reported in the interim report for insurance contract liabilities was £4,669.7 million and reinsurance contract assets was £946.6 million.
- Since the publication of the H1 2023 Interim Report, £3.6 million has been reclassified between reinsurance contract assets and reinsurance contract liabilities

The quantitative impact on the consolidated statement of financial position of the first-time adoption of IFRS 9 and 17 on the transition date is explained in note 1.1 of these financial statements.

Notes to the Consolidated Financial Statements continued

40.4 First time adoption of new accounting standards

Impact on the consolidated cash flow statement for the year ended 31 December 2022.

	31 December 2022	First-time adoption of IFRS 9	First-time adoption of IFRS 17	31 December 2022
	£m	£m	£m	£m
				restated ¹
Net cash generated from operating activities	800.2	–	–	800.2
Net cash used in investing activities	(100.8)	–	–	(100.8)
Net cash used in financing activities	(657.5)	–	–	(657.5)
Net increase in cash and cash equivalents	41.9	–	–	41.9
Cash and cash equivalents at the beginning of the year	896.5	–	–	896.5
Cash and cash equivalents at the end of the period	938.4	–	–	938.4

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See note 1 for further details.

Parent Company Statement of Financial Position

As at 31 December 2023

	Notes	2023 £m	2022 £m
Assets			
Investment in subsidiary undertakings	2	3,445.2	3,332.6
Other receivables	3	23.4	26.8
Current tax assets	4	14.1	6.8
Derivative financial instruments	5	0.3	0.1
Cash and cash equivalents	6	118.8	112.3
Total assets		3,601.8	3,478.6
Equity			
Shareholders' equity		2,693.6	2,695.7
Tier 1 notes	8	346.5	346.5
Total equity		3,040.1	3,042.2
Liabilities			
Subordinated liabilities	9	258.8	258.6
Borrowings	10	301.7	176.8
Derivative financial instruments	5	0.3	0.1
Deferred tax liabilities	4	0.9	0.9
Total liabilities		561.7	436.4
Total equity and liabilities		3,601.8	3,478.6

The attached notes on pages 255 to 258 form an integral part of these separate financial statements.

The profit for the year net of tax was £21.2 million (2022: £126.2 million).

The financial statements were approved by the Board of Directors and authorised for issue on 21 March 2024.

They were signed on its behalf by:



NEIL MANSER

CHIEF FINANCIAL OFFICER

Direct Line Insurance Group plc

Registration No. 02280426

Parent Company Statement of Comprehensive Income

For the year ended 31 December 2023

	2023 £m	2022 £m
Profit for the year attributable to the owners of the Company	21.2	126.2
Other comprehensive gain		
Items that may be reclassified subsequently to the statement of profit or loss:		
Gain on fair value through other comprehensive income investments	–	0.1
Other comprehensive gain for the year net of tax	–	0.1
Total comprehensive income for the year attributable to the owners of the Company	21.2	126.3

Parent Company Statement of Changes in Equity

For the year ended 31 December 2023

	Share capital (note 7) £m	Capital reserves (note 7) £m	Share-based payment reserve £m	Fair value through other comprehensive income revaluation reserve £m	Retained earnings £m	Shareholders equity £m	Tier 1 notes (note 9) £m	Total equity £m
Balance at 1 January 2022	145.2	1,454.8	5.0	(0.1)	1,333.0	2,937.9	346.5	3,284.4
Profit for the year	–	–	–	–	126.2	126.2	–	126.2
Other comprehensive income	–	–	–	0.1	–	0.1	–	0.1
Total comprehensive income for the year	–	–	–	0.1	126.2	126.3	–	126.3
Dividends and appropriations paid (note 11)	–	–	–	–	(314.5)	(314.5)	–	(314.5)
Shares cancelled following buyback	(2.1)	2.1	–	–	(50.1)	(50.1)	–	(50.1)
Credit to equity for equity-settled share-based payments	–	–	9.5	–	–	9.5	–	9.5
Shares distributed by employee trusts	–	–	(13.4)	–	–	(13.4)	–	(13.4)
Total transactions with equity holders	(2.1)	2.1	(3.9)	–	(364.6)	(368.5)	–	(368.5)
Balance at 31 December 2022	143.1	1,456.9	1.1	–	1,094.6	2,695.7	346.5	3,042.2
Profit for the year	–	–	–	–	21.2	21.2	–	21.2
Total comprehensive income for the year	–	–	–	–	21.2	21.2	–	21.2
Dividends and appropriations paid (note 11)	–	–	–	–	(16.6)	(16.6)	–	(16.6)
Credit to equity for equity-settled share-based payments	–	–	12.6	–	–	12.6	–	12.6
Shares distributed by employee trusts	–	–	(19.3)	–	–	(19.3)	–	(19.3)
Total transactions with equity holders	–	–	(6.7)	–	(16.6)	(23.3)	–	(23.3)
Balance at 31 December 2023	143.1	1,456.9	(5.6)	–	1,099.2	2,693.6	346.5	3,040.1

The attached notes on pages 255 to 258 form an integral part of these separate financial statements.

Notes to the Parent Company Financial Statements

1. Accounting policies

1.1 Basis of preparation

Direct Line Insurance Group plc, registered in England and Wales (company number 02280426), is the ultimate parent company of the Group. The principal activity of the Company is managing its investments in subsidiaries, providing loans to those subsidiaries, raising funds for the Group and the receipt and payment of dividends.

The address of the Company's registered office is Churchill Court, Westmoreland Road, Bromley, BR1 1DP.

The Company's financial statements are prepared on the historical cost basis except for derivative financial instruments, which are measured at fair value.

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the Company's statement of profit or loss and related notes have not been presented in these separate financial statements.

The Company's financial statements are prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

The Company has taken advantage of the following FRS 101 disclosure exemptions:

- FRS 101.8 (d): the requirements of IFRS 7 'Financial Instruments: Disclosures' to make disclosures about financial instruments;
- FRS 101.8 (e): the disclosure requirements of IFRS 13 'Fair Value Measurement';
- FRS 101.8 (g): the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 111, and 134 to 136 of IAS 1 'Presentation of Financial Statements' to produce a cash flow statement and to make an explicit and unreserved statement of compliance with IFRSs, additional comparative information and capital management information;
- FRS 101.8 (h): the requirements of IAS 7 'Statements of Cash Flows' to produce a cash flow statement and related notes;
- FRS 101.8 (i): the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' to include a list of new IFRSs that have been issued but that have yet to be applied; and
- FRS 101.8 (k): the requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to a transaction is wholly owned by such a member.

Adoption of new and revised standards

Full details of the new and revised standards adopted by the Company are set out in note 1.1 to the consolidated financial statements.

1.2 Investment in subsidiaries

Investment in subsidiaries is stated at cost less any impairment.

2. Investment in subsidiary undertakings

	2023	2022
	£m	£m
At 1 January	3,332.6	3,322.9
Additional investment in subsidiary undertakings	112.6	9.7
At 31 December	3,445.2	3,332.6

The subsidiary undertakings of the Company are set out in the table below. Their capital consists of Ordinary Shares which are unlisted. In all cases, the Company owns 100% of the Ordinary Shares, either directly or through its ownership of other subsidiaries, and exercises full control over their decision making.

Notes to the Parent Company Financial Statements continued

2. Investment in subsidiary undertakings continued

Name of subsidiary	Company registration number	Place of incorporation and operation	Principal activity
Directly held by the Company:			
Direct Line Group Limited ¹	02811437	United Kingdom	Intermediate holding company
DL Insurance Services Limited ¹	03001989	United Kingdom	Management services
Finsure Premium Finance Limited ¹	01670887	United Kingdom	Non-trading company
Inter Group Insurance Services Limited ¹	02762848	United Kingdom	Dormant ⁵
UK Assistance Accident Repair Centres Limited ¹	02568507	United Kingdom	Motor vehicle repair services
UK Assistance Limited ¹	02857232	United Kingdom	Dormant ⁵
U K Insurance Business Solutions Limited ¹	05196274	United Kingdom	Insurance intermediary services
U K Insurance Limited ^{2,3}	01179980	United Kingdom	General insurance
Indirectly held by the Company:			
Brolly UK Technology Limited ¹	10134039	United Kingdom	Dormant ⁵
By Miles Group Ltd ¹	12270837	United Kingdom	Intermediate holding company
By Miles Ltd ¹	09498559	United Kingdom	Business support services
By Miles Payments Services Ltd ¹	12190473	United Kingdom	Business support services
By Miles Technology Services Ltd ¹	12189384	United Kingdom	Software development
Churchill Insurance Company Limited ¹	02258947	United Kingdom	General insurance
Direct Line Insurance Limited ¹	01810801	United Kingdom	Dormant ⁵
DL Support Services India Private Limited ⁴	See footnote 4	India	Support and operational services
DLG Legal Services Limited ²	08302561	United Kingdom	Legal services
DLG Pension Trustee Limited ¹	08911044	United Kingdom	Dormant ⁵
Farmweb Limited ¹	03207393	United Kingdom	Dormant ⁵
Green Flag Group Limited ²	02622895	United Kingdom	Intermediate holding company
Green Flag Holdings Limited ¹	03577191	United Kingdom	Intermediate holding company
Green Flag Limited ²	01003081	United Kingdom	Breakdown recovery services
Intergroup Assistance Services Limited ¹	03315786	United Kingdom	Dormant ⁵
National Breakdown Recovery Club Limited ¹	02479300	United Kingdom	Dormant ⁵
Nationwide Breakdown Recovery Services Limited ¹	01316805	United Kingdom	Dormant ⁵
The National Insurance and Guarantee Corporation Limited ¹	00042133	United Kingdom	Dormant ⁵
UKI Life Assurance Services Limited ¹	03034263	United Kingdom	Dormant ⁵

Notes:

- Registered office at: Churchill Court, Westmoreland Road, Bromley, BR1 1DP.
- Registered office at: The Wharf, Neville Street, Leeds, LS1 4AZ.
- U K Insurance Limited has a branch in the Republic of South Africa and a branch in the Republic of Ireland.
- Registered office at: Max House, Level 5, Okhla Industrial Area Phase-3, New Delhi, 110020, India. Company registration number: U74140DL2014FTC265567.
- These entities have not been audited, in accordance with the exemptions available for dormant entities under section 480 of the Companies Act 2006.

At 31 December 2023, the carrying amount of the Company's net assets of £3,040.1 million (2022 £3,042.2 million) exceeded the Group's market capitalisation of £2,386.1 million (2022: £2,902.1 million). The Group has performed an impairment test in line with the requirements of IAS 36 'Impairment of Assets' and concluded that no impairments were required to any of the Company's investments in its subsidiaries.

The recoverable amounts of each investment were based on the higher of the value-in-use test, using the strategic plan, and the fair value which was deemed to be equal to the subsidiaries' net asset values. For each investment in subsidiary the recoverable amount was greater than the carrying value of the cost of investment resulting in no impairment required for the year ended 31 December 2023 (2022: £nil).

3. Other receivables

	2023	2022
	£m	£m
Loans to subsidiary undertakings ¹	16.9	21.1
Trade receivables due from subsidiary undertakings	6.0	5.4
Other debtors	0.5	0.3
Total²	23.4	26.8

Notes:

- All loans are neither past due nor impaired.
- All other receivables are classified as current.

4. Current and deferred tax

	2023	2022
	£m	£m
Per statement of financial position:		
Current tax assets	14.1	6.8
Deferred tax liabilities	(0.9)	(0.9)

The deferred tax liability is in respect of temporary differences in Tier 1 notes.

5. Derivative financial instruments¹

	Notional amount	Fair value	Notional amount	Fair value
	2023	2023	2022	2022
	£m	£m	£m	£m
Derivative assets				
Designated as hedging instruments:				
Foreign exchange contracts (forwards) ²	14.5	0.3	3.4	0.1
Total	14.5	0.3	3.4	0.1
Derivative liabilities				
Designated as hedging instruments:				
Foreign exchange contracts (forwards) ²	14.5	0.3	3.4	0.1
Total	14.5	0.3	3.4	0.1

Notes:

- The derivative assets and liabilities are both classified as level 2 within the Group's fair value hierarchy set out in note 37 of the consolidated financial statements.
- The foreign exchange cash flow hedges have been entered into on behalf of the Group's subsidiary companies.

6. Cash and cash equivalents

	2023	2022
	£m	£m
Cash at bank and in hand	0.3	—
Short-term deposits with credit institutions ¹	118.5	112.3
Total	118.8	112.3

Note:

- This represents money market funds.

7. Share capital, capital reserves and distributable reserves

Full details of the share capital and capital reserves of the Company are set out in notes 27 and 28 to the consolidated financial statements.

Of the Company's total equity, £1,099.2 million (2022: £1,094.6 million), being the total of its retained earnings, is considered to be distributable reserves.

8. Tier 1 notes

Full details of the Tier 1 notes of the Company are set out in note 29 to the consolidated financial statements.

Notes to the Parent Company Financial Statements continued

9. Subordinated liabilities

	2023	2022
	£m	£m
Subordinated Tier 2 notes	258.8	258.6

On 5 June 2020, the Company issued subordinated Tier 2 notes at a fixed rate of 4.0%. The notes have a redemption date of 5 June 2032 and may be redeemed at the option of the Company commencing on 5 December 2031 until the maturity date.

The notes are unsecured, and subordinated obligations of the Company and rank pari passu and without any preference among themselves. In the event of a winding-up or of bankruptcy they are to be repaid only after the claims of all other senior creditors have been met and will rank at least pari passu with the claims of holders of other Tier 2 capital.

The Company has the option, in certain circumstances, to defer interest payments on the notes but to date has not exercised this right. The aggregate fair value of subordinated guaranteed dated notes at 31 December 2023 was £212.8 million (2022: £204.9 million).

10. Borrowings

	2023	2022
	£m	£m
Loans from fellow subsidiaries within the Group¹	301.7	176.8

Note:

1. Included in the above is a loan of £93.1 million (2022: £69.2 million) from UK Assistance Accident Repair Centres Limited. All loans from fellow Group subsidiaries are repayable by 31 December 2024.

11. Dividends

Full details of the dividends paid and proposed by the Company are set out in note 12 to the consolidated financial statements.

12. Share-based payments

Full details of share-based compensation plans are provided in note 31 to the consolidated financial statements.

13. Risk management

The risks faced by the Company, arising from its investment in subsidiaries, are considered to be the same as those in the operations of the Group. Details of the key risks and the steps taken to manage them are disclosed in note 3 to the consolidated financial statements. The Company also holds, on behalf of its subsidiaries, designated hedging instruments which relate to foreign currency supplier payments.

14. Employees, Directors and key management remuneration

The Company has no employees. The Directors and key management of the Group and the Company are the same. The aggregate emoluments of the Directors are set out in note 7 to the consolidated financial statements, the compensation for key management is set out in note 39 to the consolidated financial statements and the remuneration and pension benefits payable in respect of the highest-paid Director are included in the Directors' Remuneration Report in the Governance section of the Annual Report and Accounts.

Shareholder information

Financial calendar¹

2024

Date	Event
21 March 2024	Preliminary Results 2023 announcement
08 May	Annual General Meeting
4 September	Half-year report 2024
5 November	Trading update for the third quarter of 2024

Annual General Meeting

The 2024 AGM will be held at Riverbank House, 2 Swan Lane, London, EC4R 3AD on Wednesday 8 May 2024, starting at 11:00 am. All shareholders will receive a separate notice convening the AGM. This will explain the resolutions to be put to the meeting.

The Articles of Association of the Company and the letters of appointment of the Executive Directors, the Chair and the Non-Executive Directors are available for inspection at the Company's registered office and at the offices of Allen & Overy LLP.

Market

The Company has a premium listing on the UK Listing Authority's Official List. The Company's Ordinary Shares (EPIC: DLG) are admitted to trading on the London Stock Exchange.

Share ownership

Share capital

You can find details of the Company's share capital in note 27 to the consolidated financial statements.

Dividends

The Company pays its dividends in sterling to shareholders registered on its register of members at the relevant record date.

Shareholders can arrange to receive their cash dividend payments in a bank or building society account by completing a dividend mandate form. This is available from the Company's registrar, Computershare Investor Services Plc ("Registrar"), in the UK. You can find the Registrar's contact details on page 277. Alternatively, shareholders can access their shareholdings online and download a dividend mandate form from the Investor Centre. You can find details of this below.

Dividend Reinvestment Plan

The Company offers a Dividend Reinvestment Plan. This enables shareholders to use their cash dividends to buy the Company's Ordinary Shares in the market. You can find more details on the Company's website.

Shareholder enquiries

Shareholders with queries about anything relating to their shares can contact our Registrar.

Shareholders should notify the Registrar of any change in shareholding details, such as their address, as soon as possible.

Shareholders can access their current shareholding details online at www.investorcentre.co.uk/directline. Investor Centre is a free-to-use, secure, self-service website that enables shareholders to manage their holdings online. The website allows shareholders to:

- check their holdings;
- update their records, including address and direct credit details;
- access all their securities in one portfolio by setting up a personal account;
- vote online; and
- register to receive electronic shareholder communications.

To access information, the website requires shareholders to quote their shareholder reference number. Shareholders can find this number on their share certificates.

Corporate website

The Group's corporate website is www.directlinegroup.co.uk. It contains useful information for the Company's investors and shareholders. For example, it includes press releases, details of forthcoming events, essential shareholder information, a dividend history, a financial calendar, and details of the Company's AGM. You can also subscribe to email news alerts.

Shareholder warning

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that prove to be worthless or non-existent, or they can offer to buy shares at an inflated price in return for you paying upfront. They promise high profits. However, if you buy or sell shares in this way, you will probably lose your money.

Note:

1. These dates are subject to change.

Shareholder information continued

How to avoid share fraud

- Remember that FCA-authorized firms are unlikely to contact you unexpectedly offering to buy or sell shares.
- Do not converse with them. Note the name of the person and firm contacting you, then end the call.
- To see if the person and firm contacting you are authorised by the FCA, check the Financial Services Register at www.fca.org.uk/register.
- Beware of fraudsters claiming to be from an authorised firm; copying its website; or giving you false contact details.
- If you want to phone the caller back, use the firm's contact details listed on the Financial Services Register at www.fca.org.uk/register.
- If the firm does not have contact details on the Register or they tell you the details are out of date, call the FCA on 0800 111 6768.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/consumers/unauthorised-firms-individuals.
- Remember that if you buy or sell shares from an unauthorised firm, you cannot access the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Get independent financial and professional advice before handing over any money.
- If it sounds too good to be true, it probably is.

Report a scam

If fraudsters approach you, tell the FCA using the share fraud reporting form at www.fca.org.uk/consumers/report-scam-unauthorised-firm. You can also find out more about investment scams on the same web page.

You can call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters, call Action Fraud on 0300 123 2040.

Tips on protecting your shares

- Keep all your certificates in a safe place. Alternatively, consider holding your shares in the UK's electronic registration and settlement system for equity, called CREST, or via a nominee;
- Keep correspondence from the Registrar that shows your shareholder reference number in a safe place, and shred unwanted correspondence;
- Inform the Registrar as soon as you change your address;
- If you receive a letter from the Registrar regarding a change of address and you have not recently moved, contact them immediately;
- Find out when your dividends are paid and contact the Registrar if you do not receive them;
- Consider having your dividends paid direct into your bank account. You will need to complete a dividend mandate form and send it to the Registrar. This reduces the risk of cheques being stolen or lost in the post;
- If you change your bank account, inform the Registrar of your new account details immediately;
- If you are buying or selling shares, only deal with brokers registered in the UK or in your country of residence; and
- Be aware that the Company will never call you concerning investments.

Electronic communications and voting

The Group produces various communications. Shareholders can view these online, download them, or receive paper copies by contacting the Registrar.

Shareholders, who register their email address with our Registrar, or at the Investor Centre, can receive emails with news on events, such as the AGM. They can also receive shareholder communications electronically, such as the Annual Report and Accounts and Notice of Meeting.

Dealing facilities

Shareholders who wish to buy, sell or transfer their shares may do so through a stockbroker or a high street bank; or through the Registrar's share-dealing facility.

You can call or email the Registrar regarding its share-dealing facility using this contact information:

- For telephone sales, call +44 (0)370 703 0084 between 8.00 am and 6.00 pm, Monday to Friday, excluding public holidays, and
- For internet sales, go to www.investorcentre.co.uk/directline. You will need your shareholder reference number, as shown on your share certificate, or your welcome letter from the Chair.

Dividend tax allowance

The dividend tax-free allowance is £1,000 across an individual's entire share portfolio for the tax year 2022 to 2023 and will reduce to £500 for the tax years 2024 to 2025 and beyond. Above these amounts, individuals will pay tax on their dividend income. The rate of this tax depends on their income tax bracket and personal circumstances. The Company will continue providing registered shareholders with a confirmation of the dividends paid. Shareholders should include this with any other dividend income they receive when calculating and reporting total dividend income received to HMRC. The shareholder is responsible for including all dividend income when calculating tax requirements. If you have any tax queries, please contact your financial adviser.

Glossary and Appendices

Term	Definition and explanation
Actuarial best estimate ("ABE")	The probability-weighted average of all future claims and cost scenarios. It is calculated using historical data, actuarial methods and judgement. A best estimate of reserves will therefore normally include no margin for optimism or, conversely, caution.
Acquisition costs	Costs that arise from activities of selling, underwriting and starting a group of contracts that are directly attributable to the portfolio of contracts to which the group belongs.
Annual Incentive Plan ("AIP")	This incentivises the performance of Executive Directors and employees over a one-year operating cycle. It focuses on the short- to medium-term elements of the Group's strategic aims.
Assets under management ("AUM")	This represents all assets managed or administered by or on behalf of the Group, including those assets managed by third parties.
Association of British Insurers ("ABI")	The trade body that represents the insurance and long-term savings industry in the UK.
ASHE index	The Annual Survey of Hours and Earnings (" ASHE ") provides information about the levels, distribution and make-up of earnings and paid hours worked for employees in all industries and occupations. The ASHE tables contain estimates of earnings for employees by sex and full-time or part-time status.
Bootstrapping	A statistical sampling technique used to estimate reserve variability around the Actuarial Best Estimate. Results produced from bootstrapping historical data are used to set and inform the level of margin incorporated in the Management Best Estimate (" MBE ").
Brokered commercial business ("NIC")	The brokered commercial insurance business of U K Insurance Limited which it was announced on 6 September 2023 was being sold to Royal & Sun Alliance Insurance Limited. The Group has retained the back book of the business written and earned prior to 1 October 2023 (the " Risk Transfer Date "). Business written and earned on and subsequent to the Risk Transfer Date will be subject to a quota share arrangement between the two companies. Over time the two Companies intend to enter into discussions regarding the potential transfer of the back book of policies written prior to the Risk Transfer Date. The term brokered commercial business does not meet the criteria of a discontinued operation as defined under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' and has not been accounted for as such.
Buy-As-You-Earn Plan	The HM Revenue & Customs approved Buy-As-You-Earn Share Incentive Plan gives all employees the opportunity to become shareholders in the Company.
Capital	The funds invested in the Group, including funds invested by shareholders and Tier 1 notes. In addition, the subordinated liabilities in the Group's statement of financial position is classified as Tier 2 capital for Solvency II purposes.
Carbon/operational emissions: Scope 1 Scope 2 Scope 3	Scope 1 – covers direct emissions from owned or controlled sources, including fuels used in office buildings, accident repair centres and owned vehicles. Scope 2 – covers indirect emissions from the generation of purchased electricity, steam, heating and cooling for office buildings and accident repair centres. Scope 3 – includes all other indirect emissions that occur in the Group's value chain, such as from purchased goods and services.
Claims frequency	The number of claims divided by the number of policies per year.
Clawback	The Group's ability to claim repayment of paid amounts both cash and equity-settled share-based payments.
Combined operating ratio	The sum of the net insurance claims, net acquisition and net expense ratios. The ratio measures the amount of claims costs, acquisition and operating expenses, compared to net insurance revenue. A ratio of less than 100% indicates profitable underwriting. The ratio and the comparative are calculated on an IFRS 17 basis and is not comparable to combined operating ratios that were calculated on an IFRS 4 basis published previously. (See page 265 alternative performance measures.)
Current-year attritional net insurance claims ratio	The net insurance claims ratio for the current accident year, excluding the movement of claims reserves relating to previous accident years and claims relating to major weather events. (See page 265 alternative performance measures.)
Deferred Annual Incentive Plan ("DAIP")	For Executive Directors and certain members of senior management, at least 40% of the AIP award is deferred into shares typically vesting three years after grant. The remainder of the award is paid in cash following year end.
Employee Representative Body ("ERB")	The forum that represents all employees, including when there is a legal requirement to consult employees.
Effect of change in yield curve	Reflects the effect of changes in discounting, due to movements in the PRA risk-free yield curve and ASHE index, on claims previously recognised.
Events not in data ("ENIDs")	Events not in data allow for short- and long-term risks not reflected in other actuarial inputs, including uncertainties in relation to the actuarial best estimate.

Term	Definition and explanation
Fair value through profit or loss ("FVTPL")	A financial asset or liability where at each statement of financial position date the asset or liability is remeasured to fair value and any movement in that fair value is taken directly to the statement of profit or loss.
Fair value gains/(losses)	Includes fair value gains/(losses) on financial assets held at FVTPL, fair value gains/(losses) on investment property and net expected credit losses on financial investments. (See note 6 Investment return and net insurance financial result.)
Financial leverage ratio	Tier 1 notes and financial debt (subordinated Tier 2 notes) as a percentage of total capital employed.
Financial Reporting Council	The UK's regulator for the accounting, audit and actuarial professions, promoting transparency and integrity in business.
Gross written premium and associated fees	The total premiums from insurance contracts that were inceptioned during the period including the impact of a contractual change to Green Flag premium such that a portion of income that was previously included in GWP is now included in service fee income. GWP is included for the Motability contract for the following six months at the commencement of each six month pricing period.
Incremental borrowing rate ("IBR")	The rate of interest that a lessee would have to pay to borrow, over a similar term and security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment.
In-force policies	The number of policies on a given date that are active and against which the Group will pay, following a valid insurance claim.
Investment income yield	The income, net of fees, earned from the investment portfolio, recognised through the statement of profit or loss during the period (excluding unrealised and realised gains and losses, impairments and fair value adjustments) divided by the average AUM. The average AUM derives from the period's opening and closing balances for the total Group. (See page 265 alternative performance measures.)
Investment return	Total investment income recognised through the statement of profit or loss, earned from the investment portfolio, including investment fees, unrealised and realised gains and losses, impairments and fair value adjustments.
Investment return yield	The investment return divided by the average AUM. The average AUM derives from the period's opening and closing balances. (See page 265 alternative performance measures.)
Long-Term Incentive Plan ("LTIP")	Awards made as nil-cost options or conditional share awards, which vest to the extent that performance conditions are satisfied after a period of at least three years.
Malus	An arrangement that permits unvested remuneration awards to be forfeited, when the Company considers it appropriate.
Minimum capital requirement ("MCR")	The minimum amount of capital that an insurer needs to hold to cover its risks under the Solvency II regulatory framework. If an insurer's capital falls below the MCR then authorisation will be withdrawn by the regulator unless the insurer is able to meet the MCR within a short period of time.
Net acquisition cost ratio	The ratio of acquisition costs divided by net insurance contract revenue (See page 265 alternative performance measures.)
Net asset value	The difference between the Group's total assets and total liabilities, calculated by subtracting total liabilities (including Tier 1 notes) from total assets.
Net expense ratio	The ratio of operating expenses divided by net insurance contract revenue (See page 265 alternative performance measures.)
Net insurance claims ratio	The ratio of net insurance contract claims divided by net insurance contract revenue (See page 265 alternative performance measures.)
Net insurance margin ("NIM")	The ratio of insurance service result divided by net insurance contract revenues. The normalised net insurance margin adjusts net insurance claims and acquisition costs for weather and changes to the Ogden discount rate, when relevant. (See page 265 alternative performance measures.)
Net insurance revenue	The total insurance contract revenue (consisting of gross written premium and associated fees, instalment income and movement in liability for remaining coverage) less expenses from reinsurance contracts held (consisting of reinsurance premium paid and movement in asset for remaining coverage).
Net promoter score ("NPS")	This is an index that measures the willingness of customers to recommend products or services to others. It is used to gauge customers' overall experience with a product or service, and customers' loyalty to a brand.
Ogden discount rate	The discount rate set by the Lord Chancellor and used by courts to calculate lump sum awards in bodily injury cases.

Term	Definition and explanation
Ongoing operations	The Group's ongoing operations include Motor, Home, Rescue and other personal lines and Commercial segments and excludes the brokered commercial business and run-off partnerships segments. Please also refer to brokered commercial business and run-off partnerships . The use of the term ongoing operations is not considered equivalent to continuing operations as defined under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' as brokered commercial business and run-off partnerships do not meet the criteria of discontinued operations and have not been accounted for as such. (See page 265 alternative performance measures.)
Operating earnings/(loss) per share	The earnings attributable to the owners of the Company. The Group's profits, which include brokered commercial business and run-off partnerships, other finance costs & tax after deduction of the Tier 1 coupon payment allocated to each Ordinary Share of the Company, but excludes restructuring and one-off costs divided by the weighted average of Ordinary Shares outstanding in the relevant financial year, excluding Ordinary Shares held by as employee trust shares, adjusted for the dilutive potential Ordinary Shares.
Operating profit	The pre-tax profit that the Group's activities generate, including insurance and investment activity, but excluding FV gains/(losses), change in yield curve, other finance costs, restructuring and one-off costs and gains on the disposal of business. Normalised operating profit is operating profit adjusted for weather and any changes to the Ogden discount rate. Current-year normalised operating profit is calculated using the normalised operating profit adjusted for prior-year reserve movements. (See pages 265 to 268 alternative performance measures.)
Operating return on tangible equity ("RoTE")	This is adjusted operating profit from ongoing operations divided by the Group's average shareholders' equity less goodwill and other intangible assets. Operating profit after tax is adjusted to include other finance costs and the Tier 1 coupon payments. It is stated after charging tax using the UK standard rate of 23.5% (2022: 19%). (See page 266 - Alternative Performance Measures.)
Other finance costs	The cost of servicing the Group's external borrowings and including the interest on right-of-use assets.
Other operating expenses	These are the expenses relating to business activities excluding restructuring and one-off costs and those included within the insurance service result. (See page 274.)
Own Risk and Solvency Assessment ("ORSA")	A forward-looking assessment of the Group's risks and associated capital requirements, over the business planning period.
Periodical payment order ("PPO")	These are claims payments as awarded under the Courts Act 2003. PPOs are used to settle certain large personal injury claims. They generally provide a lump-sum award plus inflation-linked annual payments to claimants who require long-term care.
Prudential Regulation Authority ("PRA")	The PRA is a part of the Bank of England. It is responsible for regulating and supervising insurers and financial institutions in the UK.
PRA risk-free yield curve	Schedules of risk-free interest rates in a number of currencies produced by the Bank of England. These rates are used to calculate the present value of the expected future costs of honouring insurance companies' obligations to policyholders.
Restructuring and one-off costs	Restructuring costs are costs incurred in respect of those business activities which have a material effect on the nature and focus of the Group's operations. One-off costs are costs that are non-recurring in nature.
RoPL	Rescue and other personal lines.
Return on equity	This is calculated by dividing the (loss)/profit attributable to the owners of the Company after deduction of the Tier 1 coupon payments by average shareholders' equity for the period.
Run-off partnerships	The Group has exited, or has initiated termination of, three partnerships which will reduce its exposure to low margin packaged bank accounts so it may redeploy capital to higher return segments. The run-off partnerships relate to a Rescue partnership with NatWest Group that expired in December 2022 and Travel partnerships with NatWest Group and Nationwide Building Society which expire in 2024, where the Group has indicated to the partner that it will not be seeking to renew. The term run-off partnerships does not meet the criteria of a discontinued operation as defined under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' and has not been accounted for as such.
Science-Based Targets ("SBT")	Science-Based Targets are a set of goals developed by a business to provide it with a clear route to reduce greenhouse gas emissions. An emissions reduction target is defined as "science-based" if it is developed in line with the scale of reductions required to curb a global temperature rise to well below 2°C above pre-industrial levels and ideally to limit to a 1.5°C rise.
Solvency capital ratio	The ratio of Solvency II own funds to the solvency capital requirement.
Solvency capital requirement ("SCR")	The SCR is the amount of capital the regulator requires an insurer to hold to meet the requirements under the Solvency II regulatory framework. The Group uses a partial internal model to determine the SCR.

Term	Definition and explanation
Tangible equity	This shows the equity excluding Tier 1 notes and intangible assets (for comparability with companies which have not acquired businesses or capitalised intangible assets). (See page 266 alternative performance measures.)
Tangible net assets per share	This shows the amount of tangible equity allocated to each ordinary share (for comparability with companies which have not acquired businesses or capitalised intangible assets). (See page 266 alternative performance measures.)
Task Force on Climate-related Financial Disclosure ("TCFD")	Established by the Financial Stability Board, the TCFD developed a set of disclosure recommendations on the risks and opportunities presented by climate change. The TCFD aims to improve and increase climate-related disclosure by organisations and promotes the provision of clear, comprehensive and high-quality information.
Total Shareholder Return ("TSR")	Compares share price movement with reinvested dividends as a percentage of the share price.
Unwind of discounting of claims	Comprises insurance finance income and expenses arising from the release of the effect of discounting as projected cashflows move one period closer. The discount unwind is calculated every quarter on opening reserves.

Appendix A – Alternative performance measures (unaudited)

The Group has identified Alternative Performance Measures ("APMs") in accordance with the European Securities and Markets Authority's published Guidelines. The Group uses APMs to improve comparability of information between reporting periods and reporting segments, by adjusting for either uncontrollable or one-off costs which impact the IFRS measures, to aid the user of the annual report and accounts in understanding the activity taking place across the Group. These APMs are contained within the main narrative sections of this document, outside the financial statements and notes, and may not necessarily have standardised meanings for ease of comparability across peer organisations.

Further information is presented below, defined in the glossary on pages 261 to 264 and reconciled to the most directly reconcilable line items in the financial statements and notes. Note 4 on page 210 of the consolidated financial statements presents a reconciliation of the Group's business activities on a segmental basis to the consolidated statement of profit or loss. All note references in the table below are to the notes to the consolidated financial statements on pages 179 to 252.

Group APM	Closest equivalent IFRS measure	Definition and/or reconciliation	Rationale for APM
Combined operating ratio	Insurance service result	Combined operating ratio is defined in the glossary on page 261 and reconciled in appendix B on page 269.	This is a measure of underwriting profitability and excludes non-insurance income, whereby a ratio of less than 100% represents an underwriting profit and a ratio of more than 100% represents an underwriting loss.
Current-year attritional insurance claims ratio	Net insurance claims	Current-year attritional loss ratio is defined in the glossary on page 261 and is reconciled to the loss ratio (discussed below) on page 269.	Expresses claims performance in the current accident year in relation to net insurance revenue.
Gross written premium and associated fees	Insurance revenue	Gross written premium and associate fees is defined in the glossary on page 262 and reconciled appendix B on page 269.	The IFRS 17 profit or loss account disclosures reflect revenue earned from service provided, compared to a premium written basis under IFRS 4. The Group will continue to provide detail on trading volumes on a written basis as an alternative performance measure.
Investment income yield	Investment income	Investment income yield is defined in the glossary on page 262 and is reconciled on page 267.	Expresses a relationship between the investment income and the associated opening and closing assets adjusted for portfolio hedging instruments.
Investment return yield	Investment return	Investment return yield is defined in the glossary on page 262 and is reconciled on page 267.	Expresses a relationship between the investment return and the associated opening and closing assets adjusted for portfolio hedging instruments.
Net acquisition ratio	Other directly attributable expenses	Net acquisition ratio is defined in the glossary on page 262 and is reconciled in appendix B on page 269.	Expresses acquisition costs in relation to net insurance contract revenue.
Net expense ratio	Other directly attributable expenses	Net expense ratio is defined in the glossary on page 262 and is reconciled in appendix B on page 269.	Expresses underwriting and policy expenses in relation to net insurance revenue. Note that restructuring and one-off costs are not considered as underwriting costs and are not included in expense ratio calculations.
Net insurance claims ratio	Net insurance claims	Net insurance claims ratio is defined in the glossary on page 262 and is reconciled in appendix B on page 269.	Expresses claims performance in relation to net insurance revenue.
Net insurance margin ("NIM")	Insurance service result	Net insurance margin is defined in the glossary on page 262 and is reconciled on page 267.	This is a measure of underwriting profitability and excludes non-insurance income. A ratio greater than 0% represents an underwriting profit and a ratio of less than 0% represents an underwriting loss.
Normalised net insurance margin	Insurance service result	Normalised net insurance margin is defined in the glossary on page 262 and reconciled on page 268.	This is a measure of underwriting profitability excluding the variances of actual weather from our assumptions and Ogden discount rate changes (when relevant). It also excludes non insurance income. A ratio greater than 0% represents an underwriting profit and a ratio of less than 0% represents an underwriting loss.

Group APM	Closest equivalent IFRS measure	Definition and/or reconciliation	Rationale for APM
Ongoing operations (see also brokered commercial business and run-off partnerships)	Multiple - rationale for APM	Ongoing operations, brokered commercial business and run-off partnerships are defined in the glossary on pages 263 and 264 and reconciled in appendix B on page 269.	As noted in the Acting CEO and CFO reviews, the Group has announced the sale of its brokered commercial business and exited or has initiated termination of three low margin partnerships in order to be able to deploy its capital where it may obtain higher returns and has excluded these businesses from its ongoing results to give the reader a clearer view of the Group's ongoing activities and activities that it is seeking to exit from.
Operating earnings/(loss) per share	Diluted earnings per share	Operating earnings/(loss) per share is defined in the glossary on page 263 and reconciled on page 267.	This is a measure of profitability. A three-year cumulative operating earnings per share (the sum of the amounts for the three years starting with the year that the award is made) is used in long-term incentive plan (" LTIP ") calculations.
Operating profit	Profit before tax	Operating profit is defined in the glossary on page 263 and reconciled in note 4 on page 211.	This shows the underlying performance (before tax and excluding finance costs and restructuring and one-off costs) of the business activities.
Operating return on tangible equity	Return on equity	Operating return on tangible equity is defined in the glossary on page 263 and is reconciled on page 267.	This shows performance against a measure of equity that is more easily comparable to that of other companies.
Other operating expenses	Other directly attributable expenses	Other operating expenses is defined in the glossary on page 263 and reconciled in Appendix B on page 269.	This shows the expenses relating to business activities excluding restructuring and one-off costs and those included within the insurance service result.
Tangible equity	Equity	Tangible equity is defined in the glossary on page 264 and is reconciled in note 14 on page 220.	This shows the equity excluding Tier 1 notes and intangible assets for comparability with companies which have not acquired businesses or capitalised intangible assets.
Tangible net asset value per share	Net asset value per share	Tangible net asset value per share is defined in the glossary on page 264 and reconciled in note 14 on page 220.	This shows the equity excluding Tier 1 notes and intangible assets per share for comparability with companies which have not acquired businesses or capitalised intangible assets.

Investment income and return yields¹

	Notes ²	FY 2023 £m	FY 2022 £m restated ³
Investment income	6	187.9	124.9
Investment fees	6	(9.3)	(9.5)
Realised and unrealised gains/(losses)	6	124.4	(342.5)
Total investment return	6	303.0	(227.1)
Opening investment property		278.5	317.0
Opening financial investments		3,696.4	4,630.3
Opening cash and cash equivalents		1,003.6	955.7
Opening borrowings		(65.2)	(59.2)
Opening derivatives asset ⁴		1.6	14.3
Opening investment holdings		4,914.9	5,858.1
Closing investment property		277.1	278.5
Closing financial investments	28	3,691.6	3,696.4
Closing cash and cash equivalents ⁴	29	1,530.4	1,003.6
Closing borrowings	29	(82.4)	(65.2)
Closing derivatives asset ⁵		12.4	1.6
Closing investment holdings		5,429.1	4,914.9
Average investment holdings ⁶		5,172.0	5,386.5
Investment income yield¹		3.5%	2.1%
Investment return yield¹		5.9%	(4.2%)

Notes:

1. See glossary on page 262 for definitions.
2. See notes to the consolidated financial statements.
3. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
4. Excludes cash withheld under funds withheld arrangement, see note 1.5.
5. See page 36 (Investment holdings).
6. Mean average of opening and closing balances.

Operating return on tangible equity¹

	2023 £m	2022 £m restated ²
Operating loss - ongoing operations	(189.5)	(6.4)
Other finance costs	(14.5)	(20.4)
Coupon payments in respect of Tier 1 notes	(16.6)	(16.6)
Adjusted operating loss - ongoing operations before tax	(220.6)	(43.4)
Tax credit (2023 UK standard tax rate of 23.5%, 2022 UK standard tax rate of 19.0%)	51.8	8.2
Adjusted operating loss - ongoing operations after tax	(168.8)	(35.2)
Opening shareholders' equity	1,845.3	2,450.6
Opening goodwill and other intangible assets	(822.2)	(822.5)
Opening shareholders' tangible equity	1,023.1	1,628.1
Closing shareholders' equity	2,058.2	1,845.3
Closing goodwill and other intangible assets	(818.6)	(822.2)
Closing shareholders' tangible equity	1,239.6	1,023.1
Average shareholders' tangible equity ³	1,131.4	1,325.6
Operating return on tangible equity	(14.9%)	(2.7%)

Notes:

1. See glossary on page 263 for definitions.
2. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
3. Mean average of opening and closing balances.

Operating earnings/(loss) per share

	2023 £m	2022 £m
Operating loss - ongoing operations	(189.5)	(6.4)
Other finance costs	(14.5)	(20.4)
Coupon payments in respect of Tier 1 notes	(16.6)	(16.6)
Adjusted operating loss - ongoing operations before tax	(220.6)	(43.4)
Tax credit (2023 UK standard tax rate of 23.5%, 2022 UK standard tax rate of 19.0%)	51.8	8.2
Adjusted loss for the year attributable to the owners of the Company	(168.8)	(35.2)
Weighted average total shares (number of Ordinary Shares (millions))	1,311.4	1,317.3
Weighted average of Share Trust owned shares (millions)	(12.4)	(13.0)
Weighted average number of Ordinary Shares in issue (millions)	1,299.0	1,304.3
Effect of dilutive potential of share options and contingently issuable shares (millions)	17.3	—
Weighted average number of Ordinary Shares for the purpose of operating earnings per share (millions)	1,316.3	1,304.3
Operating loss per share	(12.8)	(2.7)

Note:

1. See glossary on page 263 for definitions.

Insurance and reinsurance finance expenses

	2023 £m	2022 £m
Insurance finance expense from insurance contracts issued:		
Unwind of discounting of claims	(189.8)	(87.2)
Of which:		
Ongoing operations in operating profit	(163.8)	(75.8)
Brokered commercial business	(24.4)	(11.0)
Run-off partnerships	(1.6)	(0.4)
Effect of change in yield curve	(4.0)	189.6
Insurance finance expense from insurance contracts issued	(193.8)	102.4
Reinsurance finance expense from insurance contracts issued:		
Unwind of discounting of claims	49.5	27.4
Of which:		
Ongoing operations in operating profit	45.1	25.4
Brokered commercial business	4.3	2.0
Run-off partnerships	0.1	—
Effect of change in yield curve	(21.5)	(128.9)
Reinsurance finance expense from insurance contracts issued	28.0	(101.5)
Net insurance finance expense:		
Unwind of discounting of claims	(140.3)	(59.8)
Of which:		
Ongoing operations in operating profit	(118.7)	(50.4)
Brokered commercial business	(20.1)	(9.0)
Run-off partnerships	(1.5)	(0.4)
Effect of change in yield curve	(25.5)	60.7
Net insurance finance expense	(165.8)	0.9

Appendix B - Management view statements of profit or loss, claims development tables, expenses, average premiums, gross written premium and associated fees and in-force policies (unaudited)

Management view statement of profit or loss – year ended 31 December 2023

The table below analyses the Group's management view results by reportable segment for the year ended 31 December 2023.

	Notes	Motor £m	Home £m	RoPL ^{1,2} £m	Commercial £m	Total Group - ongoing operations £m	Brokered commercial business £m	Run-off partnerships ¹ £m	Total Group £m
Gross written premium and associated fees		2,047.8	551.5	265.7	241.0	3,106.0	665.8	150.1	3,921.9
Instalment income		66.1	16.0	2.5	6.3	90.9	1.9	–	92.8
Movement in liability for remaining coverage		(308.5)	(27.8)	4.7	(12.4)	(344.0)	(66.9)	(2.1)	(413.0)
Insurance revenue	5	1,805.4	539.7	272.9	234.9	2,852.9	600.8	148.0	3,601.7
Expenses from reinsurance contracts held	5	(240.5)	(36.1)	(3.7)	(25.1)	(305.4)	(163.4)	(1.4)	(470.2)
Net insurance revenue		1,564.9	503.6	269.2	209.8	2,547.5	437.4	146.6	3,131.5
Incurred claims - including losses from onerous contracts and other directly attributable claims income		(1,743.5)	(337.7)	(155.7)	(126.7)	(2,363.6)	(356.8)	(153.2)	(2,873.6)
Amounts recoverable from reinsurers	5	248.7	24.0	2.3	5.2	280.2	140.8	2.4	423.4
Net insurance claims		(1,494.8)	(313.7)	(153.4)	(121.5)	(2,083.4)	(216.0)	(150.8)	(2,450.2)
Of which:									
Prior-year reserves development		(138.4)	8.9	(1.2)	(15.0)	(145.7)	32.2	(10.6)	(124.1)
Acquisition costs		(89.6)	(42.3)	(12.4)	(29.5)	(173.8)	(116.3)	(2.2)	(292.3)
Operating expenses		(312.1)	(97.4)	(61.4)	(31.2)	(502.1)	(91.2)	(22.3)	(615.6)
Other directly attributable expenses	5	(401.7)	(139.7)	(73.8)	(60.7)	(675.9)	(207.5)	(24.5)	(907.9)
Insurance service result	5	(331.6)	50.2	42.0	27.6	(211.8)	13.9	(28.7)	(226.6)
Investment income	6	107.7	21.2	5.9	7.0	141.8	35.2	1.6	178.6
Unwind of discounting of claims	6	(94.3)	(16.3)	(2.4)	(5.7)	(118.7)	(20.1)	(1.5)	(140.3)
Other operating income and expenses		(1.4)	(2.7)	2.5	0.8	(0.8)	(1.4)	(0.9)	(3.1)
Operating (loss)/profit		(319.6)	52.4	48.0	29.7	(189.5)	27.6	(29.5)	(191.4)
Fair Value gains ²	6								124.4
Effect of change in yield curve									(25.5)
Restructuring and one-off costs ²	6								(59.5)
Other finance costs	8								(14.5)
Gain on disposal of business									443.9
Profit before tax									277.4

Key performance indicators – year ended 31 December 2023

	Motor	Home	RoPL ^{1,2}	Commercial	Total Group - ongoing operations	Total Group
Net insurance margin ("NIM")²	(21.1%)	10.0%	15.6%	13.1%	(8.3%)	(7.2%)
Combined operating ratio ²	121.1%	90.0%	84.4%	86.9%	108.3%	107.2%
Net expense ratio ²	19.9%	19.3%	22.8%	14.9%	19.7%	19.7%
Net acquisition costs ratio ²	5.7%	8.4%	4.6%	14.1%	6.8%	9.3%
Net insurance claims ratio ²	95.5%	62.3%	57.0%	57.9%	81.8%	78.2%
– current-year attritional ²	86.7%	59.2%	56.6%	49.8%	75.1%	73.3%
– prior-year reserves development	8.8%	(1.8%)	0.4%	7.1%	5.7%	4.0%
– major weather events	N/A	4.9%	N/A	1.0%	1.0%	0.9%
Effect of weather						
Net insurance claims ratio ²	N/A	(5.8%)	N/A	(1.7%)	(1.3%)	(1.6%)
Net acquisition ratio ²	N/A	0.0%	N/A	0.0%	0.0%	0.0%
Net insurance margin normalised for weather²	N/A	4.2%	N/A	11.4%	(9.6%)	(8.8%)

Management view statement of profit or loss – year ended 31 December 2023 continued
Additional data to support key performance indicators – year ended 31 December 2023

	Motor	Home	RoPL ^{1,2}	Commercial	Total Group - ongoing operations	Total Group
	£m	£m	£m	£m	£m	£m
Net insurance claims	(1,494.8)	(313.7)	(153.4)	(121.5)	(2,083.4)	(2,450.2)
Attritional net insurance claims	(1,356.4)	(297.9)	(152.2)	(104.5)	(1,911.0)	(2,297.9)
Prior-year reserves development	(138.4)	8.9	(1.2)	(15.0)	(145.7)	(124.1)
Major weather events	N/A	(24.7)	N/A	(2.0)	(26.7)	(28.2)

Normalised operating profit² – year ended 31 December 2023

	Total Group - ongoing operations ¹
	£m
Operating loss	(189.5)
Effect of:	
Ogden discount rate	–
Normalised weather - claims	(32.7)
Normalised weather - profit share	–
Normalised operating loss	(222.2)
Prior-year adjustments	
Prior-year reserves development	(145.7)
Ogden discount rate	–
Prior-year normalised operating loss	(145.7)
Current-year normalised operating loss	(76.5)
Current-year normalised operating loss ratio	34%

Notes:

- Ongoing operations and run-off partnerships – See glossary on pages 261 to 264 for definitions and appendix A – Alternative performance measures on pages 265 to 268 for reconciliation to financial statement line items.
- See glossary on page 261 for definition and appendix A – Alternative performance measures on page 267 for reconciliation to financial statement line items.

Management view statement of profit or loss – year ended 31 December 2022

The table below analyses the Group's management view results by reportable segment for the year ended 31 December 2022 (restated¹).

	Notes	Motor £m	Home £m	RoPL ^{1,2} £m	Commercial £m	Total Group - ongoing operations £m	Brokered commercial business £m	Run-off partnerships ¹ £m	Total Group £m
Gross written premium and associated fees		1,432.7	518.1	273.9	218.9	2,443.6	530.4	124.4	3,098.4
Instalment income		65.5	16.9	2.8	5.9	91.1	1.6	–	92.7
Movement in liability for remaining coverage		57.1	25.7	5.4	(13.0)	75.2	(35.6)	(1.6)	38.0
Insurance revenue	5	1,555.3	560.7	282.1	211.8	2,609.9	496.4	122.8	3,229.1
Expenses from reinsurance contracts held	5	(77.2)	(26.5)	(2.3)	(22.1)	(128.1)	(36.9)	(0.7)	(165.7)
Net insurance revenue		1,478.1	534.2	279.8	189.7	2,481.8	459.5	122.1	3,063.4
Incurred claims - including losses from onerous contracts and other directly attributable claims income		(1,263.7)	(413.1)	(145.5)	(125.1)	(1,947.4)	(217.6)	(109.5)	(2,274.5)
Amounts recoverable from/(payable to) reinsurers	5	87.4	3.1	(0.7)	(1.8)	88.0	8.4	–	96.4
Net insurance claims		(1,176.3)	(410.0)	(146.2)	(126.9)	(1,859.4)	(209.2)	(109.5)	(2,178.1)
Of which:									
Prior-year reserves development		4.3	17.0	4.6	9.5	35.4	38.6	23.8	97.8
Acquisition costs		(82.4)	(33.4)	(22.0)	(36.0)	(173.8)	(121.5)	(2.2)	(297.5)
Operating expenses		(290.1)	(94.3)	(55.9)	(31.8)	(472.1)	(80.4)	(21.0)	(573.5)
Other directly attributable expenses	5	(372.5)	(127.7)	(77.9)	(67.8)	(645.9)	(201.9)	(23.2)	(871.0)
Insurance service result	5	(70.7)	(3.5)	55.7	(5.0)	(23.5)	48.4	(10.6)	14.3
Investment income	6	72.7	13.8	3.5	4.1	94.1	20.4	0.9	115.4
Unwind of discounting of claims	6	(38.5)	(7.4)	(2.0)	(2.5)	(50.4)	(9.0)	(0.4)	(59.8)
Other operating income and expenses		(28.3)	(2.0)	2.9	0.8	(26.6)	3.1	(0.7)	(24.2)
Operating (loss)/profit		(64.8)	0.9	60.1	(2.6)	(6.4)	62.9	(10.8)	45.7
Net fair value losses ³	6								(342.5)
Effect of change in yield curve									60.7
Restructuring and one-off costs ³	6								(45.3)
Other finance costs	8								(20.4)
Loss before tax									(301.8)

Key performance indicators – year ended 31 December 2022

	Motor	Home	RoPL ^{1,3}	Commercial	Total Group - ongoing operations ²	Total Group
Net insurance margin ("NIM")³	(4.8%)	(0.8%)	19.8%	(2.7%)	(0.9%)	0.5%
Combined operating ratio ³	104.8%	100.8%	80.2%	102.7%	100.9%	99.5%
Net expense ratio ³	19.6%	17.7%	20.0%	16.8%	19.0%	18.7%
Net acquisition costs ratio ³	5.6%	6.3%	7.9%	19.0%	7.0%	9.7%
Net insurance claims ratio ³	79.6%	76.8%	52.3%	66.9%	74.9%	71.1%
– current-year attritional ³	79.9%	57.7%	53.9%	69.3%	71.3%	69.4%
– prior-year reserves development	(0.3%)	(3.2%)	(1.6%)	(5.0%)	(1.4%)	(3.2%)
– major weather events	N/A	22.3%	N/A	2.6%	5.0%	4.9%
Effect of weather						
Net insurance claims ratio ³	N/A	12.6%	N/A	0.3%	2.8%	2.5%
Net acquisition ratio ³	N/A	(0.8%)	N/A	0.0%	(0.2%)	(0.1%)
Net insurance margin normalised for weather³	N/A	11.0%	N/A	(2.4%)	1.7%	2.9%

Management view statement of profit or loss – year ended 31 December 2022 continued
Additional data to support key performance indicators – year ended 31 December 2022

	Motor £m	Home £m	RoPL ^{1,3} £m	Commercial £m	Total Group - ongoing operations ² £m	Total Group £m
Net insurance claims	(1,176.3)	(410.0)	(146.2)	(126.9)	(1,859.4)	(2,178.1)
Attritional net insurance claims	(1,180.6)	(307.9)	(150.8)	(131.4)	(1,770.7)	(2,125.4)
Prior-year reserves development	4.3	17.0	4.6	9.5	35.4	97.8
Major weather events	N/A	(119.1)	N/A	(5.0)	(124.1)	(150.5)

Normalised operating profit³ – year ended 31 December 2022

	Total Group - ongoing operations ² £m
Operating loss	(6.4)
Effect of:	
Ogden discount rate	—
Normalised weather - claims	68.0
Normalised weather - profit share	(4.3)
Normalised operating profit	57.3
Prior-year adjustments	
Prior-year reserves development	35.4
Ogden discount rate	—
Prior-year normalised operating profit	35.4
Current-year normalised operating profit	21.9
Current-year normalised operating profit ratio	38%

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
2. Ongoing operations and run-off partnerships – See glossary on pages 261 to 264 for definitions and appendix A – Alternative performance measures on pages 265 to 268 for reconciliation to financial statement line items.
3. See glossary on page 261 for definition and appendix A – Alternative performance measures on page 267 for reconciliation to financial statement line items.

Insurance and reinsurance contract assets and liabilities - claims development tables (discounted PPO basis)

The claims development tables disclosed in note 20.5 have been represented on an undiscounted PPO basis, this is more in line with how the Group manages its insurance and reinsurance contract assets and liabilities.

Gross insurance liabilities

Accident year	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of ultimate gross claims costs:										
At end of accident year	2,066.5	2,124.8	2,178.0	2,280.7	2,059.9	1,767.3	1,905.5	2,252.1	2,721.5	
One year later	(35.1)	(78.5)	(118.2)	(92.3)	(57.3)	(66.4)	(11.1)	157.9		
Two years later	(113.2)	(52.7)	(93.7)	(38.8)	(37.5)	(28.7)	(29.9)			
Three years later	(57.2)	(80.4)	(32.1)	(3.4)	(8.1)	36.7				
Four years later	(20.5)	(39.8)	(18.2)	4.1	15.0					
Five years later	(16.5)	(12.0)	(1.2)	20.9						
Six years later	5.3	(18.6)	11.0							
Seven years later	(5.9)	8.6								
Eight years later	(16.5)									
Current estimate of cumulative claims	1,806.9	1,851.4	1,925.6	2,171.2	1,972.0	1,708.9	1,864.5	2,410.0	2,721.5	
Cumulative payments to date	(1,740.9)	(1,797.3)	(1,849.9)	(1,993.3)	(1,759.5)	(1,414.3)	(1,474.9)	(1,806.2)	(1,336.4)	
Gross liability recognised in the statement of financial position	66.0	54.1	75.7	177.9	212.5	294.6	389.6	603.8	1,385.1	3,259.3
2014 and prior										688.2
Claims handling provision										109.6
Adjustment for non-financial risk										289.3
Effect of discounting										(322.6)
Other Liabilities for Incurred Claims										57.1
Total										4,080.9

Net insurance contract liabilities

Accident year	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of ultimate net claims costs:										
At end of accident year	1,912.3	1,931.8	2,009.2	2,137.8	1,921.4	1,622.7	1,761.1	2,180.7	2,237.7	
One year later	(75.5)	(30.3)	(95.1)	(80.1)	(36.3)	(49.2)	(1.5)	170.4		
Two years later	(61.9)	(46.7)	(60.2)	(20.0)	(36.9)	(42.6)	(12.6)			
Three years later	(29.2)	(42.9)	(17.2)	(18.2)	(7.7)	48.3				
Four years later	(21.0)	(14.8)	(26.8)	3.5	9.9					
Five years later	(22.0)	(8.0)	(10.2)	20.9						
Six years later	5.0	(13.2)	7.9							
Seven years later	(5.2)	(4.9)								
Eight years later	(7.4)									
Current estimate of cumulative claims	1,695.1	1,771.0	1,807.6	2,043.9	1,850.4	1,579.2	1,747.0	2,351.1	2,237.7	
Cumulative payments to date	(1,671.1)	(1,746.8)	(1,765.8)	(1,945.7)	(1,718.7)	(1,375.2)	(1,442.9)	(1,804.8)	(1,088.6)	
Gross liability recognised in the statement of financial position	24.0	24.2	41.8	98.2	131.7	204.0	304.1	546.3	1,149.1	2,523.4
2014 and prior										442.0
Claims handling provision										91.4
Adjustment for non-financial risk										158.7
Effect of discounting										(305.9)
Other Liabilities for incurred claims										(174.7)
Total										2,734.9

Operating expenses - ongoing operations¹

	FY 2023			FY 2022 (restated) ³		
	Insurance service result	Other expenses (note 7)	Total expenses	Insurance service result	Other expenses (note 7)	Total expenses
	£m	£m	£m	£m	£m	£m
Commission expenses	(111.1)	N/A	(111.1)	(95.9)	N/A	(95.9)
Marketing	(62.7)	N/A	(62.7)	(77.9)	N/A	(77.9)
Acquisition expenses	(173.8)	N/A	(173.8)	(173.8)	N/A	(173.8)
Staff costs ³	(194.6)	(5.9)	(200.5)	(188.6)	(6.3)	(194.9)
IT and other operating expenses ^{3,4}	(102.9)	(15.1)	(118.0)	(85.6)	(26.6)	(112.2)
Insurance levies	(81.2)	N/A	(81.2)	(83.0)	N/A	(83.0)
Depreciation, amortisation and impairment of intangible and fixed assets ⁵	(123.4)	(1.2)	(124.6)	(114.9)	(0.8)	(115.7)
Operating expenses	(502.1)	(22.2)	(524.3)	(472.1)	(33.7)	(505.8)
Total expenses - ongoing operations	(675.9)	(22.2)	(698.1)	(645.9)	(33.7)	(679.6)
Total expenses - brokered commercial insurance	(207.5)	(1.8)	(209.3)	(201.9)	1.9	(200.0)
Total expenses - run-off partnerships	(24.5)	(0.9)	(25.4)	(23.2)	(0.7)	(23.9)
Restructuring and one off costs	N/A	N/A	(59.5)	N/A	N/A	(45.3)
Total expenses	(907.9)	(24.9)	(992.3)	(871.0)	(32.5)	(948.8)
Net acquisition ratio ⁶ - ongoing operations	6.8%			7.0%		
Net acquisition ratio ⁶ - total Group	9.3%			9.7%		
Net expense ratio ⁶ - ongoing operations	19.7%			19.0%		
Net expense ratio ⁶ - total Group	19.7%			18.7%		

Notes:

- Ongoing operations and run-off partnerships – See glossary on pages 261 to 264 for definitions and appendix A – Alternative performance measures on pages 265 to 268 for reconciliation to financial statement line items.
- Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
- Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
- IT and other operating expenses include professional fees and property costs.
- Includes right-of-use assets and property, plant and equipment. For the year ended 31 December 2023, there were no impairment charges which relate solely to own occupied freehold property (2022: no impairments).
- See glossary on page 261 for definition and appendix A – Alternative performance measures on page 267 for reconciliation to financial statement line items.

Motor and Home average premium (£)

£	FY 2023	FY 2022	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022
New business	551	486	594	588	532	478	474
Renewal	441	333	513	480	412	373	362
Motor direct own brands ¹	470	368	537	507	445	401	392
New business	206	209	212	214	204	188	201
Renewal	249	217	259	257	249	230	226
Home direct own brands	242	216	249	250	243	224	223

Note:

- Excluding the By Miles brand.

Gross written premium and associated fees¹

	FY 2023 £m	FY 2022 £m
Direct own brands	1,575.7	1,398.5
Partnerships	472.1	34.2
Motor	2,047.8	1,432.7
Direct own brands	408.8	381.5
Partnerships	142.7	136.6
Home	551.5	518.1
Rescue - ongoing operations	137.3	143.7
Pet	66.5	70.8
Other personal lines - ongoing operations	61.9	59.4
Rescue and other personal lines - ongoing operations	265.7	273.9
Of which: Green Flag direct	85.1	88.2
Commercial direct own brands	241.0	218.9
Total gross written premium and associated fees - ongoing operations	3,106.0	2,443.6
Brokered commercial insurance	665.8	530.4
Run-off partnerships	150.1	124.4
Total gross written premium and associated fees	3,921.9	3,098.4

Note:

1. See glossary on page 261 for definition and appendix A – Alternative performance measures on page 267 for reconciliation to financial statement line items.

In-force policies (thousands)

	31 Dec 2023	31 Dec 2022
Direct own brands ¹	3,373	3,756
Partnerships ^{2,3}	808	80
Motor	4,181	3,836
Direct own brands ¹	1,706	1,732
Partnerships	738	769
Home	2,444	2,501
Rescue - ongoing ⁴	1,965	2,185
Pet	112	128
Other personal lines - ongoing operations ⁴	95	111
Rescue and other personal lines - ongoing operations⁴	2,172	2,424
Of which: Green Flag Direct	1,048	1,106
Commercial direct own brands^{1,4,5}	645	636
Total in-force policies - ongoing operations⁴	9,442	9,397
Brokered commercial insurance	286	277
Run-off partnerships ⁴	2,224	2,188
Total in-force policies⁵	11,952	11,862

Notes:

- Motor partnerships includes the Motability partnership, which has an initial term of 7 months from 1 September 2023. Subsequently, Motability premiums are repriced twice a year on 1 April and 1 October with gross written premium recognised twice a year on the same dates. As the Motability contract is a fleet contract, Motability customer numbers are used to allow a more representative presentation of the Group's in-force policies.
- Ongoing operations – the Group's ongoing operations result exclude the results of the brokered commercial insurance business, that the Group in 2023 entered into an agreement to sell, and the Rescue and other personal lines partnerships that the Group first excluded from its 2022 results. Relevant prior-year data has been restated accordingly. See glossary on pages 261 to 263 for definitions and appendix A – Alternative performance measures on pages 265 to 268 for reconciliation to financial statement line items.
- In-force policies as at 31 December 2022 have been restated to remove 14,500 direct own brand policies that were previously erroneously included in the reported amounts.

Forward-looking Statement

This Annual Report & Accounts has been prepared for, and only for, the members of the Company as a body, and no other persons. The Company, its Directors, employees, agents or advisers do not accept responsibility to any other person to whom this document is shown, or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

Certain information contained in this document, including any information as to the Group's strategy, plans or future financial or operating performance, constitutes "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "aims", "ambition", "anticipates", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "over the medium term", "plans", "predicts", "projects", "propositions", "seeks", "should", "strategy", "targets", "vision", "will" or "would" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They may appear in several places throughout this document and include statements regarding intentions, beliefs or current expectations, including of the Directors, concerning, among other things: the Group's results of operations, statement of financial position, financial condition, prospects, growth, net insurance margin, insurance service result, strategies, the industry in which the Group operates and the Group's approach to climate-related matters. Examples of forward-looking statements include financial targets which are contained in this document with respect to return on tangible equity, solvency capital ratio, net insurance margin, combined operating ratio, percentage targets for current-year contribution to operating profit, prior-year reserve releases, cost reductions, reduction in net expense ratio, investment income yield, net realised and unrealised gains, capital expenditure and risk appetite range; and targets, goals and plans relating to climate and the Group's approach and strategy in connection with climate-related risks and opportunities. By their nature, all forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and/or are beyond the Group's control and/or they rely on assumptions that may or may not transpire to be correct. Forward-looking statements are not guaranteeing future performance.

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

- 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 and/or the conflict in the Middle East involving Israel and Gaza;
- the policies and actions and/or new principles, rules and/or regulations, of regulatory authorities and bodies, and of changes to, or changes to interpretations of, principles, rules and/or regulations (including changes made directly or indirectly as a result of Brexit or related to capital and solvency requirements or related to the Ogden discount rates or made in response to the Covid-19 pandemic and its impact on the economy and customers) and of changes to law and/or understandings of law and/or legal interpretation following the decisions and judgements of courts;
- the impact of competition, currency changes, inflation and deflation;
- the timing, impact and other uncertainties of future acquisitions, disposals, partnership arrangements, joint ventures or combinations within relevant industries; and
- the impact of tax and other legislation and other regulation and of regulator expectations, requirements, interventions, enforcements, fines and requirements and of court, arbitration, regulatory or ombudsman decisions, judgements and awards (including in any of the foregoing in connection with the Covid-19 pandemic) in the jurisdictions in which the Group and its affiliates operate.

In addition, even if the Group's actual results of operations, financial condition and the development of the business sector in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

The forward-looking statements contained in this document reflect knowledge and information available as of the date of preparation of this document. The Group and the Directors expressly disclaim any obligation or undertaking to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise, unless required to do so by applicable law or regulation. Nothing in this document constitutes or should be construed as a profit forecast.

Neither the content of Direct Line Group's website nor the content of any other website accessible from hyperlinks on the Group's website is incorporated into, or forms part of, this document.

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