Direct Line Group

Annual Report and Accounts 2022

Contents

Strategic Report

Governance

Financial Statements

Other information

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.

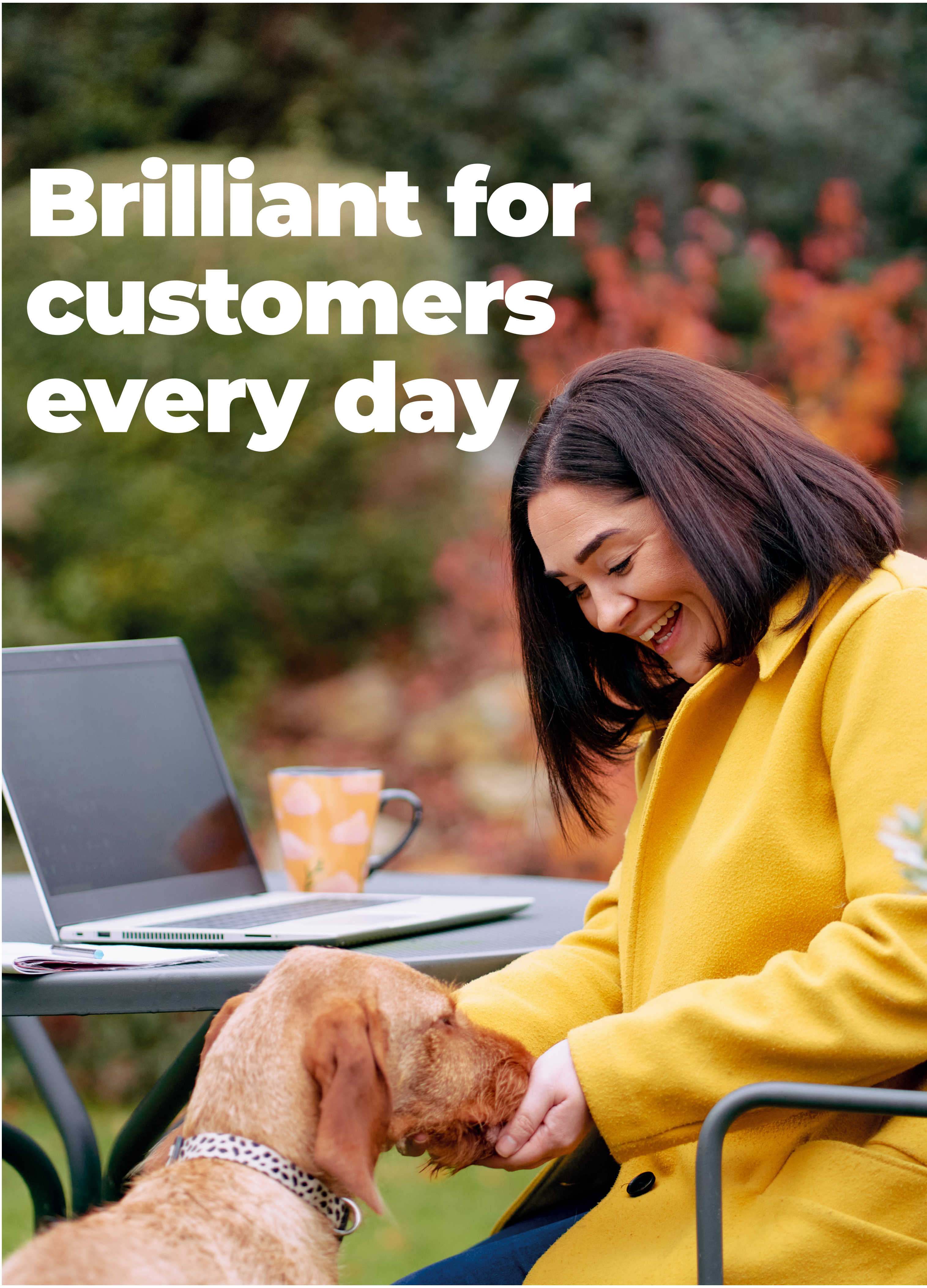
Our mission is to be brilliant for customers every day.

The Group's financial results fell significantly below expectations in 2022 as we navigated a volatile trading environment, with heightened inflation and severe weather events. In response, we are taking action to restore the Group's capital resilience and improve business performance.

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

To read more about our strategy, see pages 10-11

Brilliant for customers every day



We reach customers wherever they shop and whatever their insurance needs. We want to be known for insurance excellence from point of sale through to resolving claims. By delivering easy digital-first journeys we make it simple for customers and are there for them when they need us.

We operate across four market segments, delivering value and great customer experiences.

Motor
We are Britain's leading private motor insurer, represented through our well-known brands Direct Line, Churchill, Privilege, Darwin, and also through our partners[1]

Home
We are one of Britain's leading private home insurers[1], represented through our well-known brands Direct Line, Churchill, Privilege, and also through our partners[1]

Rescue and other personal lines
We are one of the leading providers of rescue, including through our Green Flag brand[2], travel and pet insurance in the UK[3]

Commercial
We protect commercial businesses through our brands NIG, Direct Line for Business and Churchill

In 2022 we made our claims process simpler – customers can now register 100% of claims types across the vast majority of our brands and partners online

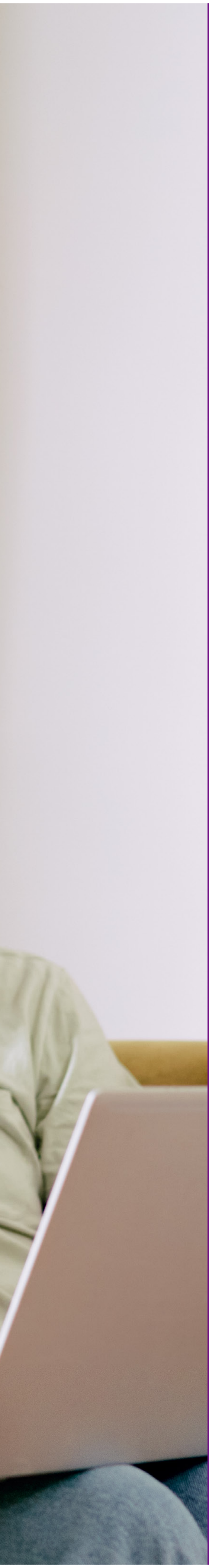
See more on page 54

We are set to welcome over 600,000 new customers in H2 2023 as part of our 10-year partnership with Motability Operations

Find out more on page 41

Notes:
1. © Ipsos 2023, Financial Research Survey (FRS), 6 months ended Jan 2023. 14,318 adults (aged 16+) surveyed across Great Britain with motor insurance, 13,942 with home insurance. Interviews were conducted online and via telephone, and weighted to reflect the overall profile of the adult population. Includes Direct Line, Churchill, Privilege, Darwin and partner brands: RBS and NatWest.
2. Mintel Vehicle Recovery report – September 2022.
3. Mintel Pet Insurance report – 2022.

Powerful brands



We have some of the strongest and most recognisable insurance brands in the UK. They enable customers to pick the cover that best suits them to protect their cars, homes, holidays, businesses and pets.

Our brands

Direct Line

churchill

Darwin

Privilege

ONLY THE BEST GET THE GREEN FLAG

NIG

DLG PARTNERSHIPS

We extended our EV bundle for another year to support our Direct Line motor customers making the switch to electric vehicles

See page 67

We launched a new Churchill Essentials product for motor customers

Find out more on page 53

Reaching customers however it suits them

Whether customers access our products and services digitally, through a broker, or on the phone, our aim is to provide peace of mind now and in the future. We offer insurance through the four main routes to market so customers can choose what works best for them.

Direct
Customers come to us direct because of our powerful brands and propositions which offer great value

Price comparison websites
We offer a variety of products across our brands on price comparison websites to meet different customer needs

Partnerships
We partner with a number of well-known brands to give more customers excellent insurance

Brokers
Using our established NIG broker network we meet a variety of specialist insurance needs for both large and small businesses

In 2022 our Commercial business again delivered strong growth across all channels, continuing to realise the benefits of its transformation

Find out more on page 46

We extended our partnership with NatWest Group to continue to look after close to half a million of their customers' home insurance needs until 2027

Page 43 for more detail


We’re a force for good

We believe that by working sustainably we strengthen Direct Line Group for the better and create value for our customers, people, society and the planet.

Sustainability pillars

Customers
We stand for insurance excellence because positive customer outcomes mean we can grow our business

People
We stand for being a diverse and inclusive employer because attracting and retaining talented people powers our business forward

Society
We stand for being rooted in our communities because, when they flourish, so does our business

Planet
We stand for a greener planet because we're all in it together, it's our responsibility, and tackling climate change benefits our business, our people and society

Governance
We stand for a competitive and strong financial services sector because it's essential to being successful

Direct Line Group Community Fund

Our 2022 Community Fund focused on building a more inclusive and equitable Britain

See more on pages 62 to 63

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

We became one of the first personal lines insurers in the UK to have carbon reduction plans approved by the Science Based Targets initiative

Find out more on page 66

Strategy

Mission

To be brilliant for customers every day

Vision

We want to create a world where insurance is personal, inclusive and a force for good

Purpose

We help people carry on with their lives, giving them peace of mind now and in the future

Our strategic objectives

Best at direct

Win on price comparison websites

Extend our reach

Nimble and cost efficient

Technical edge

Great people

Our core strengths and capabilities drive our strategy

Growth opportunities

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

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.

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 22 accident repair centres, the largest network of any insurer.

Our values

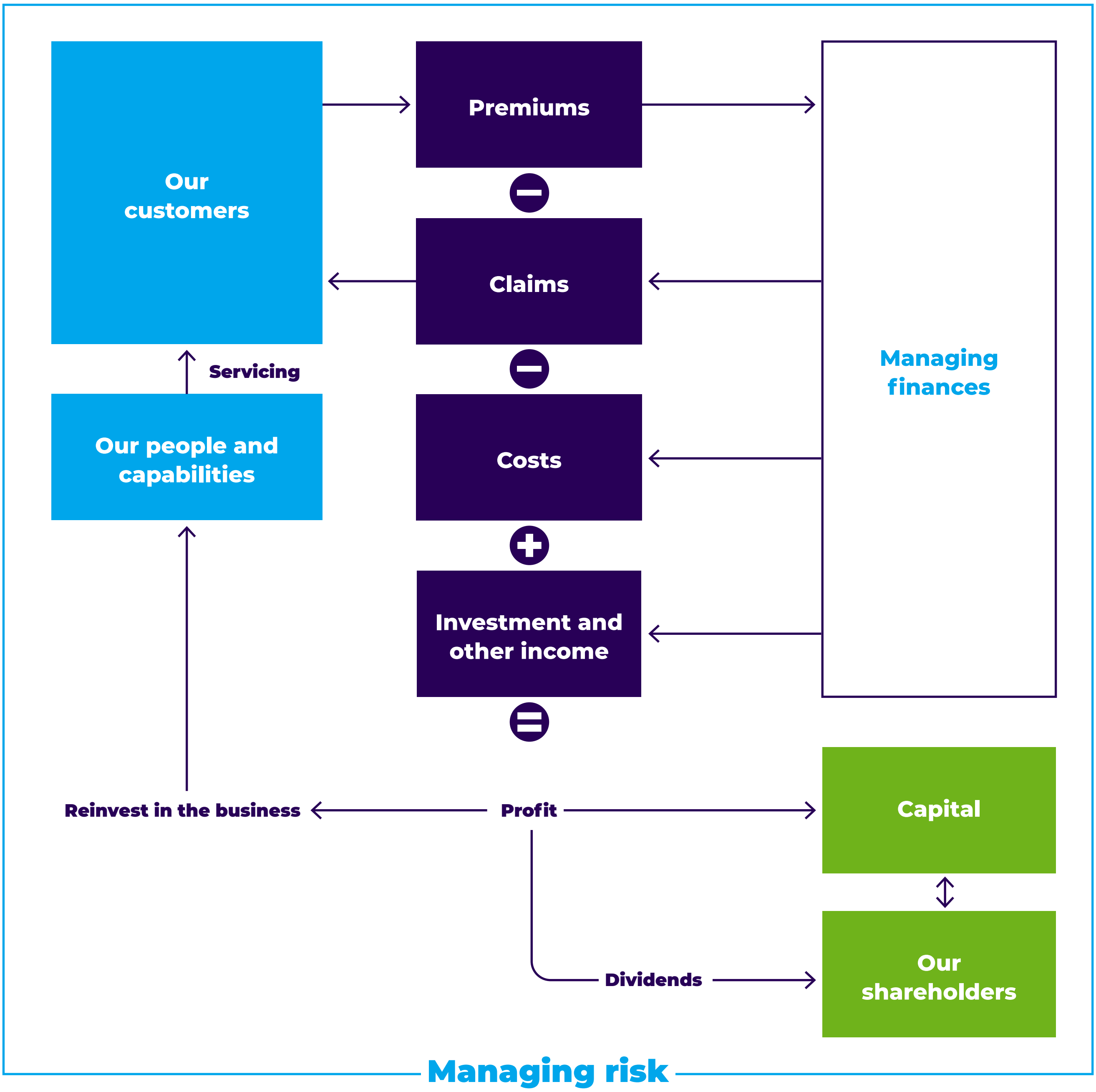
Do the right thing	Aim higher	Take ownership	Say it like it is	Work together	Bring all of yourself to work

Our brands

Direct Line · Churchill · Darwin · Privilege · Green Flag · NIG · DLG Partnerships

Business model

Delivering for all our stakeholders



How we create value

We have a number of strengths, from strong brands to rich data and expert claims skills which provide real long-term value

Diversified model

Our diversified model enables us to generate premiums from a range of brands, products and distribution channels.

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.

See page 33 for more information.

Accident repair centres

We own 22 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 pricing.

Claims management

We have a deep specialism in claims handling, including advanced fraud capabilities.

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.

Chair's statement

"We are renewing our determination to leverage our diversified business model and well-recognised brands to trade competitively in our core markets, restore capital strength and focus on providing value for our customers."

Danuta Gray

Chair of the Board

Navigating a challenging year

Dear Shareholders,

In 2022, Direct Line Group faced a unique combination of factors and challenges, including exceptional inflation, severe weather events, a volatile investment market and significant regulatory change. These made for a tough trading environment during the year. We have worked hard to support our customers and colleagues in these challenging circumstances, but I acknowledge that the impact on the Group's trading and financial performance has been deeply disappointing and, in Motor, well below our expectations.

The UK motor insurance market remains challenging at the beginning of 2023 and we have adjusted our pricing to mitigate the effect of claims inflation. Our priority is to deploy the resources needed by our Motor business to price with accuracy and speed to restore margins and improve performance both in the direct channel and on price comparison websites. We are determined to leverage the strength of our diversified business model and well-recognised brands to trade competitively in our core markets, restore capital resilience and focus on providing value for our customers.

Dividend and capital management

During the first half of 2022, we returned £50 million of capital to shareholders by way of a share buy-back and in September we paid an interim dividend of 7.6 pence per share (£99.0 million).

However, against a background of heightened inflation in the UK motor insurance market throughout 2022 and the year's severe weather events, the Board took the decisions respectively in July not to launch the second £50 million tranche of the £100 million share buy-back programme and more recently not to recommend a final dividend for 2022. I recognise that these decisions have come as a severe disappointment to our shareholders, many of whom I have spoken with over the last few months. Restoring capital resilience is among our urgent priorities for 2023. We have already made progress, having entered into a quota share reinsurance programme covering 10% of our book, which has improved our solvency position by around 6 percentage points and we continue to explore further capital management options. Since the beginning of 2023, positive credit movements affecting our bond portfolio and a reduction in ineligible capital on adoption of the new accounting standard, IFRS 17, have improved our solvency coverage ratio by approximately a further 5 percentage points.

Board and leadership

In January 2023, Penny James stepped down from the Board, having served as CEO from May 2019 and formerly having joined the Board in late 2017 to become our CFO. I would like to thank Penny for the contribution she made during her time on the Board. She led significant strategic progress and evolved the Group's culture to be increasingly focused on providing value and excellent service for customers.

While the Board conducts a process to appoint a permanent successor, I am grateful that Jon Greenwood has agreed to serve as Acting Chief Executive Officer. Jon has a successful track record in leading our Commercial Lines division and, as Chief Commercial Officer, has a deep understanding of all the Group's businesses. The Board and I will work closely with Jon as he focuses on our priorities of driving growth and restoring capital resilience.

During the year, we also took the decision to appoint Tracy Corrigan, independent Non-Executive Director, as the Board's Consumer Duty Champion. In this role, Tracy will ensure that the voice of the customer is brought into the boardroom and that good customer outcomes are central to the Board's agenda.

Since the end of the year, we have announced the appointment of Mark Lewis, a former Chief Executive of MoneySupermarket Group, as an independent Non-Executive Director with effect from 30 March 2023. Mark will contribute his deep understanding of the regulated aggregator marketplaces in which our brands operate, as well as his experience of digital marketing strategy and driving improved multichannel customer experience in retail and financial services.

Customers

Strong retention levels during 2022 demonstrate that our customers trust us with their business at a time when every penny counts. On page 53 we have set out action that we have taken to support our customers during the cost of living crisis and we explain how we are responding to our customers' changing demands with new products. 2023 will see us welcome some 600,000 new customers under our ten-year partnership with Motability and we look forward to providing them with the same great service that our customers have come to expect from us.

People, Diversity and Inclusion

The impact of the cost of living crisis on our people has been at the forefront of our minds throughout the year. Page 56 sets out what we have done to support our colleagues, with action targeted at the lowest paid in the organisation.

We have continued to drive forward our Diversity and Inclusion programme, voluntarily publishing our ethnicity pay gap alongside our gender pay gap for the first time. We are confident that we pay people fairly, irrespective of gender and ethnicity and can see that both pay gaps are driven by the levels of representation of women and those from ethnic minority backgrounds at certain levels of the business, which we are focused on improving. Details of the representation of women and ethnic minorities in leadership can be found on pages 57 to 58.

Recognising the need to provide our people with development opportunities, and to ensure our colleagues are equipped with the skills the business will need in order to thrive in the future, during the year we launched our Ignite academies, incorporating apprenticeships in Technology, Customer Service and Data, as well as our Data Academy, with which over 1,000 of our colleagues have engaged. More information about this can be found on page 56.

Planet

During the year we met a significant milestone in our journey to becoming a net-zero business, when our plans to reduce our greenhouse gas emissions were approved by the Science Based Targets initiative ("**SBTi**"). We have set five emissions reduction targets focused on the most carbon intensive areas of the business, with one target covering operational emissions and a further four targets covering our investment portfolio. As part of our Sustainable Sourcing approach, we have also set our own voluntary emissions target for our supply chain. Of course, now the hard work really begins on the action needed to meet these targets. We have a robust plan and our colleagues are passionate about, and committed to, achieving our targets.

Conclusion

I would like to take the opportunity to thank our hard-working colleagues, loyal customers and shareholders for their continued support during the year. Following the challenges we faced in 2022, I am confident that we are focused on the right immediate strategic priorities, that the business is fundamentally resilient, and that our people are determined to use our strong brands and technological capability to deliver value to our customers and shareholders.

Danuta Gray
Chair of the Board

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, 52 to 54; People, 55 to 59; Society, 60 to 63; and the Planet, 64 to 70.

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: the return of capital to shareholders; Consumer Duty implementation; the cost of living crisis; the relocation of the London Hub; and Science-Based Target setting. 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 103. Information about Board oversight of environmental matters can be found on pages 72 to 73 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	Brilliant for our customers every day (pages 1 to 9) Mission, vision, purpose and strategic objectives (page 10) 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 23) Outcome of employee engagement (page 56) Diversity and Inclusion (pages 57 to 59) How the Board engages with stakeholders (page 107) Employee Representative Body (page 108)
the need to foster the company's business relationships with suppliers, customers and others	Key performance indicators – NPS and customer complaints metrics (page 23) Customer support (page 53) Supply Chain (page 80) How the Board engages with stakeholders (page 107)
the impact of the company's operations on the community and the environment	Community Fund 2022 (page 62) Science-Based Targets (page 66) External ratings, memberships and benchmarks (page 71) TCFD disclosures (pages 72 to 85) How the Board engages with stakeholders (page 107) Sustainability Committee Report (pages 126 to 127)
the desirability of the company maintaining a reputation for high standards of business conduct	Our values (page 11) The role of the Board in the Company's culture (page 103) Internal controls (pages 114 to 115)
the need to act fairly between members of the company	Capital management (page 19) How the Board engages with stakeholders (page 107) Shareholder voting rights (page 163) Annual General Meeting (page 249)

CEO's review

"Despite the setbacks in Motor in 2022, the long-term earnings potential of the Group remains robust. Our diversified business model and fundamental strengths remain a significant asset in the highly competitive UK insurance market."

Jon Greenwood
Acting Chief Executive Officer

Looking ahead to 2023

2022 was a difficult year for the Group. Our performance in Motor fell well below our expectations and did not reflect our previous track record of delivering strong returns for shareholders. Rising claims inflation and new regulatory changes, along with severe weather events, resulted in a material fall in the Group operating profit and solvency ratio, and the Board's decision not to recommend a final dividend.

This is deeply disappointing and we have already taken and continue to take actions designed to strengthen our solvency position and improve our Motor pricing in this difficult trading environment. Enhancing how we price in the motor market will be a key focus for the Group throughout 2023.

All of our other businesses performed broadly in line with our expectations when normalised for weather.

Despite the setbacks in Motor in 2022, the long-term earnings potential of the Group remains robust. Our diversified business model and fundamental strengths remain a significant asset in the highly competitive UK insurance market. We have a strong franchise, some of the most recognisable insurance brands in the UK and strong customer service delivered by a high-quality workforce.

With a determination to enhance our pricing capability and better leverage the benefits of our integrated business model, I firmly believe that we can restore our performance in Motor, enabling the Group to get back to delivering attractive returns for shareholders.

Improving performance in Motor

Our main operational focus during 2023 will be on restoring performance in Motor, in order to drive profitability and build capital resilience, and we are pushing ahead in four main areas.

First, we have already taken pricing action to restore written margins based on our rebased inflation assumptions, and we will continue to prioritise maintaining margins over volume as we progress through 2023.

Secondly, we will focus on utilising our new pricing tools to their full potential and enhancing the sophistication of our risk pricing models. This will include deployment of substantial additional resource to ensure that Motor has the capability and capacity it needs to price with greater precision.

Thirdly, we will better leverage the wealth of claims insight that we have available through our vertically-integrated model. We want to move from being an efficient claims processor and repairer, into a data-driven claims operation, utilising all our data to enhance our pricing capability.

Finally, we will align our model more closely to the price comparison website ("**PCW**") channel, which accounts for around 90% of new business motor sales in the market. We will do this through new propositions, such as our new Churchill Essentials product, which has demonstrated how we can expand our PCW channel footprint and offer value to our customers.

Restoring the resilience of our balance sheet

In addition to the capital benefits from improving our Motor performance, we have a range of levers aimed at helping us build back our capital strength.

Reinsurance

We have always used reinsurance through our motor excess of loss reinsurance and our property catastrophe programmes to manage our risk profile.

We have now built on this with a new 10% quota share reinsurance arrangement effective from 1 January 2023. This not only strengthened our solvency position as at year end 2022 by six percentage points, but it is also the foundation for an efficient long-term source of capital for the Group. We continue to explore further strategic reinsurance options.

Portfolio actions

At the 2022 half-year results we flagged our review of where we deploy our capital in order to deliver the highest returns. As a result we have decided to exit certain partnerships, reducing our exposure to low margin insurance within packaged bank accounts. In the second half of 2023 we plan to begin our new 10-year partnership with Motability Operations, which brings 600,000 new customers. We believe these changes to our portfolio will be positive from both a financial and strategic perspective.

Investment portfolio

With investment yields having increased substantially over the last 12 months, we are rebalancing our target asset allocations in order to deliver the correct balance between return and capital allocation. This should release further capital over time.

In addition to management actions, we expect the unrealised loss position on our investment-grade debt security portfolio to unwind due to the pull to par effect as bonds mature.

Organic capital generation

We believe the Group will be capital generative in 2023 supported by Home, Commercial and Rescue and other personal lines, although it will take some time to restore earnings in Motor.

Continuing to deliver for customers

Excluding Motor and elevated weather claims, all other business traded broadly in line with expectations.

Commercial delivered another strong performance, with the benefits of the technology transformation enhancing Commercial's already strong product and service offering and sophisticated pricing. In 2022, Commercial delivered double-digit growth across both its main businesses, NIG and Commercial direct own brands. Over the past 10 years this business has doubled in size and improved its combined operating ratio to 94.2% from over 100%.

Home successfully navigated the implementation of the FCA's Pricing Practices Review ("**PPR**") regulations and elevated inflation by focusing on maintaining margins and leveraging its diversified business model. Home also made progress with its new technology platform, which remains on track for roll out in 2023.

Green Flag successfully diversified its product portfolio, providing further value for customers by offering accessories via the Green Flag shop. This gives customers the convenience of booking maintenance and repair services, or providing a competitive price to check a vehicle's history before they decide to make a purchase. In January 2023, Green Flag patrol was launched, with its own network of recovery vehicles, in order to enhance network efficiency, improve customer experience and increase sales.

A key pillar of our strategy is reducing our carbon footprint and helping our customers make the green transition. Alongside expanding our electric vehicle propositions, in 2022 the Group became one of the first personal lines general insurers in the UK to have its Science-Based Targets approved by the Science Based Targets initiative.

Business performance

In 2022, there is a clear distinction between the results of Motor and those of the Group's other business lines.

	Gross written premium £m	Gross written premium %	Normalised combined operating ratio %
Motor	1,432.7	48.2	114.7
Home, Commercial, Rescue and other personal lines – ongoing operations	1,537.1	51.8	92.2
Total ongoing operations	**2,969.8**	**100.0**	**103.3**

Motor delivered a poor result, with a combined operating ratio of 114.7%. Claims inflation over the course of the year was greater than we expected, and not reflected in our pricing. This was compounded by higher claims frequency in the fourth quarter. This coincided with the introduction of the FCA's PPR regulations which reduced new business growth opportunities. Retention remained strong at 81.6%.

Our normalised combined operating ratio for ongoing operations across our Home, Commercial and Rescue and other personal lines was 92.2%. In Commercial, we combined strong growth with an improved current-year loss ratio following several years of pricing ahead of estimated claims inflation. We also priced ahead of claims inflation in Home, which saw a challenging new business market following the implementation of the FCA's PPR regulations. Rescue did not see the same growth as previous years but its margins remained strong.

Weather

During 2022, we experienced our highest level of weather-related claims since before our IPO in 2012, including our highest individual event from the freeze in December. Overall claims from weather-related events were £149 million, more than double our 2022 annual assumption of £73 million. This was made up of three events – storms in February, extremely dry weather over the summer which resulted in subsidence and the freeze in December. The freeze event was the most significant, with £95 million of claims costs across Home and Commercial following prolonged sub-zero temperatures, especially across Scotland and North West England. With relatively large shares of Home and Commercial insurance in Scotland, we experienced a significant number of large claims.

Implementation of IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'

IFRS 17 and IFRS 9 are effective from 1 January 2023. These new accounting standards will improve alignment between IFRS earnings and capital generation under Solvency II and will not affect the economics of our business or its dividend paying capacity. Overall, we believe the new standards should improve comparability between companies.

We will change our headline key performance measure from combined operating ratio to net insurance margin ("**NIM**") under IFRS 17, which we believe is a better measure of how we run our business.

The key reconciling items when moving from a combined operating ratio to a NIM are the inclusion of instalment and other income within revenue, alongside the additional benefit from discounting more of our insurance liabilities. As a result, the NIM is expected to be around six percentage points better than the margin implied by the equivalent combined operating ratio. For example, a 100% combined operating ratio, implying a 0% margin, under the previous accounting standard would translate into around a 6% NIM under IFRS 17.

Capital management

The Group's capital position was affected by the combination of significantly weaker levels of Motor profitability, adverse investment experience and well above average claims from major weather events. These factors reduced the Group's own funds during the year, whilst the weaker Motor outlook and higher inflation also contributed to an increased capital requirement, which was only partly offset by higher than expected investment income.

During H2 and into 2023, the Group took several actions which increased the Group's solvency capital ratio by 14 percentage points, including reducing the risk in the investment portfolio and agreeing a 10% whole account quota share reinsurance arrangement. As at the end of 2022, the Group's estimated solvency capital ratio was 147% which is within the Group's risk appetite range, albeit towards the bottom end of that range.

At the end of February 2023, the Group's solvency capital ratio has increased by approximately five percentage points due to the positive movements on the bond portfolio as well as a reduction in ineligible capital. We are pursuing a range of actions designed to bring the Group's solvency position back towards the middle of the range. The Group expects positive organic capital generation in 2023.

The Group paid an interim dividend of 7.6 pence per share in 2022; however, given the year-end solvency ratio, as indicated at the January trading update, the Board is not recommending a final dividend. The Board understands the importance of dividends to shareholders and will update the dividend outlook at the half-year results.

Outlook

Higher than expected claims inflation on business written during 2022 and in early 2023 will continue to affect Motor earnings during 2023. Furthermore, the outlook for claims inflation remains uncertain given, for example, capacity constraints in the repair industry, continued settlement delays in third party claims and potential care cost inflation.

In our other businesses, trading conditions in Commercial have remained favourable with continued growth in 2023 to date. In Home, market conditions in early 2023 have improved and Green Flag direct has continued to perform well.

The Group believes it continues to have a fundamentally strong business and has an ambition over time to generate a NIM of above 10%, normalised for weather.

Jon Greenwood
Acting Chief Executive Officer

Market overview

Motor premium and claims inflation

The Group was affected by global inflationary pressures in 2022, creating a volatile trading environment, particularly in our Motor business, which faced complex market conditions.

The UK motor market saw market premium lag behind significant levels of claims severity inflation. Supply chain dislocation caused parts delays, and the limited supply of new vehicles continued to increase the cost of second-hand vehicles, impacting total loss settlements. We also witnessed elevated third-party claims inflation across the year, particularly in the fourth quarter, and second-hand vehicle prices increased compared to the previous year.

In response, we continue to use our accident repair centres to repair cars as efficiently and economically as possible. We are also responding swiftly to volatile inflationary pressures in motor claims.

Financial Conduct Authority Pricing Practices Review

The FCA's reforms to general insurance pricing came into effect on 1 January 2022. The reforms equalised customer prices by requiring a renewal price to be no higher than the equivalent new business price through the same sales channel for motor and home policies.

Throughout the year, we saw competitive pressures as the new business market reduced, while retention levels for renewal customers remained high. We believe the Group is well positioned in the medium-term due to our large customer base and because consumers will continue to value trusted brands, excellent customer service and claims expertise. These are attributes where the Group has fundamental strengths.

Consumer trends

During 2022, we witnessed a number of consumer trends. The market saw product diversification in response to cost of living pressures which caused customers to be more price sensitive. Other trends include increased electric vehicle adoption and customers' desire to self-serve online by using digital journeys. We responded to these trends, supported by our technology transformation and agile capabilities, by:

- A new PCW Essentials motor product using our Churchill brand, which offers an alternative product for customers who may be looking for a stripped-back motor insurance policy, particularly given cost of living pressures, while still covering vehicle and third-party damage. Delivering our Essentials product highlights our improving capability to get products out to market quickly and expand our product footprint in the PCW channel.
- We extended our Electric Vehicle bundle for another year to support our Direct Line Motor customers in making the switch. By partnering with ZoomEV we offer benefits and discounts, alongside cover for batteries and charging cables. The bundle also includes a discounted home charger by Zaptec and the opportunity for customers to access EV help and guidance. It's another example of how we are giving customers valued insurance propositions.
- Our electric vehicle capability is supported by our repair expertise in our network of 22 accident repair centres. As electric vehicle adoption increases in the UK, it is an integral part of our strategy to be equipped to repair sophisticated car technology where we can gain commercial insights that support our underwriting and claims operations.
- Greater options for customers to access easy digital-first journeys where Motor customers can now register 100% of claims types online across the vast majority of our brands and partners. In 2023, we are aiming for Motor customers to be able to track their claim online from start to finish, whether waiting for a repair or cash settlement.

> "We believe the Group is well positioned due to our large customer base and because consumers will continue to value trusted brands, excellent customer service and claims expertise."

Climate change

In 2022, the Group experienced its highest level of weather-related claims since we listed over a decade ago. We are proud of how we supported customers throughout the year. Three events – storms in February, extremely dry weather over the summer causing subsidence and the freeze in December led to claims totalling £149 million, more than twice our annual assumption for weather-related claims of £73 million. Whilst we have experienced significant weather-related claims in 2022, we expect the physical risks related to climate change to materialise over the long-term which we have defined as more than 30 years.

The Group continues to respond to climate change. We take our responsibilities seriously in our assessment of climate-related risks to our business and continue to assess what steps we can take to enhance our approach and reducing the emissions under our direct control.

We expect increased regulatory scrutiny of climate-related risks, including how firms are assessing and managing insurance risks from severe weather, and the potential for more frequent mid-sized events, such as flood, storm, freeze and prolonged hot weather causing subsidence. As a result, the Group continues to assess how it can improve its approach, particularly regarding quantitative modelling.

In April 2022, the UK Government launched The Transition Plan Taskforce ("**TPT**") to develop a 'gold standard' for private sector firms to produce climate transition plans. The Group this year became one of the first personal lines insurers in the UK to receive approval by the Science Based Targets initiative ("**SBTi**") for its plans to reduce greenhouse gas ("**GHG**") emissions (see page 66).

Our third Task Force on Climate-related Financial Disclosures ("**TCFD**") report (see pages 72 to 85) sets out our strategic response to climate change and we publish the Group's carbon emissions (see page 69) in which, for the second year running, we publish our Scope 3 supply chain emissions and homeworking emissions now that our mixed (remote and site-based) working model is established.

Whiplash reform developments

Whiplash injuries are a common feature of motor insurance claims. The Civil Liability Act 2018, implemented in 2021, introduced reforms governing the valuation of whiplash injuries, with a specific tariff for back and neck injuries expected to last a period of 24 months or less. Other injuries associated with a claim are subject to common law. The intention of the Act was to reduce fraudulent claims by using medical evidence to settle claims within a clear tariff framework.

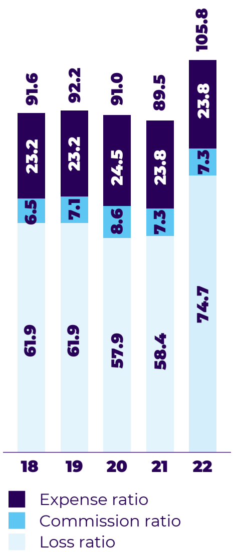
A recent Court of Appeal judgment has endorsed a valuation methodology that differs from the original reforms and is expected to increase the tariff awarded to non-whiplash related injuries. As a result, the costs of motor personal injuries could increase more than previously anticipated. The Group is assessing its bodily injury forecasts to reflect the Court of Appeal judgment and is expected to increase the amount awarded for some non-whiplash related injuries. An allowance for the estimated increase in claims costs has been included in the Group's year end reserves.

Solvency II reforms

In November 2022, HM Treasury confirmed, in its response to the Solvency II review consultation, that it is expected to legislate to reform the risk margin calculations leading to an expected reduction of approximately 30% for general insurance business and an expected reduction of 65% for long-term life insurance business, which will include Periodic Payment Orders ("**PPOs**"). Secondary legislation is expected to follow the passage of the Financial Services and Markets Bill. The indication is that the Group will benefit from the reforms, although PRA consultations on rule changes needed to implement Solvency II reforms are expected in June and September 2023 and these may provide more detail on the extent of any benefit.

Our key performance indicators

Combined operating ratio[1,2] ("COR") (%)



Definition
A measure of financial year underwriting profitability. A COR of less than 100% indicates profitable underwriting. The COR is the sum of claims, expense and commission ratios and compares the cost of doing business against net earned premium generated.

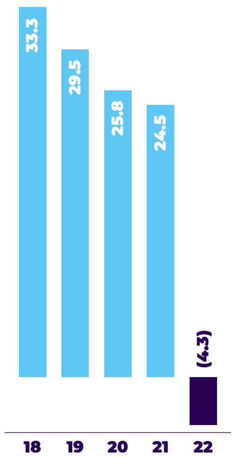
Aim
We aim to make an underwriting profit. This KPI will be updated to reflect the Group's transition to reporting under IFRS 17.

For additional performance information see page 26

Remuneration
We base part of the Annual Incentive Plan ("**AIP**") awards on profit before tax. The COR is closely linked to this.

For additional performance information see pages 131 and 138

Basic (loss)/earnings per share[1] (pence)



Definition
This is calculated by dividing the earnings attributable to shareholders less coupon payments in respect of Tier 1 notes by the weighted average number of Ordinary Shares in issue.

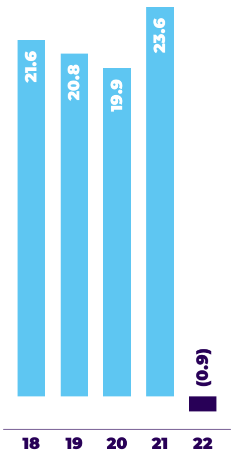
Aim
We have not set a target. However, our aim is to grow earnings per share.

For additional performance information see page 29

Remuneration
This is a broad measure of earnings and reflects the results of the Group after tax less Tier 1 coupon payments. We base part of the AIP awards on profit before tax.

For additional performance information see pages 131 and 138

Return on tangible equity[1] (%)



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

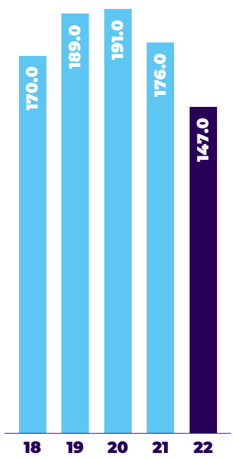
Aim
We aim to achieve at least a 15% RoTE per annum.

For additional performance information see page 29

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

For additional performance information see pages 131 and 140

Solvency capital ratio[3,4] (%)



Definition
A risk-based measure expressing the level of capital resources held as a percentage of the level of capital that is required under Solvency II.

Aim
Under normal circumstances, the Group aims to maintain a solvency capital ratio around the middle of the risk appetite range of 140% to 180%.

For additional performance information see page 30

Remuneration
Solvency capital ratio within our risk appetite is an indicator of capital strength, which is one of the gateways for the AIP awards and an underpin for LTIP awards.

For additional performance information see pages 131 and 140

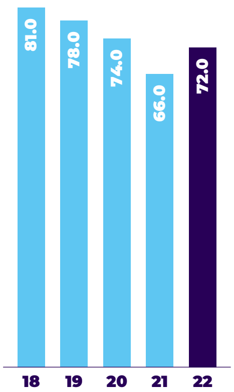
Notes:
1. See glossary on pages 251 to 253 and Appendix A – Alternative performance measures on pages 254 to 257 for reconciliation to financial statement line items.
2. The 2022 combined operating ratio is for ongoing operations (see footnote 1 on page 25). 2021 has been restated accordingly (reported as 90.1% in the 2021 Annual Report and Accounts).
3. 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%).
4. Estimates based on the Group's Solvency II partial internal model.

Changes to our KPIs in 2022

Our metrics are reviewed annually and updated as appropriate to ensure they remain an effective measure of delivery against our objectives. For 2022, the review of these metrics resulted in the following change:

- Operational emissions is a new KPI that reflects the importance of and aligns with our aim to become a Net Zero business by 2050. Following a review of the LTIP metrics, an emissions measure was introduced to the LTIP from 2022 awards onwards. See page 141.
- The five-year record of capital returns chart can be found in the CFO Review adjacent to a section describing the Group's dividend policy.

Colleague engagement[5] (%)



Definition
Engagement is about being proud to work for the Group and helping us to succeed. It means that colleagues are not just happy or satisfied, but doing something to help us achieve our Company goals.

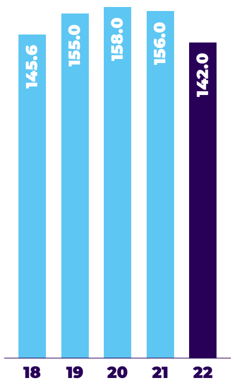
Aim
To make the Group best for our customers and best for our colleagues. We gauge employee engagement through our colleague opinion surveys and we aim for high colleague engagement scores each year.

For additional performance information see page 56

Remuneration
The AIP awards include a weighting to a balance of employee metrics, including engagement.

For additional performance information see pages 131 and 139

Net Promoter Score[6] (points)



Definition
Net Promoter Score ("**NPS**") 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.

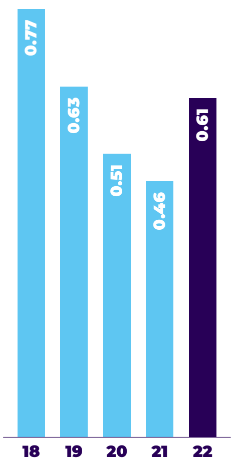
Aim
We aim to increase our NPS over time.

For additional performance information see page 53

Remuneration
The AIP awards include a weighting to a balance of customer metrics, including NPS.

For additional performance information see pages 131 and 139

Customer complaints[7] (%)



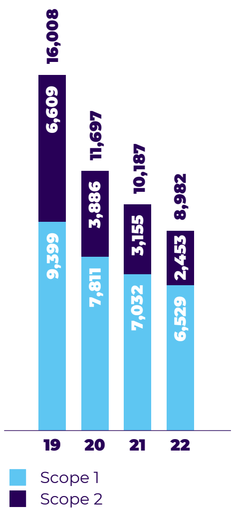
Definition
The number of complaints we received during the year as a proportion of the average number of in-force policies.

Aim
This measure indicates where our customer service has not met expectations to the extent that the customer has initiated a complaint. We aim to improve this over time.

Remuneration
The AIP awards include a weighting to a balance of customer metrics, including complaints.

For additional performance information see page 131 and 139

Operational emissions (tCO_2e)



Definition
Operational emissions are defined as the Scope 1 and 2 emissions across our buildings and accident repair centres.

Aim
We aim to reduce Scope 1 and 2 emissions by 46% by 2030 from a 2019 base year.

For additional performance information see pages 66 and 69

Remuneration
From 2022, the LTIP awards have an emissions performance condition which includes a targeted reduction in emissions and temperature score.

For additional performance information see pages 131 and 141

5. 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.
6. Direct Line brand. On an aggregated 12-month rolling basis, with 2013 rebased to 100.
7. For the Group's principal underwriter, U K Insurance Limited.

CFO review

Neil Manser
Chief Financial Officer

Financial summary

- Group operating profit from ongoing operations fell to £32.1 million (2021: £590.3 million) reflecting a volatile operating environment with elevated motor claims inflation, higher than expected weather event claims, new regulatory changes and challenging investment markets. Total Group operating profit was £20.6 million (2021: £581.8 million).
- Claims inflation was most acute in Motor, where severity inflation of around 14% was above the levels assumed in the Group's pricing. Alongside disruption to supply chains causing delays in third party claims, this led to a Motor combined operating ratio of 114.7% (2021: 92.4%). In our other businesses, pricing kept pace with claims inflation and combined operating ratios were broadly in line with expectations, when normalised for weather.
- 2022 saw the highest weather event costs since the Group listed over a decade ago with £149 million of claims, well above the 2022 £73 million budget assumption. The largest event was December's freeze, which delivered around £95 million of claims costs due to prolonged periods of sub-zero temperatures across Scotland and North West England.
- Group combined operating ratio for ongoing operations was 105.8% and 103.3% when normalised for weather. The Group's total combined operating ratio including run-off partnerships was 106.0%.
- Solvency capital ratio reduced during 2022 as a result of lower profit as well as unrealised losses on investments. A new 10% quota share reinsurance arrangement was agreed with effect from 1 January 2023 and, including the benefit from this, the solvency capital ratio was 147%. At the end of February, the Group solvency ratio has further improved by approximately 5 percentage points due to positive credit movements on the bond portfolio and a reduction in ineligible capital on adoption of IFRS 17 'Insurance Contracts'.
- In line with the expectation previously disclosed, the Group is not proposing a final dividend for 2022, resulting in a total dividend for 2022 of 7.6 pence per share.

Group financial performance

	Notes	FY 2022	FY 2021	Change
Ongoing operations[1]				
In-force policies (thousands)		**9,689**	10,014	(3.2%)
Of which: direct own brands (thousands)[2]		**7,245**	7,529	(3.8%)

	Notes	FY 2022 £m	FY 2021 £m	Change
Ongoing operations[1]				
Adjusted gross written premium[3]		**2,974.0**	3,072.7	(3.2%)
Of which: direct own brands[2]		**2,087.1**	2,207.6	(5.5%)
Net earned premium	4	**2,844.4**	2,860.2	(0.6%)
Underwriting (loss)/profit – ongoing operations[1]	4	**(166.6)**	300.9	(155.4%)
Loss ratio[3,4]	4	**74.7%**	58.4%	(16.3pts)
Commission ratio[3,4]	4	**7.3%**	7.3%	0.0pts
Expense ratio[3,4]	4	**23.8%**	23.8%	0.0pts
Combined operating ratio[3,4]	4	**105.8%**	89.5%	(16.3pts)
Current-year attritional loss ratio[3,4]		**74.4%**	65.6%	(8.8pts)
Normalised combined operating ratio[3,4]		**103.3%**	90.5%	(12.8pts)
Instalment and other operating income	4	**147.7**	143.9	2.6%
Investment return	4	**51.0**	145.5	(64.9%)
Operating profit – ongoing operations[1,3]	4	**32.1**	590.3	(94.6%)
Of which:				
Current-year operating (loss)/profit[3]		**(108.7)**	347.2	(131.3%)
Prior-year reserve releases		**140.8**	243.1	(42.1%)
Restructuring and one-off costs	4	**(45.3)**	(101.5)	55.4%
Run-off partnerships[1]	4	**(11.5)**	(8.5)	(35.3%)
Operating (loss)/profit after restructuring and one-off costs[3]	4	**(24.7)**	480.3	(105.1%)
Finance costs	11	**(20.4)**	(34.3)	40.5%
(Loss)/profit before tax	4	**(45.1)**	446.0	(110.1%)
Tax credit/(charge)		**5.6**	(102.3)	105.5%
(Loss)/profit for the period attributable to the owners of the Company		**(39.5)**	343.7	(111.5%)
Profitability metrics				
Return on tangible equity[3]		**(0.9%)**	23.6%	(24.5pts)
Basic (loss)/earnings per share (pence)	15	**(4.3)**	24.5	(117.6%)
Diluted (loss)/earnings per share (pence)	15	**(4.3)**	24.1	(117.8%)
Return on equity[3]	16	**(2.5%)**	12.5%	(15.0pts)
Investments metrics				
Investment income yield[3]		**2.3%**	1.9%	0.4pts
Net investment income yield[3]		**2.2%**	1.7%	0.5pts
Investment return yield[3]		**1.0%**	2.4%	(1.4pts)
Capital and returns metrics				
Net asset value per share (pence)	16	**149.0**	193.6	(23.0%)
Tangible net asset value per share (pence)	16	**85.6**	131.2	(34.8%)
Solvency capital ratio post dividend and share buyback[5]		**147%**	176%	(29pts)
Solvency capital ratio (as above)/adjusted solvency capital ratio[3,5,6]		**147%**	160%	(13pts)

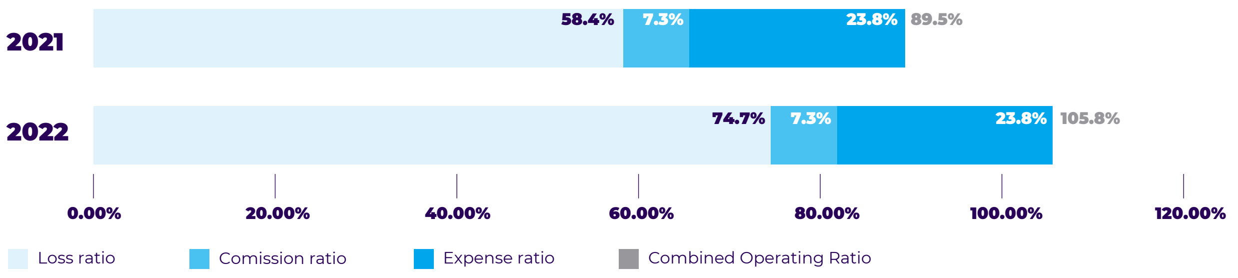
Notes:
1. Ongoing operations and run-off partnerships – See glossary on pages 251 to 253 for definitions and appendix A – Alternative performance measures on pages 254 to 257 for reconciliation to financial statement line items.
2. Direct own brands include in-force policies for Home and Motor under the Direct Line, Churchill, Darwin and Privilege brands, Rescue policies under the Green Flag brand and Commercial under the Direct Line for Business and Churchill brands.
3. See glossary on pages 251 to 253 for definitions and appendix A – Alternative performance measures on pages 254 to 257 for reconciliation to financial statement line items.
4. A reduction in the ratio represents an improvement as a proportion of net earned premium, while an increase in the ratio represents a deterioration. See glossary on pages 251 to 253 for definitions.
5. Estimates based on the Group's Solvency II partial internal model.
6. Adjusted solvency capital ratio as at 31 December 2021 excluded £250 million Tier 2 debt which was redeemed on 27 April 2022. See appendix A – Alternative performance measures on pages 254 to 257 for reconciliation to financial statement line items.

Group financial performance[1]

	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021	Year-on-year change
In-force policies (thousands)[2]	**9,689**	9,771	9,911	9,952	10,014	(3.2%)
Of which direct own brands[3]	**7,245**	7,304	7,417	7,459	7,529	(3.8%)

	FY 2022 £m	FY 2021 £m	Change
Adjusted gross written premium[2]	**2,974.0**	3,072.7	(3.2%)
Of which direct own brands[3]	**2,087.1**	2,207.6	(5.5%)
Underwriting (loss)/profit	**(166.6)**	300.9	(155.4%)
Instalment and other operating income	**147.7**	143.9	2.6%
Investment return	**51.0**	145.5	(64.9%)
Operating profit[4]	**32.1**	590.3	(94.6%)
Loss ratio[4]	**74.7%**	58.4%	(16.3pts)
Commission ratio[4]	**7.3%**	7.3%	0.0pts
Expense ratio[4]	**23.8%**	23.8%	0.0pts
Combined operating ratio[4]	**105.8%**	89.5%	(16.3pts)
Current-year attritional loss ratio[4]	**74.4%**	65.6%	(8.8pts)
Normalised combined operating ratio[4]	**103.3%**	90.5%	(12.8pts)

Combined operating ratio



2022 was a challenging year for the Group. The aggregate effect of continued high inflation in Motor, regulatory change in personal lines, twice the assumed level of weather claims, as well as adverse investment conditions, reduced operating profit for ongoing operations by 94.6% to £32 million. Despite the headline reduction in profit, underlying underwriting performance in Home, Commercial and Rescue and other personal lines was broadly in line with expectations.

Ongoing operations and 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 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, and which the Group has indicated to the partner that it will not be seeking to renew.

The Group has excluded the results of these three run-off partnerships from its ongoing results and has restated all relevant comparatives across this review. Results relating to ongoing operations are clearly referenced. Note 4 (Segmental analysis) has also been amended to reflect the change. The operating loss relating to run-off partnerships in 2022 was £11.5 million (2021: £8.5 million).

In-force policies and adjusted gross written premium[1,2]

In-force policies from ongoing operations were 9.7 million at the end of December, 3.2% lower than prior year with reductions across all segments except Commercial which continued to deliver strong growth. Adjusted gross written premium from ongoing operations experienced a similar reduction, falling by 3.2% to £2,974.0 million. Growth in Commercial was offset by reductions in Motor and Home arising from the combination of challenging market conditions together with the impact of regulatory change. Total Group in-force policies were 11.9 million and total adjusted gross written premium was £3,098.4 million.

Underwriting result[1]

The Group made an underwriting loss from ongoing operations of £167 million (£179 million loss including run-off partnerships), a reduction of £468 million compared to 2021. This was predominately due to a £259 million reduction in current-year profitability in Motor, due to pricing not reflecting claims inflation, alongside £112 million higher weather costs in Home and Commercial. In Motor, 2022 did not see a repeat of low claims frequency experienced during the lockdowns in the first half of 2021, together with elevated claims inflation and the impact of regulatory reforms in 2022.

Prior-year reserve releases from ongoing operations reduced from £243 million in 2021 to £141 million in 2022, with the reduction primarily driven by lower Motor and Home releases. Our claims reserves include specific allowance for inflation over the next few years to be higher than recently experienced for longer-tail lines of business.

The loss ratio from ongoing operations increased to 74.7% (2021: 58.4%) driven predominantly by Motor and weather events in Home and Commercial, although an improved current-year attritional loss ratio in Commercial offset an increased current-year attritional loss ratio in Home.

Weather-related claims in the year were £149 million, more than twice our 2022 annual assumption of £73 million and the highest since the Group's IPO in 2012. Our weather-related claims assumption for Home and Commercial combined for 2023 is £80 million.

The combined operating ratio from ongoing operations increased to 105.8% (2021: 89.5%) and 103.3%, when normalised for weather (2021: 90.5%).

The underwriting result including run-off partnerships was a loss of £179 million (2021: £292 million profit) and the combined operating ratio including run-off partnerships was 106.0% (2021: 90.1%).

Instalment and other operating income[1]

	Note	FY 2022 £m	FY 2021 £m
Instalment income	4	**92.4**	97.3
Other operating income	4	**55.3**	46.6
Total instalment and other operating income – ongoing operations		**147.7**	143.9
Total instalment and other operating income – run-off partnerships		**–**	0.1

Instalment income from ongoing operations of £92.4 million was £4.9 million lower than 2021, largely reflecting lower volumes written in Motor and Home in 2022.

Other operating income from ongoing operations increased 18.7% to £55.3 million in 2022, primarily due to the introduction in 2022 of arrangement and administration fees in Rescue together with higher claims frequency in Motor, driving increased revenue from vehicle recovery and repair services and higher salvage income.

Investment return[1]

	Note	FY 2022 £m	FY 2021 £m
Investment income		**124.0**	115.1
Hedging to a sterling floating rate basis		**(5.9)**	(13.2)
Net investment income		**118.1**	101.9
Net realised and unrealised (losses)/gains excluding hedging		**(67.1)**	43.6
Total investment return – ongoing operations	4	**51.0**	145.5
Total investment return – run-off partnerships		**0.6**	0.8
Total investment return		**51.6**	146.3

Investment yields

	FY 2022	FY 2021
Investment income yield[4]	**2.3%**	1.9%
Net investment income yield[4]	**2.2%**	1.7%
Investment return yield[4]	**1.0%**	2.4%

Total investment return from ongoing operations decreased by £94.5 million to £51.0 million (2021: £145.5 million) primarily driven by realised and unrealised losses resulting from write-downs in fair value adjustments of commercial property (£39.1 million) and £24.9 million of realised losses from disposals of our debt securities holdings, predominantly relating to actions taken to reduce our longer duration USD credit holdings. The Group's investment return including run-off partnerships was £51.6 million (2021: £146.3 million).

Despite assets under management declining 16.1% year-on-year, investment income from ongoing operations was up £8.9 million, driven by a yield improvement in variable rate asset classes following eight UK base rate increases during 2022, when rates rose from 0.25% to 3.5%. This resulted in a net investment income yield improvement of 0.5 percentage points to 2.2%. The investment income yield is expected to increase to 3.2% in 2023 as maturing assets are invested at higher yields together with higher yields on floating assets. The total return yield for 2023 is expected to be around 4.0%, once pull to par effects are taken into account. Given this measure includes unrealised movements as well, the outcome will depend on market movements during the year.

Operating expenses before restructuring and one-off costs[1]

	Note	FY 2022 £m	FY 2021 £m
Staff costs[5]		**232.9**	246.7
IT and other operating expenses[5,6]		**143.2**	138.5
Marketing		**93.5**	112.0
Sub-total		**469.6**	497.2
Insurance levies		**92.6**	88.2
Depreciation, amortisation and impairment of intangible and fixed assets[7]		**115.7**	96.6
Total operating expenses – ongoing operations	4	**677.9**	682.0
Operating expenses – run-off partnerships	4	**21.6**	24.3
Total operating expenses	4	**699.5**	706.3
Expense ratio – ongoing operations		**23.8%**	23.8%
Expense ratio – total Group		**23.6%**	23.9%

Operating expenses from ongoing operations in 2022 were £677.9 million (£699.5 million including run-off partnerships), in line with our target of around £700 million, and £4.1 million lower than 2021. This reflected a continued focus on improving efficiency and cost control. Despite inflationary pressures, controllable costs reduced by £27.6 million, more than offsetting a £23.5 million increase in amortisation, depreciation and levies.

The reduction in controllable costs was driven by a range of cost saving initiatives, including reducing the Group's office footprint, reducing technology run costs and increased customer adoption of digital and self-service channels.

The Group's full-time equivalent headcount reduced by 4.1% to 9,387 in 2022.

Looking ahead, the Group remains focused on driving cost efficiency, but is not immune to inflationary pressures in the market.

	Notes	FY 2022 £m	FY 2021 £m
Motor	4	**(77.2)**	314.8
Home	4	**(8.7)**	141.8
Rescue and other personal lines – ongoing operations[1]	4	**59.7**	73.3
Commercial	4	**58.3**	60.4
Operating profit – ongoing operations[1]	4	**32.1**	590.3
Operating loss – run-off partnerships[1]	4	**(11.5)**	(8.5)
Operating profit – total Group	4	**20.6**	581.8
Restructuring and one-off costs	4	**(45.3)**	(101.5)
Finance costs	11	**(20.4)**	(34.3)
Tax credit/(charge)	12	**5.6**	(102.3)
(Loss)/earnings attributable to the owners of the Company		**(39.5)**	343.7
Basic (loss)/earnings per share (pence)	15	**(4.3)**	24.5
Return on tangible equity[4]		**(0.9%)**	23.6%

Restructuring and one-off costs

The Group incurred £45.3 million of restructuring and one-off costs in 2022, principally due to an impairment of an IT system of £15.2 million following the decision to exit Travel packaged bank account partnership business[1] and write-offs in relation to property fixtures and fittings. The majority of these restructuring costs are non-cash and therefore have no impact on the Group's solvency ratio.

Finance costs

Finance costs fell to £20.4 million (2021: £34.3 million) primarily as interest payments reduced following 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**"), which is calculated as total tax charge divided by (loss)/profit before tax was 12.4% for 2022 (2021: 22.9%). Unusually, due to the overall loss position the ETR is lower than the standard UK corporation tax rate of 19.0% (2021: 19.0%) as tax relief for the accounting loss is reduced by disallowable expenses which are only partly offset by tax relief for the Tier 1 coupon payments (which are accounted for as a distribution rather than expense), together with the tax effect of a property revaluation. Further details can be found in the tax reconciliation in Note 12 to the financial statements.

Whilst the quantum of the disallowable expenses has returned to a more normalised level in 2022 following the one-off non-deductible Bromley lease payment in 2021, they have a greater impact on the ETR (calculated as tax charge divided by profit or (loss) before tax) as the denominator is much lower in 2022 compared with 2021. Ordinarily disallowable expenses would increase the ETR where there is an accounting profit (such as in 2021 and previous years), as more tax is paid than would be expected from applying the statutory tax rate to the accounting profit. However, in a loss making year, such as 2022, disallowable expenses lead to fewer tax losses than accounting losses, thereby leading to an overall reduction in the ETR.

Return on tangible equity[4]

Return on tangible equity decreased to (0.9%) (2021: 23.6%) due primarily to the reduction in the Group's operating profit.

(Loss)/earnings per share

Basic earnings per share decreased by 117.6% to a loss of 4.3 pence (2021: earnings of 24.5 pence). Diluted earnings per share decreased by 117.8% to a loss of 4.3 pence (2021: earnings of 24.1 pence), mainly reflecting the Group's loss after tax in 2022.

The financial performance of the Group is discussed in detail on pages 26 to 29. The calculation of (loss)/earnings per share is presented in note 15 on page 220.

Cash flow

	2022 £m	2021 £m
Net cash generated from operating activities	**800.2**	439.0
Of which:		
Operating cash flows before movements in working capital	**(24.3)**	435.9
Movements in working capital	**8.2**	(45.8)
Tax paid	**(44.5)**	(118.4)
Net cash generated from investment of insurance assets	**860.5**	167.2
Net cash used in investing activities	**(100.8)**	(138.7)
Net cash used in financing activities	**(657.5)**	(572.0)
Net increase/(decrease) in cash and cash equivalents	**41.9**	(271.7)
Cash and cash equivalents at 1 January	**896.5**	1,168.2
Cash and cash equivalents at 31 December	**938.4**	896.5

The Group's cash and cash equivalents increased by £41.9 million during the year (2021: £271.7 million reduction) to £938.4 million.

The Group had an operating cash outflow before movements in working capital of £24.3 million (2021: inflow £435.9 million), a reduction of £460.2 million, due to the loss for the year compared to a profit in the prior year and an increase in adjustments for non-cash movements. After taking into account movements in working capital, the Group's cash outflow was £16.1 million (2021: inflow £390.1 million), a decrease of £406.2 million. The Group has considerable assets under management, the cash generated from these assets increased by £693.3 million to £860.5 million as proceeds from the disposal and maturity of available-for-sale ("**AFS**") debt securities exceeded purchases, in part due to actions taken to reduce the Group's longer duration USD credit holding, helping fund dividend payments and the redemption of £250 million of the Group's subordinated Tier 2 debt. Net cash generated from operating activities was £800.2 million (2021: £439.0 million).

Net cash used in investing activities of £100.8 million reflected the Group's continuing investment in its major IT programmes (2022: £108.4 million, 2021: £109.4 million).

Net cash used in financing activities of £657.5 million included £314.5 million (2021: £317.4 million) in dividends and Tier 1 capital coupon payments in the year, £50.1 million in share buybacks (2021: £101.0 million) and £8.9 million (2021: £101.9 million) lease principal payments. Also included in 2022 was the redemption of the remaining £250.0 million Tier 2 subordinated debt issued in 2012. Dividends paid in the year comprised the 7.6 pence interim dividend announced in the half-year results in 2022 and the 15.1 pence final dividend for 2021 announced in March 2022.

The £800.2 million the Group generated from operating activities more than offset net cash used in financing and investing activities and resulted in a net increase in cash and cash equivalents of £41.9 million (2021: £271.7 million reduction) to £938.4 million (2021: £896.5 million). 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.

Notes:
1. Ongoing operations and run-off partnerships – See glossary on pages 251 to 253 for definitions and appendix A – Alternative performance measures on pages 254 to 257 for reconciliation to financial statement line items.
2. See appendix B on page 258 for additional data on in-force policies and adjusted gross written premium.
3. Direct own brands include in-force policies for Home and Motor under the Direct Line, Churchill, Darwin and Privilege brands, Rescue policies under the Green Flag brand and Commercial under the Direct Line for Business and Churchill brands.
4. See glossary on pages 251 to 253 for definitions and appendix A – Alternative performance measures on pages 254 to 257 for reconciliation to financial statement line items.
5. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
6. IT and other operating expenses include professional fees and property costs.
7. Includes right-of-use ("**ROU**") assets and property, plant and equipment. For the year ended 31 December 2022, there were impairment charges of £16.0 million which relate solely to impairment of intangible assets (2021: £2.6 million of which, £2.1 million relates to impairment of intangible assets and £0.5 million relates to ROU property assets).

Balance sheet management

Capital management and dividend policy

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.

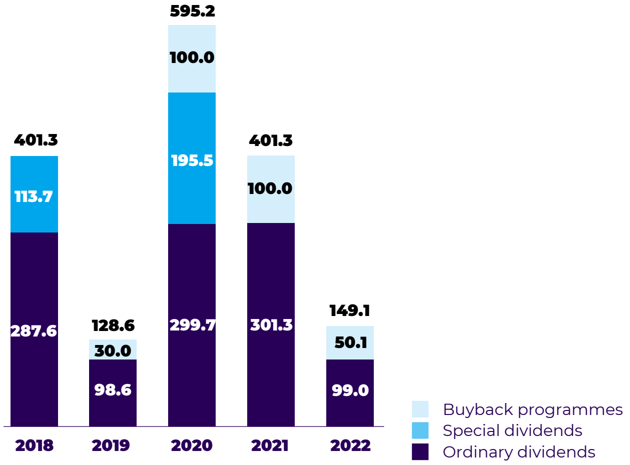
In the normal course of events the Board will consider whether or not it is appropriate to distribute any surplus capital to shareholders once a year, alongside the full year results.

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.

In 2022, the Board announced an interim dividend of 7.6 pence per share. The Board is not recommending a final dividend and will update its dividend outlook at the 2023 half-year results.

In the Group's 2021 full year results, we announced a share buyback programme of up to £100 million, with an initial tranche of £50 million which was completed on 28 June 2022. The Board decided, when considering the half-year results to 30 June 2022, not to launch the second £50 million tranche of the £100 million buyback programme announced earlier in the year.

Capital returns (£m)



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 2022.

Capital position

At 31 December 2022, the Group held a Solvency II capital surplus of £0.57 billion above its regulatory capital requirements, which was equivalent to an estimated solvency capital ratio of 147%, after the interim dividend.

At 31 December	2022	2021
Solvency capital requirement (£ billion)	**1.21**	1.35
Capital surplus above solvency capital requirement (£ billion)	**0.57**	1.03
Solvency capital ratio post dividends and share buyback	**147%**	176%
Solvency capital ratio (as above)/ adjusted solvency capital ratio[1]	**147%**	160%

Note:

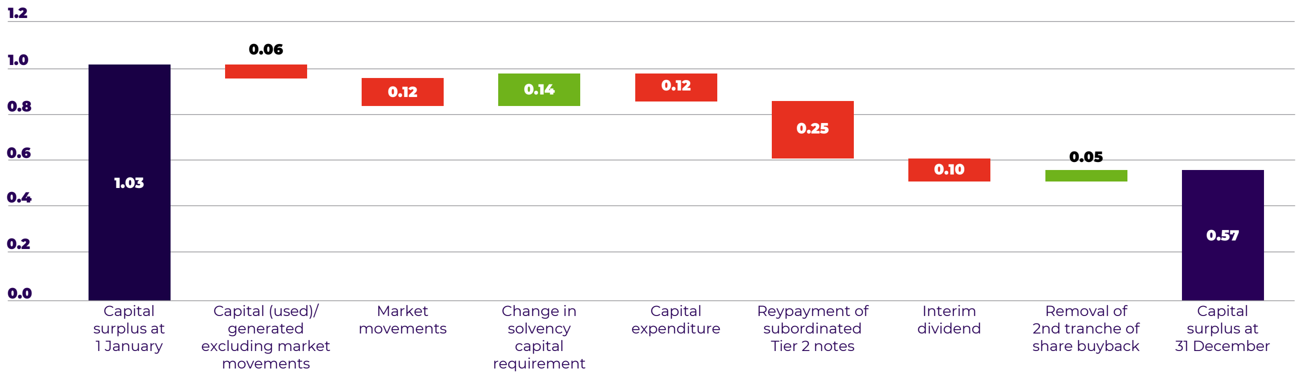
1. Adjusted solvency capital ratio excluding Tier 2 debt which was redeemed on 27 April 2022.

Change in solvency capital requirement

	2022 £bn
Solvency capital requirement at 1 January	**1.35**
Model and parameter changes	**0.05**
Exposure changes	**(0.19)**
Solvency capital requirement at 31 December	**1.21**

During 2022, the Group's SCR reduced by £0.14 billion to £1.21 billion. Exposure changes resulted in a £0.19 billion reduction partially offset by an increase of £0.05 billion relating to model and parameter changes. These changes were partly the result of management action to improve the Group's solvency ratio, including entering into a 10% whole account quota share reinsurance arrangement with effect from 1 January 2023 and reducing our longer duration USD credit holdings. The Group SCR also benefited from the impact of higher interest rates.

Movement in capital surplus (£bn)



Movement in capital surplus

	2022 £bn	2021 £bn
Capital surplus at 1 January	**1.03**	1.22
Capital (used)/generated excluding market movements	**(0.06)**	0.40
Market movements	**(0.12)**	(0.03)
Capital (used)/generated	**(0.18)**	0.37
Change in solvency capital requirement	**0.14**	(0.01)
Surplus (used)/generated	**(0.04)**	0.36
Capital expenditure	**(0.12)**	(0.12)
Repayment of subordinated Tier 2 notes	**(0.25)**	–
Interim dividend	**(0.10)**	(0.10)
Final dividend[1]	**–**	(0.20)
Share buyback	**–**	(0.10)
Removal of second tranche of share buyback	**0.05**	–
Increase in ineligible Tier 3 capital[2]	**–**	(0.03)
Net surplus movement	**(0.46)**	(0.19)
Capital surplus at 31 December	**0.57**	1.03

Notes:
1. Foreseeable dividends included above are adjusted to exclude the expected dividend waivers in relation to shares held by the employee share trusts, which are held to meet obligations arising on the various share option awards.
2. At 31 December 2022, ineligible Tier 3 capital arose as the amount of Tier 3 capital permitted under the Solvency II regulations is 15% of the Group's SCR. At 31 December 2021, ineligible Tier 3 capital arose as the amount of Tier 2 and Tier 3 capital permitted under the Solvency II regulations is 50% of the Group's SCR.

During 2022, the Group repaid its then outstanding £250 million 9.25% subordinated Tier 2 notes. The Group used £0.18 billion of Solvency II capital after market movements and increased the surplus by £0.05 billion as the second £50 million tranche of the share buyback programme was not launched. Capital expenditure of £0.12 billion and the interim 2022 dividend of £0.10 billion reduced the capital surplus. In 2023, capital expenditure levels are expected to be broadly in line with 2022.

Scenario and sensitivity analysis[1]

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 2022. The impacts on the Group's solvency capital ratio arise from movements in both the Group's SCR and own funds.

	Impact on solvency capital ratio[1]	
Scenario	**31 Dec 2022**	31 Dec 2021[2]
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"	**(10pts)**	(9pts)
One-off catastrophe loss based on extensive flooding of the River Thames	**(10pts)**	(9pts)
Increase in Solvency II inflation assumption for PPOs by 100 basis points[3]	**(10pts)**	(9pts)
100bps increase in credit spreads[4]	**(5pts)**	(8pts)
100bps decrease in interest rates with no change in the PPO real discount rate	**1pt**	(2pts)

Notes:
1. Sensitivities are calculated under the assumption full tax benefits can be realised.
2. 2021 figures exclude from own funds the value of the £250 million Tier 2 subordinated debt which was redeemed on 27 April 2022.
3. The periodic payment order ("**PPO**") inflation assumption used is an actuarial judgement which is reviewed annually based on a range of factors including the economic outlook for wage inflation relative to the PRA discount rate curve.
4. Includes only the impact on AFS assets (excludes assets held at amortised costs) and assumes no change to the SCR.

Own funds

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

At 31 December	2022 £bn	2021 £bn
Tier 1 capital before foreseeable distributions	**1.07**	1.66
Foreseeable dividend and share buyback	–	(0.30)
Tier 1 capital – unrestricted	**1.07**	1.36
Tier 1 capital – restricted	**0.32**	0.36
Less reclassified restricted Tier 1 debt[1]	**(0.05)**	(0.02)
Eligible Tier 1 capital	**1.34**	1.70
Tier 2 capital – reclassified restricted Tier 1 debt and Tier 2 subordinated debt[1]	**0.26**	0.53
Tier 3 capital – deferred tax	**0.21**	0.18
Ineligible Tier 3 capital[2]	**(0.03)**	(0.03)
Total eligible own funds	**1.78**	2.38

Notes:

1. As at 31 December 2022, £51 million (31 December 2021: £19 million) of the Group's restricted Tier 1 capital was reclassified as Tier 2 due to Solvency II tiering restrictions.
2. At 31 December 2022, ineligible Tier 3 capital arose as the amount of Tier 3 capital permitted under the Solvency II regulations is 15% of the Group's SCR. At 31 December 2021, ineligible Tier 3 capital arose as the combined amount of Tier 2 and Tier 3 capital permitted under the Solvency II regulations is 50% of the Group's SCR.

During 2022, the Group's eligible own funds reduced from £2.38 billion to £1.78 billion. Eligible Tier 1 capital after foreseeable distributions represents 75% of own funds and 111% of the estimated SCR. Tier 2 capital relates to the Group's £0.21 billion subordinated debt and £0.05 billion of 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 Tier 3 ineligible own funds of £0.03 billion.

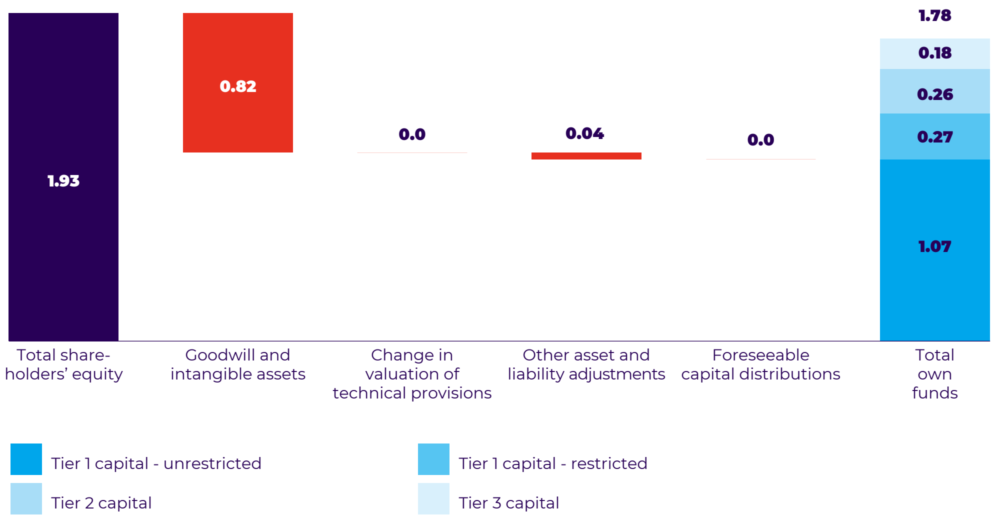
Reconciliation of IFRS shareholders' equity to Solvency II eligible own funds

At 31 December	2022 £bn	2021 £bn
Total shareholders' equity	**1.93**	2.55
Goodwill and intangible assets	**(0.82)**	(0.82)
Change in valuation of technical provisions	–	(0.01)
Other asset and liability adjustments	**(0.04)**	(0.06)
Foreseeable dividend and share buyback	–	(0.30)
Tier 1 capital – unrestricted	**1.07**	1.36
Tier 1 capital – restricted	**0.32**	0.36
Less reclassified restricted Tier 1 debt[1]	**(0.05)**	(0.02)
Eligible Tier 1 capital	**1.34**	1.70
Tier 2 capital – reclassified restricted Tier 1 debt and Tier 2 subordinated debt[1]	**0.26**	0.53
Tier 3 capital – deferred tax	**0.21**	0.18
Ineligible Tier 3 capital[2]	**(0.03)**	(0.03)
Total eligible own funds	**1.78**	2.38

Notes:

1. As at 31 December 2022, £51 million (31 December 2021: £19 million) of the Group's restricted Tier 1 capital was reclassified as Tier 2 due to Solvency II tiering restrictions.
2. At 31 December 2022, the amount of Tier 3 capital permitted under the Solvency II regulations is 15% of the Group's SCR which resulted in ineligible capital of £33 million. At 31 December 2021, the amount of Tier 2 and Tier 3 capital permitted under the Solvency II regulations is 50% of the Group's SCR which resulted in ineligible capital of £31 million.

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



Investment portfolio

The 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 PPO and non-PPO liabilities in an optimal manner; and
- to deliver a suitable risk-adjusted investment return commensurate with the Group's risk appetite.

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 (swapped fixed to floating)	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 – UK Insurance Limited

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

	Benchmark holding 2022	Actual holding 2022	Benchmark holding 2021	Actual holding 2021
Investment-grade credit[1]	**66.0%**	**49.5%**	66.0%	65.7%
High yield[2]	**6.0%**	**5.8%**	6.0%	6.1%
Investment-grade private placements[2]	**3.0%**	**2.1%**	3.0%	1.7%
Credit	**75.0%**	**57.4%**	75.0%	73.5%
Sovereign	**3.0%**	**10.7%**	3.0%	0.6%
Total debt securities	**78.0%**	**68.1%**	78.0%	74.1%
Infrastructure debt	**4.0%**	**5.0%**	4.0%	4.5%
Commercial real estate loans	**6.5%**	**4.2%**	6.5%	3.6%
Cash and cash equivalents	**6.0%**	**16.9%**	6.0%	12.1%
Investment property	**5.5%**	**5.8%**	5.5%	5.7%
Total investment holdings	**100.0%**	**100.0%**	100.0%	100.0%

Notes:

1. Asset allocation at 31 December 2022 includes investment portfolio derivatives, which have a mark-to-market asset value of £1.6 million which is split as an asset of £2.5 million included in investment grade credit and a liability of £0.9 million included in sovereign debt (31 December 2021: mark-to-market asset value of £14.2 million and £0.1 million respectively). This excludes non-investment derivatives that have been used to hedge operational cash flows.
2. In the 2021 report, benchmark and actual holding percentages for high-yield securities and investment grade private placements were incorrectly reported as 3.0% and 1.7% for high-yield securities and 6.0% and 6.1% for investment-grade private placements respectively. The 2021 comparatives have been restated in the asset allocation and benchmarks table, above.

At 31 December 2022, investment grade credit was below benchmark holding, following the tactical decision undertaken in H2 to de-risk the portfolio. Surplus funds as a result of this action have been held in cash and cash equivalents or three month sterling treasury bills.

Investment holdings and yields

	2022			2021		
	Allocation (£m)	**Income (£m)**	**Yield (%)**	Allocation (£m)	Income (£m)	Yield (%)
Investment-grade credit[1]	**2,360.0**	**59.1**	**1.9%**	3,721.1	70.9	1.9%
High yield	**278.8**	**14.9**	**4.8%**	342.1	17.5	5.1%
Investment-grade private placements	**98.2**	**2.7**	**2.9%**	91.2	2.4	2.5%
Credit	**2,737.0**	**76.7**	**2.2%**	4,154.4	90.8	2.2%
Sovereign[1]	**510.3**	**2.0**	**0.7%**	35.7	0.1	0.2%
Total debt securities	**3,247.3**	**78.7**	**2.1%**	4,190.1	90.9	2.2%
Infrastructure debt	**238.2**	**7.9**	**3.2%**	250.8	4.4	1.7%
Commercial real estate loans	**199.1**	**8.8**	**4.4%**	200.8	6.1	2.9%
Other loans	**1.9**	**–**	**0.4%**	–	–	0.0%
Cash and cash equivalents[2]	**938.4**	**14.0**	**1.5%**	896.5	0.1	0.0%
Investment property	**278.5**	**15.6**	**5.3%**	317.0	14.5	4.8%
Equity investments[3]	**13.6**	**–**	**0.0%**	6.2	–	0.0%
Total Group	**4,917.0**	**125.0**	**2.3%**	5,861.4	116.0	1.9%

Notes:

1. Asset allocation at 31 December 2022 includes investment portfolio derivatives, which have a mark-to-market asset value of £1.6 million which is split as an asset of £2.5 million included in investment grade credit and a liability of £0.9 million included in sovereign debt (31 December 2021: mark-to-market asset value of £14.2 million and £0.1 million respectively). This excludes non-investment derivatives that have been used to hedge operational cash flows.
2. Net of bank overdrafts: includes cash at bank and in hand and money market funds.
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.

At 31 December 2022, total investment holdings of £4,917.0 million were 16.1% lower than at the start of the year, reflecting adverse fair value movements in fixed rate debt securities, payment of the interim dividend, repayment of subordinated debt and share buy-back activity. Total debt securities were £3,247.3 million (31 December 2021: £4,190.1 million), of which 3.8% were rated as 'AAA' and a further 59.0% were rated as 'AA' or 'A'. The average duration at 31 December 2022 of total debt securities was 2.3 years (31 December 2021: 2.5 years).

At 31 December 2022, total unrealised losses, net of tax, on AFS investments were £194.7 million (31 December 2021: £9.0 million unrealised gains) as a result of higher credit spreads and increased interest rates.

Net asset value

At 31 December	Note	**2022 £m**	2021 £m
Net assets[1]	16	**1,934.0**	2,550.2
Goodwill and other intangible assets	16	**(822.2)**	(822.5)
Tangible net assets	16	**1,111.8**	1,727.7
Closing number of Ordinary Shares (millions)	16	**1,298.2**	1,317.3
Net asset value per share (pence)	16	**149.0**	193.6
Tangible net asset value per share (pence)	16	**85.6**	131.2

Note:

1. See glossary on pages 251 to 253 for definitions and appendix A – Alternative performance measures on pages 254 to 257 for reconciliation to financial statement line items.

Net assets at 31 December 2022 decreased by £616.2 million to £1,934.0 million (31 December 2021: £2,550.2 million) and tangible net assets decreased to £1,111.8 million (31 December 2021: £1,727.7 million) following adverse movements in the Group's AFS reserves and the reduction in profit for the year.

Leverage

The Group's financial leverage decreased by 1.4 percentage points to 23.8% (2021: 25.2%). The decrease was primarily due to a reduction in subordinated debt following the redemption of the Group's £250 million 9.25% Tier 2 notes on 27 April 2022, partially offset by a reduction in shareholders' equity, primarily due to dividends paid in the year and the share buyback, along with a reduction in the Group's AFS reserves.

At 31 December	**2022 £m**	2021 £m
Shareholders' equity	**1,934.0**	2,550.2
Tier 1 notes	**346.5**	346.5
Financial debt – subordinated debt	**258.6**	513.6
Total capital employed	**2,539.1**	3,410.3
Financial-leverage ratio[1]	**23.8%**	25.2%

Note:

1. 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 'A1' for insurance financial strength (strong) with a negative outlook.

Reserving

We make provision for the full cost of outstanding claims from the general insurance business at the balance sheet 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, as evidenced by the favourable development of historical claims reserves. Reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal actuarial best estimate. This margin is set by reference to various actuarial scenario assessments and reserve distribution percentiles. It also considers other short- and long-term risks not reflected in the actuarial inputs, as well as management's view on the uncertainties in relation to the actuarial best estimate.

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, 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 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 at the latest in 2024. There has been an ongoing reduction in large bodily injury exposures as a result of continued positive prior-year development of claims reserves, and a higher proportion of reserves being covered by reinsurance for the 2014 to 2020 underwriting years. Since 2021, we have reduced the level of Motor reinsurance purchased, resulting in higher net reserves for accident years 2021 and 2022. The 2023 Motor excess of loss ("**XoL**") reinsurance contract is in line with the 2022 Motor treaty, resulting in a similarly higher net retention for accident year 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. In 2022, the Group reviewed the estimates used to discount PPOs. Given the significant changes both in the current economic environment and the longer term outlook, the Group changed from flat rate inflation and discounting assumption to a yield curve approach, allowing for an increase in short-term inflation and higher long-term real returns. This resulted overall in the application of a real discount rate of 0.9% (2021: 0.0%), the combination of cash flow weighted inflation and discounting of 4.2% and 5.1% respectively, the latter driven by an expected increase in the long-term yield of the assets backing PPO liabilities.

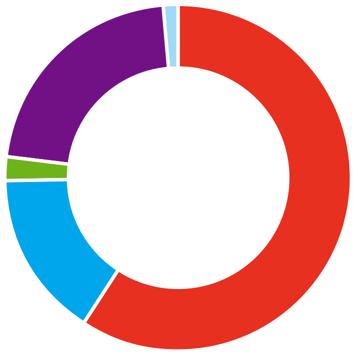
Higher claims inflation remains a risk, given the continuing high level of consumer prices and wage inflation. In 2022, consumer prices inflation was at its highest level for the past decade and is not expected to normalise until 2024. Pressure is likely to remain strong on wages, with potential implications 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.

Prior-year reserve releases were £163.2 million (2021: £258.1 million) concentrated towards more recent accident years, with good experience across all categories.

Looking forward, the management best estimate will be replaced under IFRS 17 by the best estimate of liabilities ("**BEL**") and a risk adjustment. The BEL will be on a discounted basis and include an allowance for events not in data ("**ENIDs**"). The risk adjustment will be set around the 75th percentile.

Claims reserves net of reinsurance 2022 (£m)

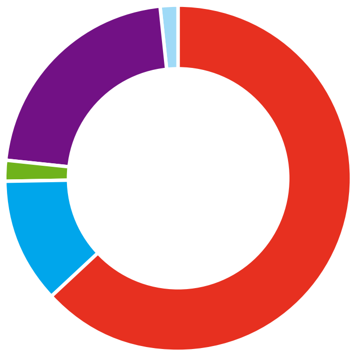
£2,608.2m



- **1,546.3** Motor
- **409.2** Home
- **55.2** Rescue and other personal lines
- **567.5** Commercial
- **30.0** Run-off partnerships[1]

Claims reserves net of reinsurance 2021 (£m)

£2,548.4m



- **1,607.9** Motor
- **297.8** Home
- **53.5** Rescue and other personal lines
- **547.3** Commercial
- **41.9** Run-off partnerships[1]

Note:

1. See glossary on pages 251 to 253 for definitions and appendix A – Alternative performance measures on pages 254 to 257 for reconciliation to financial statement line items.

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 £150 million and cover is placed annually on 1 July up to a modelled 1-in-200 year loss event of £1,350 million.
- Motor reinsurance to protect against a single large 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 up to a level of £10m and the protection above £10m is subject to an additional aggregate retention of £37.50m. This programme was renewed on 1 January 2023.
- Commercial property risk reinsurance to protect against large individual claims with a retained deductible of £4.0 million. The contract is subject to an aggregate deductible of £2.0 million and renews annually on 1 July.
- Whole account quota share reinsurance with a 10% cession, ceded on a funds-withheld basis entered into from 1 January 2023.

Sensitivity analysis – the discount rate used in relation to PPOs, changes in 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, 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[1,2]	
At 31 December	**2022 £m**	2021 £m
PPOs[3]		
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	**31.0**	43.0
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(42.8)**	(58.9)
Ogden discount rate[4]		
Impact of the Group reserving at a discount rate of 0.75% compared to minus 0.25% (2021: 0.75% compared to minus 0.25%)	**46.7**	42.5
Impact of the Group reserving at a discount rate of minus 1.25% compared to minus 0.25% (2021: minus 1.25% compared to minus 0.25%)	**(64.2)**	(59.4)
Claims inflation[5]		
Impact of a decrease in claims inflation by 200 basis points for two consecutive years	**79.4**	74.3
Impact of an increase in claims inflation by 200 basis points for two consecutive years	**(80.5)**	(75.5)

Notes:
1. These sensitivities are net of reinsurance and exclude the impact of taxation.
2. These sensitivities reflect one-off impacts at the balance sheet 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 0.9% 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. 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.
5. We have updated this sensitivity, across 2021 and 2022, to a 200 basis point increase/decrease in inflation in acknowledgment of the current uncertain economic environment.

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 2022. It does not take into account any second order impacts such as changes in PPO propensity or reinsurance bad debt assumptions.

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 whom 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 2022 the sum of taxes either paid or collected across the Group was £803.9 million. The composition of this between the various taxes borne and collected by the Group is shown below.

Total taxes borne

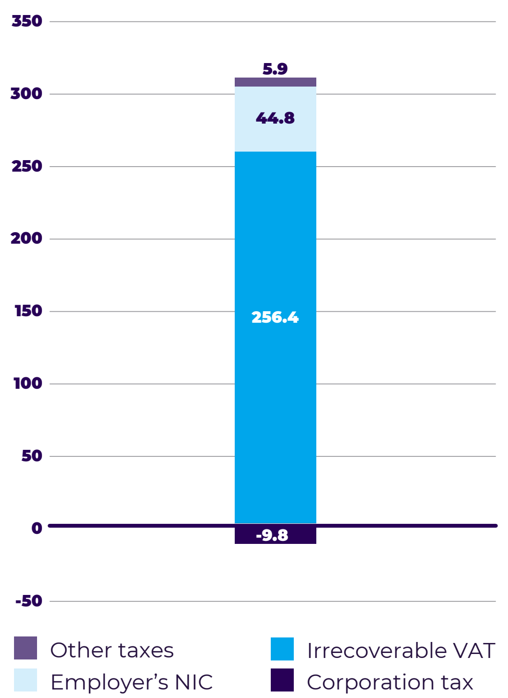
At 31 December	2022 £m
Current-year Corporation Tax credit	(9.8)
Irrecoverable Value Added Tax incurred on overheads	79.9
Irrecoverable Value Added Tax embedded within claims spend	176.5
Employers' National Insurance contributions	44.8
Other taxes	5.9
Total	**297.3**

Total taxes collected

At 31 December	2022 £m
Insurance Premium Tax	389.4
Value Added Tax	14.8
Employees' Pay As You Earn and National Insurance contributions	102.4
Total	**506.6**

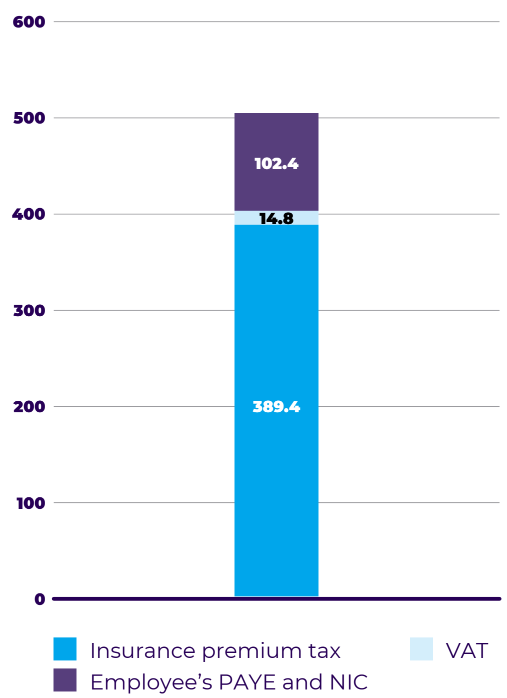
Total taxes borne by tax type (£m)

£297.3m



Total taxes collected by tax type (£m)

£506.6m



Neil Manser
Chief Financial Officer

Operating review

Motor

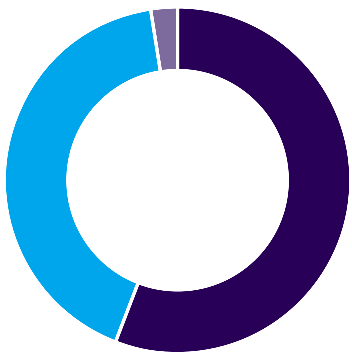
Motor: performance summary

Own brand in-force policies reduced by 2.9%, with an overall reduction in in-force policies of 3.4% to 3.8 million.

Own brand gross written premium reduced by 7.7%, overall gross written premium reduced by 8.2%.

Operating loss of £77.2 million, reflecting heightened claims inflation, an increase in claims frequency, and lower prior-year reserve releases.

Gross written premium by channel



- **56.0%** Direct
- **41.7%** Price comparison websites
- **2.3%** Partnerships

	2022 £m	2021 £m
In-force policies (thousands)	**3,836**	3,971
Of which:		
Direct own brands[1]	**3,756**	3,869
Partnerships	**80**	102
Gross written premium	**1,432.7**	1,560.8
Of which:		
Direct own brands[1]	**1,398.5**	1,515.2
Partnerships	**34.2**	45.6
Operating (loss)/profit[2]	**(77.2)**	314.8
Loss ratio[2]	**86.2%**	64.3%
Commission ratio[2]	**3.4%**	3.3%
Expense ratio[2]	**25.1%**	24.8%
Combined operating ratio[2]	**114.7%**	92.4%
Current-year attritional loss ratio[2]	**90.9%**	72.9%

Market overview

The combination of the implementation of the FCA's PPR regulations, and the impact of elevated inflation, created a challenging motor market backdrop during 2022.

The FCA's PPR regulations reduced new business shopping and increased retention levels across the market. The increasingly competitive trading environment was exacerbated by market premiums not keeping pace with heightened claims inflation.

The increase in claims inflation was driven by the cost of second-hand vehicles, as well as supply chain disruption, which led to longer repair times. Claims frequency also increased compared to 2021, which saw lower driving levels during lockdowns.

Market premiums increased by mid-single digit percentage points at the start of the year with the introduction of the FCA's PPR regulations, followed by significant increases during the second half of the year.

Performance

In-force policies and gross written premium

Motor in-force policies reduced by 3.4% in 2022, with own brands falling 2.9%. The majority of this reduction was in Q3 as we increased premiums to reflect higher inflation trends and saw a reduction in new business volumes.

Retention remained strong on average over the year at 81.6%, although reduced across the year as renewal rate increases from higher claims inflation started to offset premium reductions from the introduction of the FCA's PPR regulations.

Motor direct own brand gross written premium was 7.7% lower in 2022. Average premiums fell 2.8% during 2022, reflecting the impact of the FCA's PPR regulations on renewal average premiums, as well as a greater mix of renewing business which tends to have lower average premium. Furthermore, changes to the Group's risk pricing models in H2 reduced risk mix and therefore average premium.

Motability Operations: Delivering an exceptional claims service

In H2 2023, we will welcome 600,000 new customers as part of our 10-year partnership with Motability Operations. We were chosen to partner with Motability Operations because of our excellent customer service record, our modern and innovative digital systems, and our ability to provide efficient vehicle repairs through an integrated, aligned and effectively managed supply chain. The partnership will help us to gain further insight into their fleet of modern vehicles and build additional scale in our expert claims management service.

In H2 2023, we welcome our new partnership with Motability Operations, which is expected to provide around £500 million of gross written premium per annum from 2024, of which 80% is reinsured.

Underwriting

Claims inflation accelerated over the course of the year. Entering 2022, we expected claims severity inflation would track slightly above our medium-term 3% to 5% expectation. Supply chain disruption, partly in response to the war in Ukraine and resource constraints across the market, drove an elongation in car repair cycle times, therefore increasing average repair costs as well as leading to longer credit hire durations. Furthermore, used car prices, which rose strongly in 2021, remained high throughout the year, particularly for relatively new cars.

Whilst we continue to believe we are outperforming the industry on the cost of claims we manage through both DLG Auto Services and our managed network, claims inflation arising from third-party managed claims was higher than expectations and pricing. Overall, we estimate claims inflation for 2022 was around 14%.

The combination of lower renewal premium arising from the FCA's PPR regulations, as well as higher than priced-for claims inflation and the non-repeat of 2021 Covid-related frequency benefits, resulted in a 18.0 percentage point increase in the current-year attritional loss ratio to 90.9%. Prior-year reserve releases were £60.7 million lower, resulting from delayed settlements of large claims and higher claims inflation on third-party claims. These factors combined resulted in an overall loss ratio of 86.2% (2021: 64.3%).

Combined operating ratio and (loss)/profit

The combined operating ratio was 114.7% (2021: 92.4%), primarily as a result of the higher loss ratio. The expense and commission ratios were broadly stable at 25.1% and 3.4% respectively.

Instalment income was £4.7 million lower than prior year due to lower Motor premiums while other operating income increased a little due to higher salvage recoveries.

Overall, Motor reported an operating loss of £77.2 million compared with a profit of £314.8 million in 2021.

Notes:
1. Direct own brands include in-force policies under the Direct Line, Churchill, Darwin and Privilege brands.
2. See glossary on pages 251 to 253 for definitions and appendix A – Alternative Performance Measures on pages 254 to 257 for reconciliation to financial statement line items.

Home

Home: performance summary

Total in-force policies 6.2% lower at 2.5 million. Own brand policies were 7.8% lower at 1.7 million, reflecting a reduction in new business sales volumes.

Total gross written premium was 10.3% lower at £518.1 million. Own brand gross written premium was 8.4% lower at 381.5 million.

Total operating loss of £8.7 million, primarily driven by several significant weather events and lower prior-year releases.

Gross written premium by channel

- **56.4%** Direct
- **18.1%** Price comparison websites
- **25.5%** Partnerships

	2022 £m	2021 £m
In-force policies (thousands)	**2,501**	2,667
Of which:		
Direct own brands[1]	**1,732**	1,879
Partnerships	**769**	788
Gross written premium	**518.1**	577.8
Of which:		
Direct own brands[1]	**381.5**	416.7
Partnerships	**136.6**	161.1
Operating (loss)/profit[2]	**(8.7)**	141.8
Loss ratio[2]	**80.2%**	50.7%
Commission ratio[2]	**5.1%**	6.9%
Expense ratio[2]	**21.6%**	22.5%
Combined operating ratio[2]	**106.9%**	80.1%
Current-year attritional loss ratio[2]	**60.9%**	55.7%
Normalised combined operating ratio[2]	**94.7%**	85.2%

Market overview

In 2022, the implementation of the FCA's PPR regulations had a more material impact on the Home market than Motor, whilst claims inflation increased at a more modest rate.

There were significantly fewer customers shopping for insurance quotes as more customers chose to stay with their existing insurer.

Customers that were shopping for insurance benefited from a wider choice of policies as the reforms drove more product diversification including "essential" style policies at a lower price point.

Following new business market premiums increasing at the start of the year on implementation of the FCA's PPR regulations, they remained broadly level throughout much of the year despite higher claims inflation.

In February 2022, the UK experienced three significant storms, Dudley, Eunice and Franklin. The extremely high temperatures in the summer of 2022 led to a rise in subsidence claims, and in December most of the UK experienced a freeze weather event which left many households with burst pipes.

Performance

In-force policies and gross written premium

The implementation of the FCA's PPR regulations in January 2022 resulted in lower premiums across the market, with fewer customers shopping and higher customer retention rates.

Against this backdrop, we focused on maintaining margins and therefore saw a reduction in new business sales volumes, in line with the broader market. Home in-force policies fell by 6.2% to 2.5 million while direct own brands fell by 7.8% to 1.7 million.

NatWest Group: Home contract extension

We extended our longstanding partnership with NatWest Group, continuing to provide home insurance to close to half a million of their customers until 2027. We were recognised for our ability to deliver excellent service and easy, digital-first journeys, making use of a new platform that improves the experience for customers, pre-populating their data and introducing our home product to Natwest Group's banking app, giving them access to simple and flexible products.

Direct own brands average premiums were stable year-on-year as pricing increases for new business were offset by renewal decreases and risk mix changes.

Overall, Home direct own brands gross written premium of £381.5 million was 8.4% lower than 2021.

Underwriting

Claims inflation remained elevated above the Group's long-term average and was estimated to be around 7.5% for 2022. This was consistent with the Group's pricing assumptions.

Home also saw several weather events during 2022, with floods, subsidence and freeze events totalling £119.1 million, well above our 2022 annual assumption of £52 million. Our weather-related claims assumption for Home for 2023 is £54 million. The freeze event in December was Home's most costly event since the Group listed over a decade ago.

Home's loss ratio increased by 29.5 percentage points in 2022 to 80.2%, predominantly due to higher weather costs, which increased 19.8 percentage points. The current-year attritional loss ratio increased by 5.2 percentage points following pricing action on the implementation of the FCA's PPR regulations and the non-repeat of positive claims experience in 2021. Prior-year reserve releases were £26.2 million lower following elevated releases in 2021 and the impact of inflation on subsidence claims costs from older years.

Combined operating ratios and (loss)/profit

Home's focus on protecting the value of the book enabled it to deliver a combined operating ratio normalised for weather of 94.7%.

An improvement in the expense ratio and a lower commission ratio helped mitigate some of the loss ratio deterioration and, overall, Home delivered an underwriting loss of £35.6 million (2021: profit £110.0 million) and a headline combined operating ratio of 106.9%.

The underwriting loss was partially offset by instalment and investment returns, leading to an operating loss of £8.7 million (2021: £141.8 million profit).

Notes:
1. Direct own brands include in-force policies under the Direct Line, Churchill and Privilege brands.
2. See glossary on pages 251 to 253 for definitions and appendix A – Alternative Performance Measures on pages 254 to 257 for reconciliation to financial statement line items.

Rescue and other personal lines

Rescue and other personal lines: performance summary[1]

Rescue in-force policies reduced by 3.9% to 2.2 million, driven by lower new business sales volumes in Green Flag direct and reduced linked opportunities from lower sales in Motor.

Total in-force policies and adjusted gross written premium reduced by 3.2% and 2.6% respectively, reflecting lower premium from Rescue, partly offset by higher premium in Travel.

Total operating profit of £59.7 million includes £52.8 million profit for Rescue.

Adjusted gross written premium by product[1,2]

- **53.3%** Rescue
- **26.2%** Pet
- **20.5%** Other personal lines

Ongoing operations[1]	2022 £m	2021 £m
In-force policies (thousands)	**2,424**	2,505
Of which:		
Rescue – ongoing operations	**2,185**	2,273
Of which Green Flag direct	**1,106**	1,179
Pet	**128**	138
Other personal lines – ongoing operations	**111**	94
Adjusted gross written premium[2]	**273.9**	281.1
Of which:		
Rescue – ongoing operations	**143.7**	155.2
Of which Green Flag Direct	**88.2**	88.3
Pet	**70.8**	71.4
Other personal lines – ongoing operations	**59.4**	54.5
Operating profit[2]	**59.7**	73.3
Loss ratio[2]	**54.0%**	49.9%
Commission ratio[2]	**3.9%**	3.6%
Expense ratio[2]	**27.9%**	25.4%
Combined operating ratio[2]	**85.8%**	78.9%

Market overview

Rescue

The rescue market continued its post-pandemic recovery in 2022 as consumer searches for breakdown cover increased.

The high inflationary environment adversely affected rescue service providers' claims costs due to the higher cost of fuel and insurance.

Other personal lines

The travel insurance market grew back rapidly in 2022, following the lifting of travel restrictions early in the year, with volumes of international leisure travel only marginally below pre-pandemic levels during the summer peak. European travel proved popular, with long haul destinations recovering towards the end of the year.

2022 continued to see pet ownership grow in the UK with an estimated 34% of households now owning a dog and 28% owning a cat[3].

Performance

In-force policies and gross written premium

In-force policies from ongoing operations reduced by 3.2%, primarily as a result of lower Rescue in-force polices, which was partly offset by higher own brand Travel polices. Gross written premium from ongoing operations reduced by 2.6% and showed a similar trend to in-force policies. Total in-force policies including run-off partnerships were 4.6 million and total gross written premium was £398.3 million.

Rescue

Rescue's in-force policies and gross written premium from ongoing operations were lower in 2022 as a result of lower Motor policies, where Green Flag is sold alongside the Motor policy, and transition effects as it rolled out its new policy platform.

Heightened claims inflation during 2022 increased average claims costs by 14%, driven predominantly by higher fuel costs and resource constraints across our network of suppliers. Claims frequency remained broadly stable with 2021, albeit below pre-pandemic levels.

In January 2023, we launched our first Green Flag branded patrol vehicles with repairs completed by our own mechanics. This aims to help mitigate the impact of heightened inflation as well as offer new revenue opportunities.

Rescue's combined operating ratio from ongoing operations remained attractive at 76.7%. Rescue operating profit from ongoing operations was £52.8 million, compared to £62.0 million in 2021.

Other personal lines

Other personal lines is made up of Pet, Travel, creditor and mid- to high-net worth business. Pet accounts for the majority of other personal lines profit.

Pet in-force policy count was 7.2% lower but premiums were broadly flat and profit increased year-on-year due to lower claims volumes and lower than expected claims inflation.

In Travel, the recovery seen across the industry in 2022 led to growth in premiums and in-force policy count.

The mid- to high-net worth business, Direct Line Select, reported an operating loss due primarily to weather-related claims.

Combined operating ratios and profit

Overall, the combined operating ratio from ongoing operations for Rescue and Other personal lines increased by 6.9 percentage points to 85.8%. Operating profit from ongoing operations was £59.7 million, a reduction of 18.6% and primarily related to higher Rescue claims.

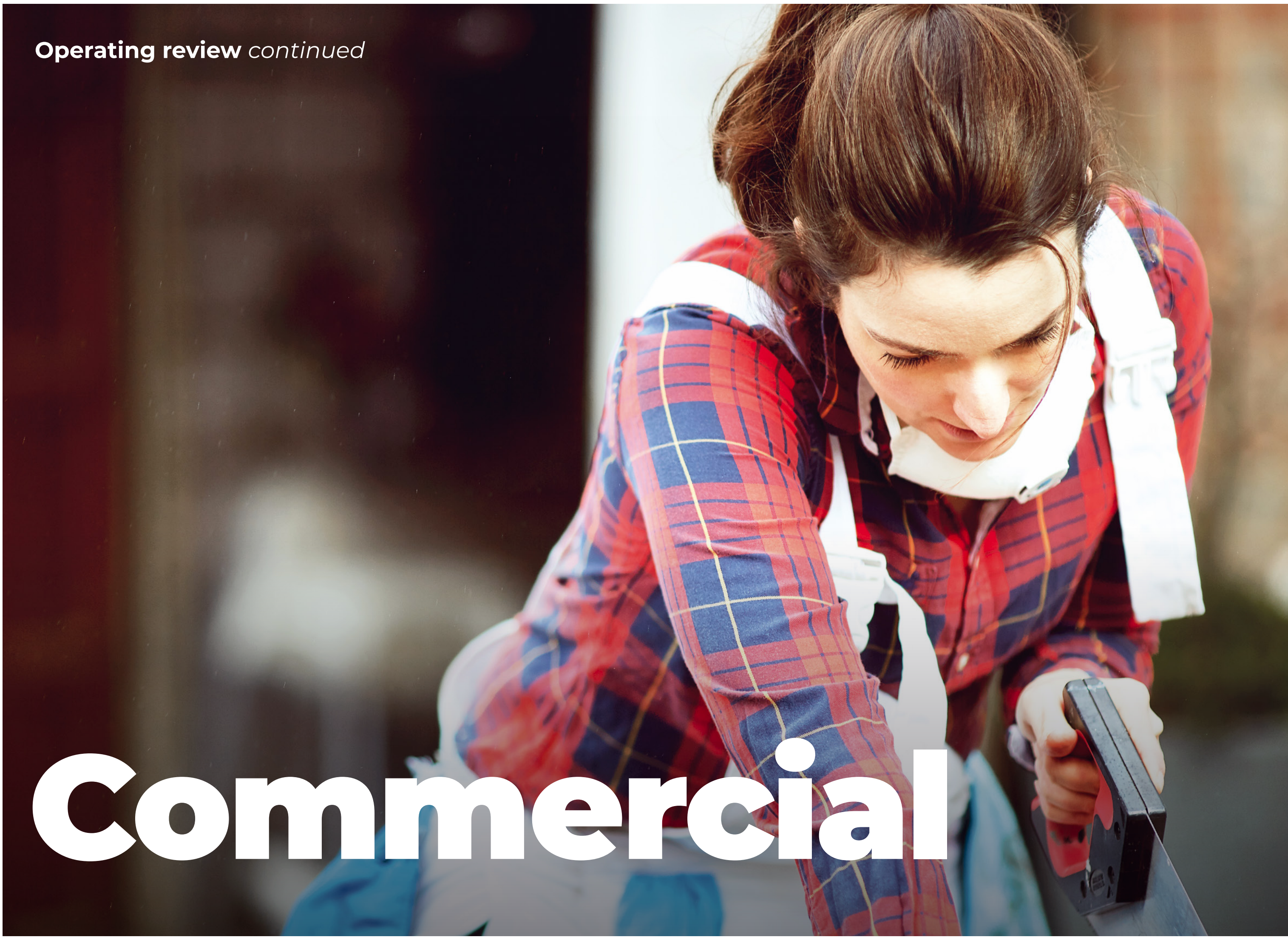
Green Flag: Disrupting the rescue market

Our Green Flag brand continues to disrupt the rescue market. We're delighted that this year it has been ranked by the Institute of Customer Service Customer Satisfaction Index as one of the top 20 brands for customer service in the UK.[4]

In 2022, Green Flag, in addition to launching a new online shop, extended its new technology ecosystem and enhanced its pricing and renewal capabilities.

Green Flag has also diversified its product portfolio, offering accessories via the online shop, as well as giving customers the convenience of booking maintenance and repair services, or providing a competitive price to check a vehicle's history before deciding to make a purchase.

Notes:
1. Ongoing operations – See glossary on pages 251 to 253 for definitions and appendix A – Alternative performance measures on pages 254 to 257 for reconciliation to financial statement line items.
2. See glossary on pages 251 to 253 for definitions and appendix A – Alternative performance measures on pages 254 to 257 for reconciliation to financial statement line items.
3. https://www.ukpetfood.org/information-centre/statistics/uk-pet-population.html
4. Customer Satisfaction Index.



Commercial

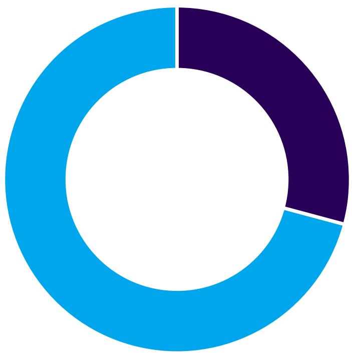
Commercial: performance summary

Total in-force policies grew 6.5%, with direct own brands and NIG and other growing 8.1% and 3.0% respectively.

Strong growth in gross written premium, increasing by 14.7% to £749.3 million, driven by growing in-force policies and higher average premiums.

Operating profit of £58.3 million was £2.1 million lower than 2021 due to higher weather event claims and lower prior-year releases.

Gross written premium by channel



29.2% Direct
70.8% NIG & other

	2022 £m	2021 £m
In-force policies (thousands)	**928**	871
Of which:		
Direct own brands[1]	**651**	602
NIG and other	**277**	269
Gross written premium	**749.3**	653.0
Of which:		
Direct own brands[1]	**218.9**	187.4
NIG and other	**530.4**	465.6
Operating profit[2]	**58.3**	60.4
Loss ratio[2]	**53.7%**	54.5%
Commission ratio[2]	**19.4%**	20.0%
Expense ratio[2]	**21.1%**	21.7%
Combined operating ratio[2]	**94.2%**	96.2%
Current-year attritional loss ratio[2]	**57.5%**	62.0%
Normalised combined operating ratio[2]	**92.8%**	96.3%

Market overview

Premiums remained high across the SME commercial market throughout 2022, supported by reduced capacity in this area. The introduction of the FCA's PPR regulations had a smaller impact on commercial insurance as opposed to personal lines.

However, the van segment saw fewer customers shopping in 2022. This was driven by a range of inflationary factors, including higher second-hand vehicle prices and higher premiums due to claims inflation.

There was considerable consolidation in the commercial broker sector, while the small and micro portion of the commercial sector continued to see a shift towards price comparison websites.

Performance

In-force policies and gross written premium

During 2022, Commercial continued to deliver strong in-force policy count growth and double digit premium growth. This reflected benefits of its transformation alongside a positive commercial market backdrop.

Gross written premium increased by 14.7% compared to 2021, with strong growth across both NIG and direct own brands. This was driven by growing in-force policies by 6.5% to 0.9 million whilst also increasing average premiums ahead of inflation.

Commercial growth

Our Commercial business delivered strong growth across all channels, continuing to realise the benefits of its transformation, improving margins, pricing sophistication and growing NIG's award-winning electronic trading platform. Over the last year:

- Our Risk Assist proposition, which helps business owners manage and reduce risks, has been enhanced with updated content and new tools;
- An 'Ask the Expert' app has been launched, supporting businesses to get tailored advice for their needs; and
- Our Motor and Mini Fleet coverage has been extended to include cables, batteries for EVs and charge points as we aim to increase our penetration into the growing EV segment.

Underwriting

Claims inflation remained elevated throughout 2022, and is estimated at approximately 7% across the portfolio. Pricing action was taken throughout the year with premiums on average increasing slightly ahead of claims inflation.

Commercial also experienced higher weather event-related claims in 2022, and these are currently estimated to cost £30.2 million, above our 2022 annual assumption of £21 million. Our weather-related claims assumption for Commercial for 2023 is £26 million. Prior-year reserve releases remained significant at £54.0 million, although a 12.1% reduction on 2021.

The earning through of higher average premium from 2021 led to a 4.5 percentage point improvement in the current-year attritional loss ratio, to 57.5%. The overall loss ratio was 0.8 percentage points better as an improvement in the attritional loss ratio was partially offset by higher weather event claims compared to 2021.

Combined operating ratios and profit

The expense and commission ratios improved slightly which, coupled with positive pricing, led to a combined operating ratio of 94.2%, 2.0 percentage points better than prior year. Normalised for weather, the combined operating ratio was 92.8%, an improvement of 3.5 percentage points.

Despite lower prior-year reserve releases and higher weather-related claims, underwriting profit increased by £15.7 million, to £37.1 million. Outside of underwriting, there was a £20.6 million reduction in the investment return, resulting in operating profit of £58.3 million, £2.1 million lower than 2021.

Notes:
1. Commercial direct own brands include in-force policies for Direct Line for Business and Churchill brands.
2. See glossary on pages 251 to 253 for definitions and appendix A – Alternative Performance Measures on pages 254 to 257 for reconciliation to financial statement line items.

Run-off partnerships[1]

In our H1 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. During the second half of the year, we have decided to exit all such partnerships and are presenting the results for this business as a separate segment.

Rescue packaged accounts

Our contract with NatWest Group ended in December 2022 and is due to run off by the end of 2023, albeit that claims may run off over a longer period. 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 and are expected to run off in early 2025. Together, these travel partnerships represent around 2.2 million in-force policies.

Underwriting

Gross written premium was £124.4 million (2021: £98.9 million). The operating loss relating to run-off partnerships in 2022 was £11.5 million (2021: £8.5 million).

	2022 £m	2021 £m
In-force policies (thousands)	**2,188**	4,551
Gross written premium	**124.4**	98.9
Operating loss	**(11.5)**	(8.5)
Loss ratio	**90.4%**	51.1%
Commission ratio	**1.8%**	33.5%
Expense ratio	**17.7%**	25.0%
Combined operating ratio	**109.9%**	109.6%

Notes:

1. Ongoing operations – See glossary on pages 251 to 253 for definitions and appendix A – Alternative performance measures on pages 254 to 257 for reconciliation to financial statement line items.

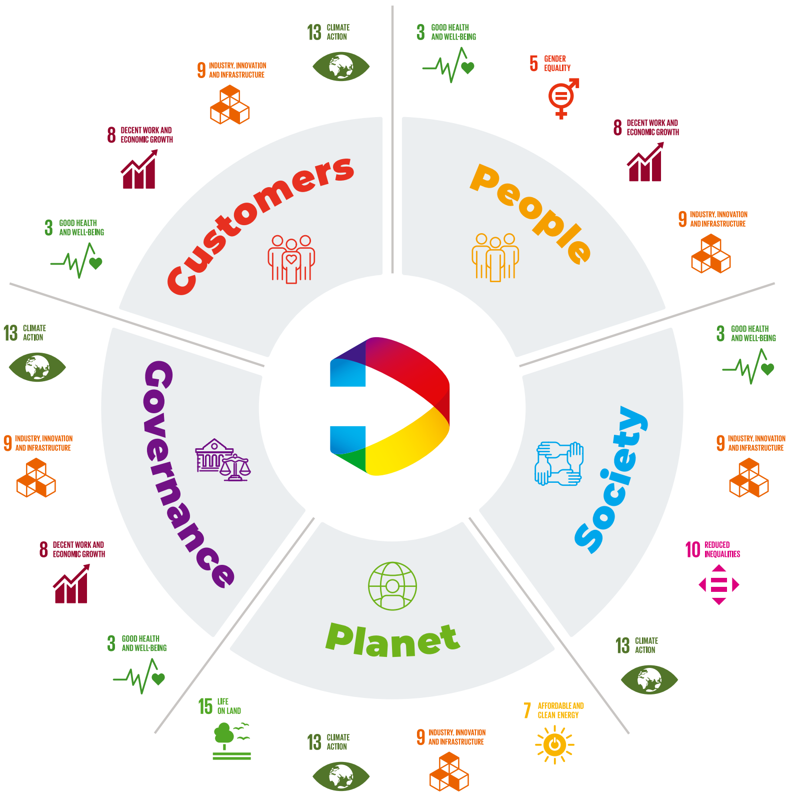
Non-financial information statement

This non-financial 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 and Accounts	Page references	Relevant policies, statements and codes available at directlinegroup.co.uk
Environment	Sustainability	50 to 71	Environment Statement
	Task Force on Climate-related Financial Disclosures	72 to 85	
	Streamlined Energy and Carbon Reporting	85	
Anti-bribery and anti-corruption	Financial crime and anti-bribery and corruption	122	Prevention of Financial Crime Policy Code of Business Conduct
	Ethical Code for Suppliers	127	Ethical Code for Suppliers Whistleblowing Policy
Employees	People	55 to 59	Flexible Working Policy Health & Safety Policy
Business model	Brilliant for customers every day	1 to 9	Prompt Payment Code
	Strategy	10 to 11	Responsible Investment Policy
	Business model	12 to 13	Underwriting Standards
	Operating review	40 to 48	Tax Policy
Social and community matters	Market overview	20 to 21	Board Diversity Policy
	Society	60 to 63	Data Privacy Policy
	Community fund	62 to 63	Corporate Website Privacy Notice
Human rights	Human rights and modern slavery	61 and 127	Human Rights, Diversity and Inclusion Policy Modern Slavery Statement
KPIs	Our key performance indicators	22 to 23	
Risk management	Risk management	86 to 91	Risk Behaviours and Attitudes
	Principal risks and uncertainties	88 to 90	
	Emerging risks	91	

Building a sustainable future



We stand for insurance excellence because positive customer outcomes mean we can grow our business

We stand for being a diverse and inclusive employer because attracting and retaining talented people powers our business forward

We stand for being rooted in our communities because when they flourish so does our business

We stand for a greener planet because we're all in it together, it's our responsibility, and tackling climate change benefits our business, our people and society

We stand for a competitive and strong financial services sector because it's essential to being successful

In 2022, we continued to put in place sustainable initiatives to strengthen the business, whether it's being brilliant for customers, being an inclusive employer, giving back to our communities, protecting the planet or maintaining high standards of governance. The wheel on the previous page highlights how our five pillar Sustainability Strategy aligns to the United Nations Sustainable Development Goals ("SDGs") and the table below shows material issues which take into account our broad range of stakeholders.

Goals	Material issues	2022 outcomes	
Earn our customers' trust by demonstrating how we are acting in their interests	– Deliver great service – Communicate clearly and openly – Protect customers' data – Harness data and technology – Innovate sustainable products and services	**All of our front-line staff of more than 5,000 received vulnerable customer training which was nominated for a Learning and Performance Institute award**	**More than 5,000**
Encourage a culture that celebrates difference and empowers people so that they can thrive	– Develop a diverse and inclusive workforce – Uphold good labour standards – Support employee wellbeing – Maximise employee engagement – Train and develop our people	**Ranked 20th on the Inclusive Top 50 UK Employers List**	INCLUSIVE TOP50 UK EMPLOYERS
Use our expertise to improve outcomes for society and the communities we serve	– Improve social mobility – Increase road safety – Drive financial inclusion – Contribute to local economic development	**Through our Community Fund we engaged with 500 students to help younger people with their careers**	**500**
Protect our business from the impact of climate change and give back more to the planet than we take out	– Reduce our climate change impact – Reduce waste and optimise resources – Advance the low-carbon transition – Adapt to climate change	**The Science Based Targets initiative approved our carbon-reduction plans**	SCIENCE BASED TARGETS DRIVING AMBITIOUS CORPORATE CLIMATE ACTION
Look to the long term for our stakeholders, build a reputation for high standards of business conduct and develop a sustainable business	– Control executive pay – Build strong Board governance – Manage our supply chain responsibly – Tax strategy and transparent disclosure – Invest responsibly	**We were awarded a Fast Payer Accreditation Award by Good Business Pays, recognising our role in supporting our suppliers**	GOOD BUSINESS PAYS FAST PAYER AWARD 2022 ACCREDITED

Customers

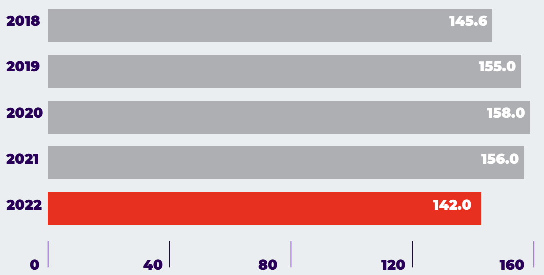
Our mission is to earn our customers' trust by demonstrating how we are acting in their interests

This year we've seen customers realise the benefits of efficient digital-first journeys and, during a period where cost of living challenges have impacted so many, we introduced and implemented support mechanisms for those facing economic difficulty.

Net Promoter Score

We pride ourselves on our Direct Line brand NPS. While our 2022 performance experienced a dip on previous years due to economic headwinds creating parts, labour and hire car supply challenges, our score remains above the industry average.[1]

Net Promoter Score[2] – Direct Line Brand



Customer support

Helping our customers during the cost of living crisis

In line with our customer-first approach, we have introduced several measures to support those facing financial difficulty currently and for the foreseeable future.

We are asking customers to discuss with us their needs so we can look to offer the most appropriate support; this may include reviewing levels of cover or considering any alternative products.

Vulnerable customer training nomination

More than

5,000

All front-line staff have received enhanced vulnerable customer training in 2022

Building on our CONNECT training programme used by our consultants to support customers, we have developed enhanced training for colleagues to support vulnerable customers.

All 5,000 of our front-line staff have completed this training and this programme was nominated for a Learning and Performance Institute Award in 2023.

Notes:
1. Institute of Customer Services organisation ranking score.
2. Please see Net Promoter Score KPI on page 23 for further information.

Churchill Essentials product

This year we launched a new Essentials motor product using our Churchill brand. Available only on price comparison websites, the product has been designed to meet the needs of customers looking for a comprehensive product, but does not include certain elements such as new car replacement, loss of keys or personal belongings that are typically part of a standard comprehensive product. It's an alternative for customers who may be looking for great value in a stripped-back motor insurance policy.

"Working in our agile model, a number of teams worked collaboratively to launch our Churchill Essentials product."

Bhanu Shekar Gutta, Software Engineer

Brilliant for customers every day

Improving the claims experience for customers

When customers make a claim that's when it matters most, because we step in and support people facing difficult moments.

That's why we're continuing to deliver easy digital-first journeys to give people peace of mind. Motor customers can now register 100% of claims types across the vast majority of our brands and partners online. In 2023, we will be looking to introduce the capability for motor customers to be able to track the status of their claim online from start to finish whether they are waiting for their car to be fixed or waiting for a cash settlement.

Delivering an excellent motor claims experience is good for customers and our business:

- Churchill is ranked as the leading insurance brand for digital service and claims[1].
- In Motor, over 85% of customers score us highly (8-10) on whether they would recommend Direct Line to friends and family[2].
- Nearly 90% of motor customers score us highly (8-10) for how easy it is to claim[2].

Helping our vulnerable customers

We have developed a suite of online tools to support our colleagues to identify and address a vulnerability when speaking to a customer. One of these tools encompasses a grid of vulnerabilities across headings such as life event, financial resilience, financial capability and health. When a customer mentions a key word, our agents can click on the specific tile and are prompted with a number of considerations and options on how best to interact with them and provide the required service adjustments.

Plain Numbers

Building on our successful partnership with Plain Numbers last year, in which we trialled their approach to reduce technical language and clarify numbers to simplify our communications with customers, we signed up to a cross-industry partnership led by the Association of British Insurers in February 2022, to further our activity and understanding in this area and to train more colleagues as practitioners in the Plain Numbers method.

Tackling fraud

We have a strong track record in identifying and dealing with fraudulent activity, helping us deliver better outcomes for customers. In the last five years our counter-fraud measures have avoided £650 million being paid out to fraudsters and we've been rated as the top industry performer for personal motor fraud savings, personal motor applications for fraud, and property application fraud savings by the Association of British Insurers[3].

Supporting rescue customers

From 2021, Green Flag enhanced its policy for actively prioritising customers who might need immediate support, such as lone or vulnerable travellers on the roadside at night or families with young children. Over the course of the year over 40,000 priority incidents were reported, which included over 5,000 vulnerable customers. Our drivers attended these vulnerable customers incidents in under 49 minutes, with customers communicating with us through the phone and on our app, where they could track where the rescue vehicle was.

Notes:
1. Lumivo Q2 2022.
2. Research conducted by TLF based on customer perception at end of claim.
3. Source: 2021 ABI General Insurance Fraud Benchmarking.

People

Our mission is to encourage a culture that celebrates difference and empowers people so that they can thrive

Over 2022, our focus was on building future skills, continuing to push forward the promotion of diversity and inclusion in the business, and engaging with our people during the cost of living crisis.

Building future skills

Our commitment to training people for the jobs of the future was taken to a new level in 2022. We launched our Ignite academies which incorporate apprenticeship programmes to develop the vital skills needed to serve our increasingly tech-savvy customers. 170 new apprentices are already working across Data, Customer Service and Data, Software Engineering, and Pricing and Underwriting, joining the 224 we already had. We also launched our Data Academy so all colleagues can grow their data capability and learn new skills, with over 1,000 engaging in courses, lunch and learn sessions and using resources from the website.

Minimum salaries

While we seek to ensure a good pay proposition for all our people, we have shown a clear focus over a number of years on lifting the salaries for our lowest-paid colleagues. That focus meant in April 2022 our minimum salary rose by 6.7%, seeing pay for a 37.5 hour week rise to £20,800 from £19,500[1]. During 2022, for Direct Line Group employees, our minimum salary was 7.7% above the Living Wage Foundation's National Real Living Wage (as set in November 2021 for roles outside of London) and 12.3% above the Government's statutory National Living Wage (effective 1 April 2022 figure for those aged 23 or over).

In August 2022, we announced a further pay increase of 5% to all our employees (excluding senior management) from January 2023, meaning our minimum salary rose to £21,840 p.a. (based on a 37.5hr working week). This stands at 2.8% above the Living Wage Foundation's National Real Living Wage (as set in September 2022 for roles outside of London) and will be 7.5% above the Government's statutory National Living Wage (effective 1 April 2023 for those aged 23 or over).

Engaging with our people

Engaging with colleagues as the key stakeholders that they are is at the heart of how we run our business.

In addition to our Executive Committee participating in regular "Ask Anything" sessions, both in person and online, during which they address business performance and issues affecting it and where any colleague can ask a question or put forward their ideas, three of the most important ways we engage with our people are:

1. Employee Representative Body ("ERB") – The ERB, which comprises colleagues from across business areas and locations, meets regularly with the leadership of the Group, including the CEO, to discuss issues and proposals which have, or may have, an impact on colleagues.

2. DiaLoGue – DiaLoGue is our employee engagement tool that we use to survey all colleagues 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 is consistently high (over 80%).

Note:
1. Subject to satisfactory performance and excluding apprentices in DLG Auto Services who receive different rates of pay.

Examples of engagement with our people having resulted in business action include:

	Issue raised	Action Taken
Cost of living	We talked with our ERB to get their insight on how our people are being affected and how best to make a meaningful difference.	**Boosting the pay of lowest paid:** In April we boosted the pay of our lowest-paid colleagues, increasing the minimum salary by 6.7% to £20,800. **Earlier pay increase and one off payment** In the summer we announced a 5% pay increase for all our people with effect from 1 January 2023, meaning colleagues received the increase three months earlier than usual and in January 2023 a one-off cost of living payment of £1,000 was announced for colleagues in salary bands 1 and 2 and those in other bands earning less than £40,000. **Increased visibility of help available** We promoted the broader financial support available to our people including emergency support, everyday budgeting, and planning.
Menopause	Our Diversity Network Alliance ("**DNA**") strands raised the challenges that women can face having open conversations and accessing support when perimenopausal or menopausal.	**New guidance, training and internal awareness building** Our DNA strands worked with HR and The Menopause Charity to launch new guidance on perimenopause, menopause and andropause. It provides people managers with help on how to have good conversations and practical information on effective workplace adjustments. This has been embedded with training for people leaders and our HR Advisory team, alongside internal communications activity to broaden knowledge and end stigma.
New London hub	We discussed the proposed 2023 move from our site in Bromley to a new location near London Bridge with our ERB, DNA strands and with individual colleagues via their people leaders to identify both the broad implications and the issues for specific colleagues.	**Travel assistance policy** We agreed a revised Travel Assistance Policy to help colleagues with any increased travel costs for a period of one year. **Inclusive spaces** The different needs of colleagues have been incorporated into the design of the new office, for example a quiet room, multi-faith prayer room and nursing room.

3. Diversity Network Alliance (DNA) – Our seven employee networks are a key driver of diversity and inclusion across our 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).

Strength in diversity & inclusion

We believe that improving diversity and inclusion needs enhanced policies and practices, along with changing mindsets and culture. Across 2022, we have continued to address both.

Our focus on culture and behaviours builds deeper understanding of issues, together with the commitment to drive change, at all levels of our business.

Recruitment and promotion

Our approach to inclusive hiring aims to attract the widest possible range of people and protect against bias. Amongst the measures we follow, we:

- Use inclusive language analytics tools
- Remove unnecessary qualification or experience requirements
- Use anonymised CVs for senior roles[1]
- Train recruiting managers on inclusive hiring

Policies and support

We want our policies and guidance to support people to be the best they can, recognising life impacts work and work impacts life. This year, we have updated or introduced additional support on:

- Flexible working
- Menopause
- Anti-bullying & harassment
- Pregnancy loss
- Workplace adjustments

Reverse mentoring

This year, we concluded a year-long reverse mentoring programme which provided senior leaders with deep insights into the barriers faced by marginalised communities and in turn enabled them to offer valuable career advice and guidance.

Accelerating inclusion

In 2022, we developed a new Accelerating Inclusion programme to grow the capability and skills of all our people to be more inclusive. Over 1,000 colleagues have already participated in the programme, which will continue over 2023.

"The Neurodiversity and Disability network has gone from strength to strength this year, supporting our 350+ members with insight sessions and a new parents network."

Molly Welsh, Counter Fraud Intelligence Handler and Neurodiversity & Disability Network Co-lead

Increasing the representation of women in senior leadership

Improving the representation of women at the senior levels of our business is ongoing but we are proud of the progress we have made.

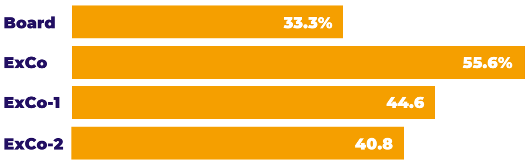
Note:
1. Anonymised CVs do not apply to Executive Committee and Board Roles.

Women in Finance

Having achieved our Women in Finance target of 30% women in senior management[1] back in 2019 we chose to adopt an ambitious stretch target of 35% by the end of 2022. On 31 December 2022, 31.3% of our senior leadership were women. While we missed our stretch target we believe the process of target setting has had value and driven our internal work to improve gender representation.

Senior women in leadership representation %

Penny James agreed with the Board to step down as Direct Line Group CEO in January 2023. The numbers below reflect the representation of women in senior leadership following this change.



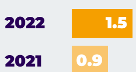
Our long-term focus on investing in women means we have strengthened representation at the most senior levels of our business. In 2023, we will be setting our next set of targets and our focus is on building the pipeline at the mid-levels as we work towards gender parity.

Growing ethnic minority and Black representation in leadership

At the end of 2020, we set ourselves a challenging deadline of 31 December 2022 to meet our first ever set of targets to increase ethnic minority and Black representation in leadership. Although we missed our ethnic minority goal, we achieved our Black representation target and we believe the process of target setting has had value and driven our internal work to improve representation, which is why we will be setting new targets for this in 2023.

Growing ethnic minority representation from 10% to 13%

Growing Black representation from 0.5% to 1.5%



Activity we are undertaking to shift the dial includes:

- Building a stronger pipeline of ethnic minority and Black talent, especially in areas where the jobs of the future are, because we want to future-proof our activity. This includes work experience, mentoring and skills building programmes that target these communities for our Ignite academy apprenticeship programmes.
- Investing in a new development programme focused on supporting high-potential Black women, with diverse role models from across sectors and a specific focus on navigating through some of the challenges that can be faced by Black female leaders.

Gender pay gap

Last year our mean gap widened by 3.2 percentage points and our median gap by 6.1 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 don't 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.

Our 2022 gender pay gap showed:

Pay Gap[2]

	Mean	Median
2022	**19.3%**	**20.3%**
2021	16.1%	14.2%
2020	17.2%	15.4%

Bonus Gap

	Mean	Median
2022	**46.7%**	**45.4%**
2021	45.9%	34.0%
2020	47.9%	36.3%

% of employees receiving bonus

	Men	Women
2022	**83.1%**	**82.6%**
2021	72.7%	60.6%
2020	73.5%	62.4%

Notes:
1. Our Women in Finance Charter definition of senior management is based on our internal grading structure and represents approximately the 1.2% most senior colleagues in our business.
2. 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 2022.

Ethnicity pay gap

This year, we are publishing our ethnicity pay gap for the second time. We are voluntarily disclosing this data. We have chosen to do so to hold ourselves to account and to inform diversity and inclusion initiatives across the business. Comparing the data of 2022 and 2021, our mean gap decreased by 0.5 percentage points and our median gap increased by 1.8 percentage points, with both remaining low.

As with the gender pay gap, we are comfortable that we don't 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.

Pay Gap[3]

	Mean	Median
2022	**2.6%**	**9.7%**
2021	3.1%	7.9%

Bonus Gap

	Mean	Median
2022	**40.9%**	**19.1%**
2021	32.9%	11.8%

% of employees receiving bonus

	White	Ethnic minority
2022	**84.6%**	**74.6%**
2021	68.2%	58.6%

Our mean and median pay gaps by ethnicity

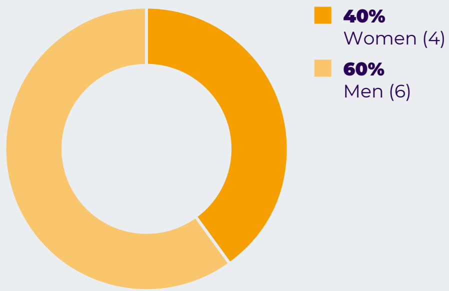
We recognise that different communities can have different experiences, so we have further broken down the data to understand pay gaps for our Black, Asian, Mixed and other ethnicity colleagues versus White colleagues. It's important to note that when pay gap data is based on a smaller number of individuals, it can vary significantly over time due to colleague changes during the year.

	2022	
	Mean	Median
Black	**11.2%**	**11.0%**
Asian	**0.7%**	**16.1%**
Mixed race	**0.4%**	**4.9%**
Other	**2.3%**	**(6.1%)**

3. The Ethnicity Pay Gap shows the difference in average pay between ethnic minority, Black 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 2022 and 87% of colleagues that have shared their ethnicity with us. As we continue to encourage colleagues to share their ethnicity with us, changes to disclosure will impact the numbers we report.

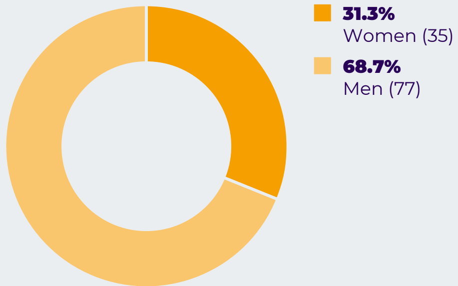
Gender diversity of our Board

As of 31 December 2022



Gender diversity of senior leadership

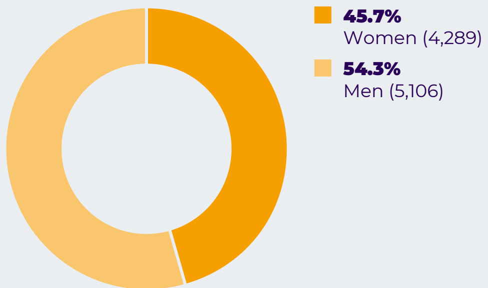
As of 31 December 2022



Gender diversity of senior leadership figures based on 2022 Women in Finance Charter reporting

Gender diversity of all employees

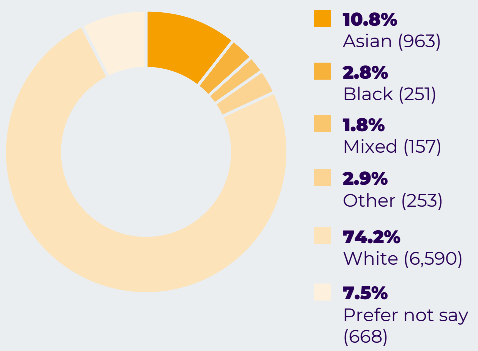
As of 31 December 2022



Excludes an estimated 0.5% colleagues who identify as non-binary, gender-fluid or other gender due to data reporting constraints

Ethnicity of all employees

As of 31 December 2022



Excludes 5.9% of colleagues who have not submitted an option for ethnicity

For more information on leadership gender diversity, including gender diversity of the Board see pages 99 and 100.

Society

Our mission is to use our expertise to improve outcomes for society and the communities we serve

This year, we were excited to take the next step in our social mobility journey, focusing our Community Fund on the aim of building a more inclusive and equitable Britain. We additionally looked to provide support to those in need at home and abroad, with our colleague-led donations for charitable causes around the UK, and contributions made to the Disasters Emergency Committee efforts in Ukraine and Pakistan.

Giving back

Over the course of the year, we supported a variety of charitable causes. This included:

- Donating £150,000 in total to the Disasters Emergency Committee campaigns in Ukraine and Pakistan
- Our colleague-led Community and Social Committees ("**CASCs**") distributing £100,000 to local causes
- Sponsoring the NSPCC's Great Chefs dinner, which raised almost £300,000 to help children around the UK
- Our Diversity Network Alliance giving £90,000 to organisations aligned with their diversity and inclusion goals

Road safety

Our campaigning for improved road safety continued, working in partnership with the Parliamentary Advisory Council on Transport Safety ("**PACTS**"). An updated report[1] was published in 2022 which set out actions to increase seat belt wearing rates in the UK and save preventable loss of life on roads. The report highlighted that wearing a seat belt reduced the risk of death for drivers in a road collision by some 50%.

Prompt payment code

As a responsible business, we are a longstanding signatory of the Department for Business, Energy and Industrial Strategy's Prompt Payment Code, a voluntary code of practice for businesses to ensure payments are made to suppliers on time. During the last year, when cost of living challenges were significant and the importance of swift payments were even more recognised, we were awarded a Fast Payer Accreditation Award by Good Business Pays, recognising our role in supporting our suppliers, big and small.

Human rights

Our aim is to be a force for good and we want to build a reputation for being an ethical business which drives our commitment to have employment practices and policies that exceed the Universal Declaration of Human Rights. We are committed to ensuring modern slavery is not present in our supply chain. Our risk profiling, including specific requirements within our due diligence and assurance processes, incorporates the Modern Slavery Act 2015.

Our 2022 tax contribution

We act in accordance with all applicable tax laws and regulations and meet our responsibilities both as a contributor of corporate taxes and as a collector of taxes on behalf of HMRC. In 2022, the Group's net tax contribution was £803.9 million, which includes the Group's direct and indirect taxation.

Our customers	IPT	**£389.4m**
Our suppliers	VAT	**£14.8m**
Our people	PAYE NIC	**£102.4m**
Our operations	Other taxes including business rates	**£5.9m**
	Irrecoverable VAT	**£256.4m**
	Employers NIC	**£44.8m**
Our performance[2]	Corporation Tax	**£(9.8)m**

HM Treasury

£803.9m[3]

Net tax contribution

Society

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

Notes:
1. Source: https://www.pacts.org.uk/pacts-briefing-seat-belts-time-for-action/
2. The Group made a loss before tax of £45.1 million, resulting in a corporation tax credit of £5.6 million.
3. The Group's total tax contribution in 2022, including direct and indirect tax contributions.

Community Fund 2022

Since the start of 2020, our Community Fund has helped over 300 charitable causes, supporting over 200,000 families and individuals facing adversity, mental health challenges and food poverty. Building on these achievements, and with so many of our colleagues feeling passionately about social mobility, we were delighted to focus our Community Fund in 2022 with a new ambition: to build a more inclusive and equitable Britain.

Partnering with three organisations, Envision, Springpod and Young Professionals, we have launched a programme of engagement, to use our expertise across the business to help equip younger people with key career skills.

> "It was fantastic to mentor students with our Community Fund and give back to younger people starting on their career journeys."

Timon Pryce, Principal Pricing Analyst Developer

Reach
of the programme

500
students engaged to improve employment skills

100%
were eligible for free school meals

85%
were from an ethnic minority background

58%
identified having a parent/parents from a working-class occupation

150+
colleagues signed up to be a mentor, participate in work experience or attend an insight event

Work experience
In-person and virtual events focusing on employability skills and workshops on data and technology were held, giving participants the opportunity to learn about important career skills

Mentoring
Highlighting the variety of roles on offer at Direct Line Group, colleagues from Finance to Technology to Marketing gave students an insight into what their day to day job entailed

Insight events
Hosted across several office sites across the country, sessions on topics such as how an insurance company works, building a sustainable business, and how to run a marketing campaign took place

Direct Line Group Community Fund

Impact

after taking part in the programme

93%

felt they understood how an insurance company operates

83%

felt more able to ask someone for a connection to build their professional network

74%

felt more confident to apply for jobs

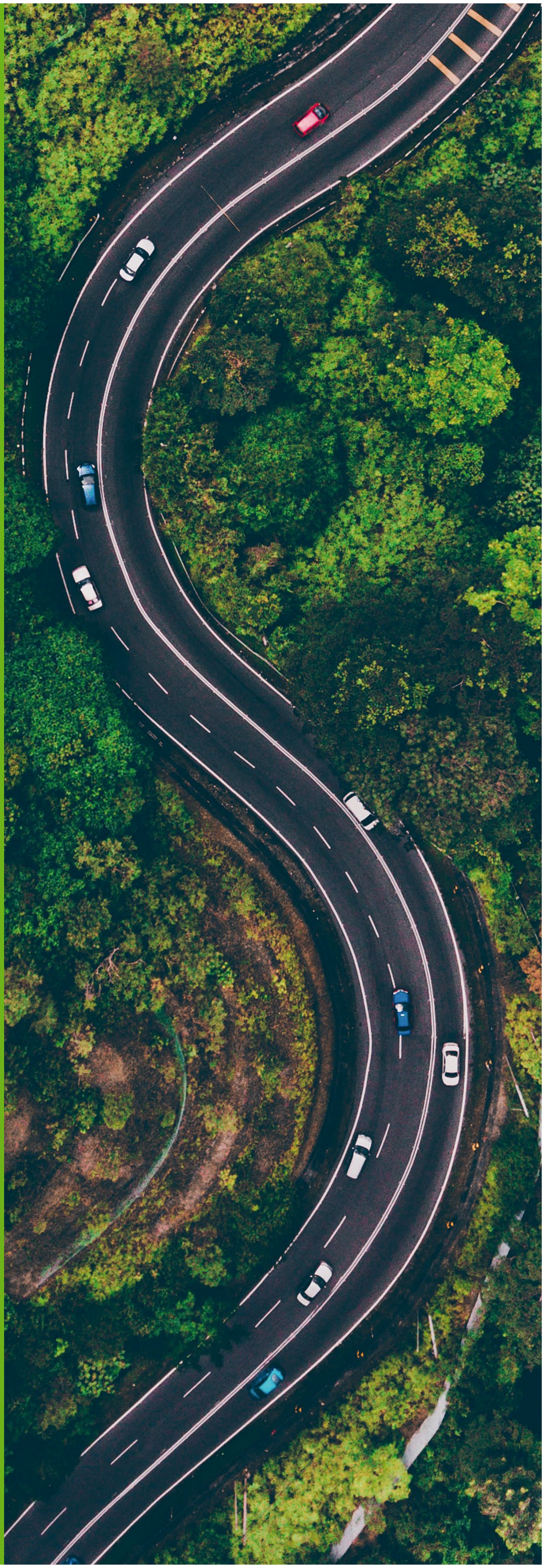
To measure the impact of the programme, students were asked to complete a survey prior to, and after, participating in a Community Fund activity. A few of the key stats are highlighted above.

In 2023, the programme will continue with the aim of engaging with more students to help build a more inclusive and equitable Britain.

Planet

Our mission is to protect our business from the impact of climate change and give back more to the planet than we take out

We believe in supporting customers to make the transition to a low carbon world, climate risk mitigation, and in playing our part in reducing our carbon footprint.



There are three steps which guide our approach:

Step 1
Disclose to track progress

We disclose our carbon emissions because it's how we hold ourselves to account and helps us to find practical solutions to reduce our footprint.

We have measured and disclosed our Scope 1 and 2 emissions since 2013 and in recent years made it clear how these emissions are split between our office sites and accident repair centres. We have also expanded the categories we report under Scope 3, including our Supply Chain, and for the second year running, our Homeworking emissions, recognising that more colleagues are working from home.

Step 2
Commit to tangible actions

We signed up to Race to Zero where companies set emission reduction targets in line with limiting global warming to 1.5 degrees.

We have set ambitious Science-Based Targets, approved by the Science Based Targets initiative ("**SBTi**"), as we aim to become a Net Zero business by 2050. The most carbon intensive areas of our business – our accident repair centres, supply chain and investments – all have plans in place.

Step 3
Offset while we reduce

While we transition to Net Zero, we currently offset emissions under our direct control by investing in three carbon reduction projects around the world.

While we transition to Net Zero, we currently offset our Scope 1 and 2 emissions as well as elements of our Scope 3 emissions under our direct control by partnering with Climate Impact Partners[1], an organisation that is dedicated to tackling climate change and improving lives by financing, developing and managing carbon reduction projects.

What does Net Zero mean for us?

We aim to become a Net Zero business by 2050. Our plan covers operational emissions (Scope 1 and 2) and our investments.

The business also prioritises the following Strategic Management Actions:

- **Electric vehicles –** improving our capability to support the transition to EVs.
- **Supply Chain –** implementing a Supply Chain Sustainability Programme to engage and influence suppliers.
- **Flood resilience –** engaging with policymakers on the importance of flood defences and helping to shape thinking around resilient repairs.
- **Underwriting footprint –** evaluating the impact of climate change on our underwriting footprint so that we can manage risks to our business and help inform strategic decision making.

Note:
1. Previously known as ClimateCare.

Our approved SBTi plans

We have now stepped up our ambitions. In November 2022, we were delighted to become one of the first personal lines general insurers in the UK to have our Science-Based Targets approved by the SBTi, meaning we now have ambitious carbon reduction plans on which we will publicly report our progress each year.

We have greater understanding of our carbon footprint. A proportion of our Scope 1 and 2 carbon emissions comes from our offices and accident repair centres, where we have the largest insurer-owned garage network in the UK supporting motor customers.

We have five Science-Based Targets – one target covers our operational emissions and a further four targets cover our investment portfolio. The five Science-Based Targets approved by the SBTi and which we are targeting are:

Our Science-Based Targets

	Covering	Target	How we do it
Operational emissions (Scope 1 and 2)	**Our buildings and garage network** Including our 22 accident repair centres, the largest insurer-owned network in the UK.	1. Reduce emissions 46% across our office estate and accident repair centres by 2030[1]	– Electrifying heating and cooling systems using renewable energy. – Replacing diesel with hydrogenated vegetable oil in recovery trucks. – Removing gas consumption in spray paint booths by moving to renewable electricity.
Investment portfolio (Scope 3)[2]	**Corporate Bonds** The largest asset class in our investment portfolio and typically short duration holdings.	2. Align our scope 1 + 2 portfolio temperature rating to 2.08°C by 2027[3,4] 3. Align our scope 1, 2 + 3 portfolio temperature rating to 2.31°C by 2027[3,4]	– Tilt reinvestment towards companies taking serious action to reduce emissions. – Work with our external investment managers to engage with investees to encourage ambitious emission reduction target setting.
	Commercial Property A relatively small allocation within the investment portfolio consisting of prime UK commercial properties. **Real Estate Loans** A small allocation within the investment portfolio consisting of short dated loans backed by UK commercial properties.	4. Reduce emissions from our commercial property portfolio 58% per square metre by 2030[1,5] 5. Reduce emissions from our real estate loans portfolio 58% per square metre by 2030[1,5]	– For commercial property, our external asset manager aims to improve the energy efficiency of buildings, engage with tenants to disclose energy use data (implementing green lease clauses where possible), encourage tenants to set emissions reduction targets, including Science-Based Targets. – For real estate loans, our external managers will encourage borrowers to improve the energy efficiency of buildings, and to take energy efficiency of buildings into account when originating loans, and the ability of the borrower to share tenant energy use data.

For more information on the five Science-Based Targets approved by the SBTi which we are targeting, see pages 84 and 85.

Taking action with our supply chain

In 2021, we launched our Supply Chain Sustainability Programme, outlining our plan between now and 2030 to engage and influence suppliers so we can make the transition to a pathway consistent with a 1.5°C scenario. This programme includes our Sustainable Sourcing Approach, encouraging our principal suppliers within our direct control to sign up to SBTi targets or an equivalent. We are also requesting information on what efforts firms have made to measure their carbon footprint across scopes 1, 2 and 3 and their plans to reduce emissions, including targets, so we can evaluate whether it is viable to change our sourcing approach on appropriate contracts.

We have also chosen to set an internal emissions reduction target while we wait for the publication of the Science-Based Net Zero Targets for Financial Institutions from the SBTi, which is expected later in 2023.

Notes:
1. Compared to a 2019 baseline.
2. Covering 75% of our investment and lending activities by monetary value as of 2019.
3. Using a Temperature rating method, we've targeted to align our scope 1 + 2 portfolio temperature score from 2.44°C in 2019 to 2.08°C by 2027 and our scope 1 + 2 + 3 portfolio temperature score from 2.80°C in 2019 to 2.31°C by 2027.
4. The temperature score for corporate bonds is the implied level of warming above pre-industrial levels to which our corporate bond portfolio is aligned based on the CDP's temperature rating methodology.
5. Commercial real estate targets were set using the SBTi sectoral decarbonisation approach for real estate which uses the IEA ETP 2017 Beyond 2°C scenario.

Our climate journey so far

2013
Began measuring our carbon footprint

2014
Electricity for all our offices and repair centres purchased from renewable sources

2016
Our first electric vehicle charging points installed

2018
New energy efficient office opened in Bristol

2020
Offset all our direct emissions

2021
Direct Line launches its first EV bundle for customers

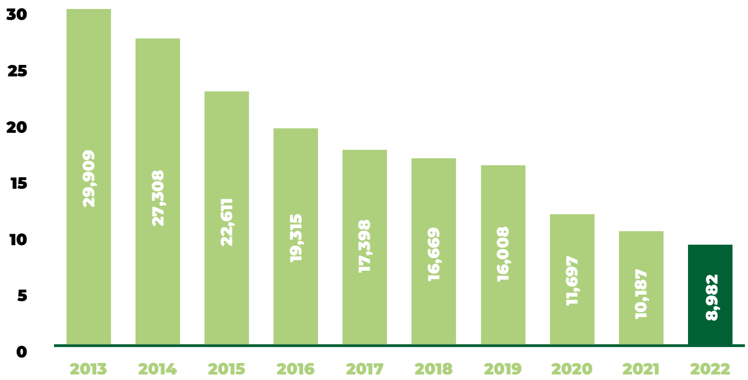
2022
SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

One of the first personal lines insurers in the UK to have its Science-Based Targets approved by the SBTi

Since 2013, we have made progress to reduce our carbon footprint:

- Reduced our energy consumption by 56% since 2013[1]
- Procured 100% renewable electricity for our operations since 2014
- Diverted 100% of our office waste from landfill

Greenhouse gas emissions (tCO_2e)[2,3,4]



Energy consumption (kWh)[3,4]

	2022	2021
Electricity	**12,686,882**	14,856,315
Gas	**21,485,898**	24,286,023
Total	**34,172,780**	39,142,338

Supporting electric vehicle customers

Last year, our Direct Line brand launched a 'Making electric easy' campaign which included a bundle of electric vehicle charging benefits and discounts (in partnership with Zoom EV), alongside insurance cover for batteries and charging cables for all new business customers. Due to successful uptake, the bundle was extended for another year and made available to all Direct Line Motor customers, as well as broadened to include a discounted home charger by Zaptec and wider access to an EV help and guidance line (run by Zoom EV).

Notes:

1. Reduction in energy consumption is reported on a like-for-like basis.
2. Total Scope 1 and 2 emissions. The 2021 and 2019 figures differ from previously reported figures, found on page 72 of the Group's 2021 Annual Report and Accounts, following the validation of our Science-Based Targets.
3. 100% of GHG emissions and energy consumption reported relates to operations, all of which are based in the UK.
4. Data is reported in compliance with the Streamlined Energy and Carbon Reporting ("**SECR**") requirements (see page 85).

Biodiversity

This year, we funded tree planting on a flood prevention scheme in Yorkshire to replace the trees we remove when home insurance policyholders make subsidence claims[1]. Working in partnership with nature recovery charity Heal, we also provided a loan to acquire a 460 acre site near Bruton in Somerset to support rewilding of the land.

Energy efficiency measures[2]

In 2022, we continued to invest in energy efficiency measures and focus on the most carbon-intensive areas of the business which will help us work towards meeting our Science-Based Targets.

Building on last year's activity, we have:

- Rolled out our hydrogenated vegetable oil ("**HVO**") trial in our recovery trucks to 90% of our Auto Services sites. This has saved 543 tCO_2e in 2022.
- Fitted energy-saving LED lighting to a further six repair centres meaning nearly 70% of our Auto Services sites have now received these upgrades.
- Installed a Power Factor Corrector in our Birmingham Auto Services site to maximise the efficiency of our electrical supply on-site. In 2021, installation at our Crawley repair centre delivered a 13% improvement in energy efficiency.

"I'm proud to be part of a team that helped us to receive validated Science-Based Targets. Part of our plan involves replacing diesel in our trucks with sustainable, hydrogenated vegetable oil."

Carrie Loftus, Sustainability Programme Manager

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 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. During 2022, we achieved an important milestone on this journey by having our Science-Based Targets approved.

In addition, we are keeping our target of reducing the GHG emissions intensity of our corporate bond portfolio by 50% by 2030 versus a 2020 baseline as a backward-looking indicator, to make sure emissions are reducing at the required pace over time to achieve our long term net zero goal.

We also require the below exclusions and preferences:

- The exclusion of any companies with a 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.
- Managers instructed to prefer investments in green bonds where the risk return characteristics are similar to conventional bonds.

Group emissions

We believe accurate measurement and transparency can guide the business in making targeted interventions as part of our carbon reduction strategy. We implemented a number of test and learn activities, and continue to innovate and explore a range of solutions. We have provided a comparison of emissions data for Scope 1, 2 and 3 with greater clarity of the activities under our direct control, as well as our supply chain emissions.

100% of the emissions reported in the table on page 69 relate to our operations, all of which are based in the UK. The data is reported in compliance with the SECR requirement to disclose annual global GHG emissions (see page 85 for more information).

Notes:
1. Yorkshire Flood Alleviation Scheme at Broughton Hall Estate as part of a rewilding project to help grow the White Rose Forest.
2. Data is reported in compliance with the SECR requirements (see page 85).

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 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.

Scope 1	**2022**		2021		2020		2019 baseline	
Office sites[1]	**1,023**		1,220		1,339		1,418	
Auto Services[1,2]	**5,506**		5,812		6,472		7,981	
Total (tCO_2e)[1,2]	**6,529**		7,032		7,811		9,399	
Scope 2								
	Location-Based[3]	**Market-Based[3]**	Location-Based[3]	Market-Based[3]	Location-Based[3]	Market-Based[3]	Location-Based[3]	Market-Based[3]
Office sites	**1,089**	**0**	1,372	0	2,176	0	4,516	0
Auto Services	**1,364**	**0**	1,783	0	1,710	0	2,093	0
Total (tCO_2e)	**2,453**		3,155		3,886		6,609	
Total Scope 1&2 (tCO_2e)[1,2]	**8,982**		10,187		11,697		16,008	
Of which: office sites (tCO_2e)[1]	**2,112**		2,592		3,515		5,934	
Of which: Auto Services (tCO_2e)[1,2]	**6,870**		7,595		8,182		10,074	
Scope 3 emissions under our direct control								
Fuel and energy-related activities[1]	**1,518**		2,586		2,332		2,459	
Waste generated in operations[1,2]	**2,523**		1,990		413		3,358	
Business travel – air travel	**195**		28		198		928	
Business travel – hotel night stays	**120**		34		75		469	
Business travel – rail	**160**		29		63		410	
Employee commuting[1,4,5]	**7,227**		5,962		1,450		3,176	
Of which: homeworking emissions[5]	**5,583**		5,501		–		–	
Upstream leased assets[1,6]	**189**		110		63		514	
Upstream transportation and distribution of auctioned vehicles[1]	**1,890**		655		625		4,173	
Downstream leased assets[7]	**1,552**		964		–		–	
Total (tCO_2e)[1,2]	**15,374**		12,358		5,219		15,487	
Total emissions under our direct control (tCO2e)[1,2,8]	**24,356**		22,545		16,916		31,495	
Scope 3 – supply chain								
Total procured goods and services (tCO_2e)[1,2,9]	**244,316**		268,696		144,114		294,080	
Direct Line Group carbon footprint (operational control)								
Total (tCO_2e)[1,2,8]	**268,672**		291,241		161,030		325,575	
Of which: under our direct control[1,2,8]	**24,356**		22,545		16,916		31,495	

Notes:
1. The 2019 reported baseline differs from our previously reported baseline, found on page 72 of the Group's 2021 Annual Report and Accounts, following the validation of our Science-Based Targets.
2. The 2021 reported figures differ from our previously reported figures, found on page 72 of the Group's 2021 Annual Report and Accounts, following the validation of our Science-Based Targets.
3. Figures for Scope 2 use standard location-based methodology. We follow 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.
4. Employee commuting is based on estimated UK national averages, not actual individual methods of transport of Direct Line Group employees commuting.
5. Homeworking emissions are reported under the Employee Category in line with GHG Protocol.
6. Upstream leased assets refer to (1) leased office space locations where Direct Line Group does not directly control the energy provision as it is included in the service agreement, (2) Auto Services pods in retail car park locations and (3) Auto Services courtesy cars emissions.
7. Includes Auto Services' courtesy cars emissions which were previously reported under Scope 1. 2021 data represented accordingly.
8. Total of Scope 1 and 2 emissions and Scope 3 emissions under our direct control.
9. 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 under our direct control'; 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.

Reporting methodology

We comply with the applicable 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 2022 emissions reporting remains consistent with prior periods and with the reporting standards stated above. For the year ended 31 December 2022, we received independent assurance for our Scope 1 and 2 emissions reporting.

Intensity metric

We monitor and report the intensity metric of emissions[1] per £ million annually of net earned premium and in 2022 we expanded our reporting to include a measure of emissions[1] per average number of employees[2]. These measure how efficiently we provide our insurance products and allow us to compare our performance year-on-year and against other insurance companies.

Year	GHG emissions (tCO_2e) per £ million of net earned premium	GHG emissions (tCO_2e) per average number of employees for the year[2]
2022	**3.0**	**0.9**
2021[3]	3.4	1.0
2020	4.0	1.1
2019[3,4]	5.4	1.4
2018	5.4	1.5
2017	5.5	1.6
2016	6.4	1.8
2015	7.7	2.1
2014	9.1	2.4
2013	9.5	2.4

Offsetting projects

From 2020 to 2023, we pledged support to three projects which deliver high social impact benefits to communities, families and the environment. During the last year, progress has been made in all these initiatives with our support contributing to:

- The manufacturing and distribution of water filters, helping to provide safe drinking water to communities and schools across Kenya. The project also reduces the need for people to boil water to make it safe to drink, which requires the burning of unsustainable energy sources such as wood or charcoal.
- The production and distribution of 'Bondhu Chula', a clean cookstove designed for an efficient burn to reduce fuel use, helping to support higher air quality.
- The creation and protection of a 120,000-hectare conservation reserve in Brazil, aiming to reduce deforestation and assisting with employment opportunities for local communities in forest conservation and monitoring.

Notes:

1. Scope 1 and 2 emissions.
2. 2022 and 2021 average number of employees for the year available on page 217.
3. The 2021 result of 3.4 and the 2019 result of 5.4 differ from the previously reported results on page 73 of the Group's 2021 Annual Report and Accounts, following the validation of our Science-Based Targets (also see footnote 1 and 2 on page 69).
4. Prior to 2019, the emissions used in the calculation of the intensity metric excluded emissions from additional vehicles used during repairs, courtesy car fuel usage and vehicles that are Company funded, as these were not previously tracked.

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.

MCSI

We maintained an 'AA' rating for activity in 2022

Sustainalytics

As of October 2022, we received an ESG Risk Rating[1] of 18.2 and were assessed by Sustainalytics[2] to be at a low level of risk

Ecovadis

We were awarded a Silver medal in 2022

Carbon Disclosure Project

We achieved a C rating, ahead of our Science-Based Targets being approved

Science-Based Targets

We became one of the first personal lines insurers in the UK to have carbon reduction plans approved by the SBTi

Race to Zero

As a Race to Zero pledge, we've signed the Business Ambition for 1.5°C future aligning with our Science-Based Targets being approved this year

Get Nature Positive

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

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 low level of risk of experiencing material financial impacts from ESG factors.
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Task Force on Climate-related Financial Disclosures

Introduction

Our 2022 disclosure against the recommendations of the Task Force on Climate-related Financial Disclosures ("**TCFD**") reports on our progress to date and outlines the actions we are taking to strengthen our strategic response to climate change.

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 including the supplemental guidance for insurance companies. 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 the two outstanding recommendations explained below.

For metrics and targets disclosure recommendations (a) and (b) of the TCFD framework, we aim to explore further how we strengthen alignment to the following specific components of these recommendations in future reporting. We aim to:

- explore how we incorporate additional metrics within our disclosure, including cross-industry metrics as recommended by the TCFD, to support measurement and management of transition risks and opportunities;
- assess disclosure of the extent to which our insurance underwriting activities, where relevant, are aligned with a well below 2°C scenario; and
- assess disclosure, where data and methodologies allow, the weighted average carbon intensity or GHG emissions associated with commercial property and specialty lines of business.

Governance

Our approach

The Group's approach to the governance of its sustainability strategy is underpinned by our Vision and Purpose (see page 10) and a clear commitment from the Board and senior management to align sustainability goals with the Group's strategy, and 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 and is sponsored by our Chief Risk Officer ("**CRO**").

Boards and Committees

The potential 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.

Highlights in the year

- **Received approval of our carbon reduction plans**, confirming that our emissions reduction targets are in line with a 1.5°C pathway, making us one of the first personal lines general insurers in the UK to gain approval by the Science Based Targets initiative ("**SBTi**").
- **Expanded our electric vehicle insurance package**, which is now offered to all Direct Line Motor customers to support the transition to a low-carbon economy and make it easier for customers to insure electric vehicles.
- **Incorporated a climate-related measure in our LTIP**, which now includes a measure of performance against our approved science-based emissions reduction targets.

- 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 participation in the Bank of England's Climate Biennial Exploratory Scenario ("**CBES**"). 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 long-term 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 considers emerging risks at least twice a year. The Committee played a key role in reviewing and challenging the actions and responses to the Bank of England's CBES exercise.
- 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.
- 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 **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 and has overseen: the setting of the Group's Science-Based Targets; activity undertaken by the Group to move towards becoming a net zero business; and Group involvement in climate debates, including the ABI's Climate Change Roadmap, the Partnership for Accounting Financials' methodology for underwriting emissions disclosures

and the Sustainable Markets Initiative Insurance Task Force. During the year, the Committee has discussed prominent public policy challenges such as flooding and accelerating the transition to electric vehicles. From 2023, the Committee will also receive biannual updates on the Group's performance against its science-based emissions reduction targets, following their approval by the SBTi in 2022.
- 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. It has introduced an emissions measure in our LTIP based on the greenhouse gas reduction targets approved by the SBTi.

More information on the structure of the Board and Board Committees can be found within the Corporate Governance report on page 110.

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 acting CEO has overall responsibility for climate change and environmental matters;
- the CRO is responsible for overseeing the management of climate change-related risk, and sponsors the Planet pillar of the Group's sustainability framework. The CRO is also the senior manager with responsibility for assessing and monitoring climate change-related financial risk. In that capacity, the CRO oversees the work of the Risk Function in analysing and stress testing the potential future impact of climate change on the business. The results of these stress tests are submitted to the Risk Management Committee, the Board Risk Committee and the Board, including as part of the ORSA; and
- the 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 CRO and the Director of Investment and Capital Management are attendees.

To support the Sustainability Committee's oversight, and in recognition of the Group's increased focus on climate-related activity, the Group formed a **Climate Executive Steering Group** which reports into the Sustainability Committee. Chaired, in the year, by Tim Harris, our former CFO, the Climate Executive Steering Group consists of members representing various teams from across the business to assess potential impacts of climate change with the aim of ensuring risks are identified and managed effectively. The Steering Group's responsibilities include:

- monitoring and driving performance against the Group's Science-Based Targets;
- overseeing input in the Group's business development and strategic processes to make sure climate is given appropriate consideration in long-term strategy and planning; and
- considering the risk management challenges presented by climate change, including financial risk related to underwriting and investments.

Note:
1. Ongoing operations – see footnote 1 on page 25.

Further information relating to our risk identification process and the processes by which management are informed about climate-related issues can be found on page 81.

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. Group Audit are represented at the Climate Executive Steering Group.

Strategy

Climate change has far-reaching implications for economies and societies around the world. The physical and economic impacts that could result from further global warming may be significant and the extent of these impacts is dependent on the action taken to tackle climate change.

As a major UK insurer with over 9.6 million in-force policies from ongoing operations[1] we have a role to play in supporting the transition to a low carbon economy and we know that through our actions as a business we can contribute to climate risk mitigation.

The following pages examine the potential impacts of climate change on our business, in line with the TCFD recommendations, and outline the actions we are taking to strengthen our strategic response to one of the biggest challenges facing the world today.

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 risks, 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, for example. The Group considers the risks associated with this to be low due to low exposure in high-risk industry sectors.

Materiality

We recognise that assessing and quantifying the level of impact from climate change is an emerging practice.

A greater level of estimation and assumption is required to address the long-term and forward-looking nature of climate-related risks and opportunities, which causes limitations in assessing materiality. Our intention is to explore further how we can enhance our approach to materiality, in the context of climate change, with more certainty.

More information on our current approach to measuring the impact of climate-related risk, and the integration of climate change in the Group's overall risk management processes, can be found on pages 74 and 81.

Defining the short-, medium- and long-term time horizons

Short	**1 – 10 years**
Medium	**10 – 30 years**
Long	**30 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 75).

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, see pages 78 to 81.

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 75 to 77);
- 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 82); 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 81).

Financial planning

We have identified that limitations exist in aligning climate change and financial planning. A key issue relates to the modelling of climate change impact, 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, the prominence of climate-related considerations in our most recent planning continued to grow.

The Group's Plan reflects the strategic planning that is ongoing across the business and therefore covers any climate-related initiatives that are embedded within. These include:

- sustainability-related projects, such as the actions we are taking to reduce the carbon footprint of our accident repair centres and investment portfolio and the associated costs. More information on these actions can be found on page 80 and 81;
- 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;
- development of propositions and channel expertise to support the transition to a low carbon economy, such as our electric vehicle offer, which is now available to all Direct Line Motor customers; and
- the reduction of our office footprint, seen, for example, through our planned move from our office site in Bromley to a smaller Central London hub in 2023.

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 determine the expected losses from major weather events in our Home and Commercial property book to set a weather load for budgeting purposes. The impact of major weather relative to this load for 2022 and prior years can be found on page 83.

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 2022. 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 200).

Areas of physical and transition risks the Group could be exposed to are outlined in the table on page 78. 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 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 reduce our carbon footprint and to progress towards our long-term emission reduction commitments.
- 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 recent scenario analysis activity took place during 2021, followed by a smaller round of analysis in early 2022.

The analysis was 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.

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 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 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.

Summary of results

The results 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 370% 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.

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.

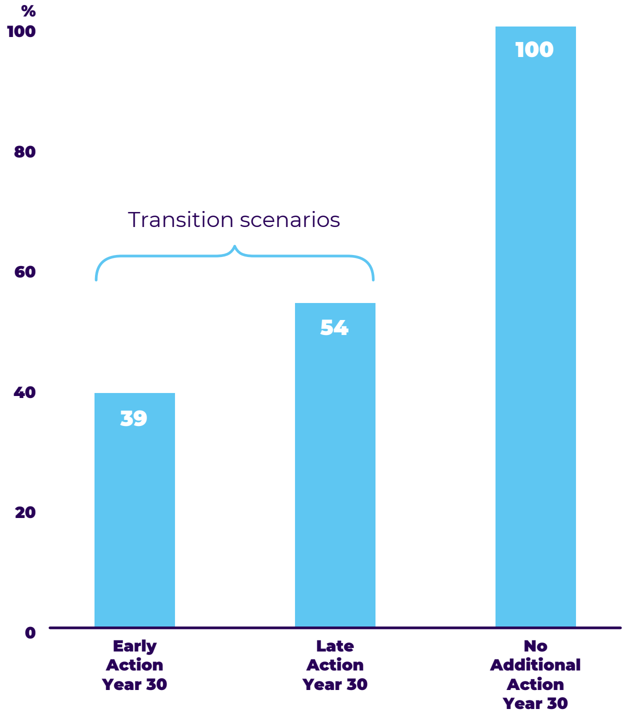


Figure 1: Year 30 impacts of scenarios relative to the largest No Additional Action scenario

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 target of holding a net zero emissions investment portfolio by 2050 (see pages 80 and 84).

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 77).

Comparison of impact – insurance liabilities and investments

The graph below 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.

The graph outlines how the total 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.

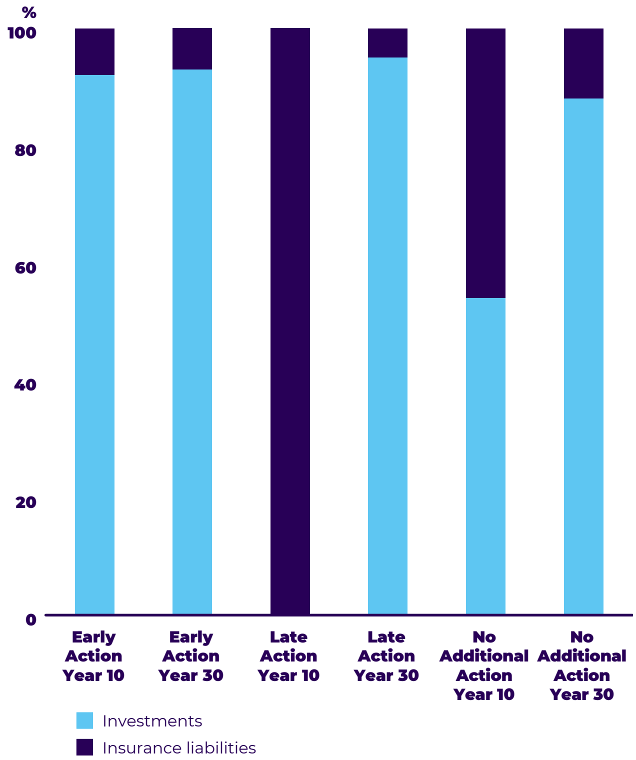


Figure 2: Share of impact – insurance liabilities and investments

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.

Physical risk by peril

The following graph illustrates the potential adverse impact of physical risk on the Solvency II balance sheet value of insurance liabilities at Year 30 under the Early Action, Late Action and No Additional Action scenarios.

The total impact (set at 100%) is further analysed by peril, for example in the No Additional Action scenario around 60% of the total impact is driven by inland flooding and 33% by coastal flooding.

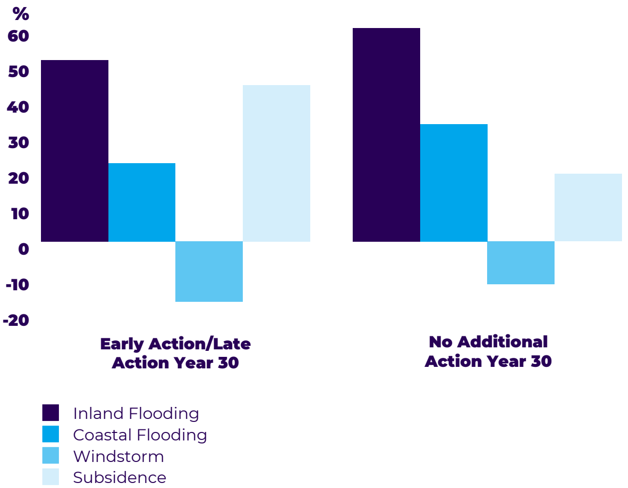


Figure 3: Split of physical risk impacts on insurance liabilities by peril

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 coastal flooding, which included storm surge due to a rise in sea levels. However, the analysis shows that the changes to flood and storm surge risk vary regionally. 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.

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. For further information on our Strategic Management Actions, see page 65.

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, as well as the strategic management actions relating to flood resilience and underwriting footprint, 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.

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. This will enable the Group to make use of scenario-testing output more effectively to further inform our strategic approach to mitigating climate-related impacts.

Our strategic response

In order to ensure strategic resilience, we must manage the exposure against the potential risks from climate change and harness opportunities from the transition to a low-carbon economy. Our strategy focuses on driving change across three key areas of the business: our underwriting activities, which includes a focus on the operating segments that could be most affected by climate change; our operations; and our approach to investments. These are considered in turn on pages 79 to 81.

The following table outlines key physical and transition risks and opportunities that could significantly impact these areas as well as the time horizons over which they could manifest. Our definition of the time horizons can be found on page 74.

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.	S	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.	S M	U O
		Costs associated with the transition to a lower-carbon economy may increase over time and the adoption of new lower emissions 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　M Medium-term　L Long-term

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.

Recent weather events that we have responded to highlight the importance of, and need for, insurance. In December, the prolonged period of sub-zero temperatures saw us help thousands of customers deal with burst pipes and water tanks and other related damage. The record-breaking temperatures experienced across the UK in Q3 led to a modest increase in subsidence claims in our Home business, and in early 2022, we supported our Home and Commercial customers following three significant storms: Dudley, Eunice and Franklin.

The frequency and severity of natural catastrophes and other weather-related events in the UK are key drivers in the Group's solvency capital requirements. The short-term nature of the business we underwrite, the ability to re-price annually, and the risk mitigation provided by reinsurance arrangements are important factors in how we manage our exposure.

However, acknowledging that, in general, the physical risks from climate change are likely to intensify over the longer-term, there remains a need to assess how this risk could impact the Group over a significantly longer period.

To support our assessment of the potential impact on insurance liabilities over the longer-term we undertake scenario analysis (see pages 75 to 77). The analysis helps us to quantify the financial implications of physical risk under different possible future climate scenarios. The outputs provide an indication of the Group's resilience and aid our strategic planning.

The outcomes of our most recent scenario analysis provided a framework to identify and assess climate-related risk and develop a set of contingent and pre-emptive management actions (page 77). The analysis also supported the development of our Strategic Management Actions 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.

For more information on our Strategic Management Actions see page 65.

Motor
As one of the largest motor insurers in the UK, the move to electric-powered vehicles is particularly pertinent. 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 2030, the speed of transition to electric continues to increase.

The transition to a low carbon economy presents new challenges, but also new opportunities. As part of our response, we are developing further insight into the future of vehicle technology and repair, growing our data and developing 'green' products to support our customers who are already making the switch to electric.

To date, our actions include:

- developing a full electric vehicle package which is offered to all new and renewing Direct Line Motor customers that provides access to electric vehicle essentials, discounts off our Green Flag Shop and insurance that covers batteries and charging cables (see page 67);
- establishing a dedicated Electric Vehicle Distribution and Strategy team, focused on evolving the Group's strategic response to the electric shift; and
- entering into new strategic partnerships, such as our new partnership with Motability Operations from September 2023, where we expect the number of electric vehicles we insure to grow significantly over the course of the ten-year partnership.

Operations
Operating in a sustainable way is key to minimising our impact on the environment. Taking action to reduce our carbon footprint is also good for the sustainability of our business, and an important part of how we can mitigate against potential climate risks that could cause disruption to our operations.

Science-Based Targets
We previously disclosed our aim to achieve net zero emissions by 2050 at the latest and to support our ambition, we announced we were setting Science-Based Targets.

In 2022, these targets were formally approved by the SBTi. This significant milestone in our carbon reduction strategy defines the path of how we reduce our carbon emissions further and underpins how we progress towards our ambition of becoming a net zero business.

The targets include an operational emissions target. This covers the Scope 1 and 2 GHG 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.

More information on our Science-Based Targets can be found on page 66.

Although our journey to net zero emissions continues to gain momentum, we acknowledge that it will take time to facilitate the transition, which is why we continue to offset the carbon emissions[1] from our operations we cannot yet avoid (see pages 65 and 70).

We calculate and report our GHG emissions annually. Our most recent carbon emissions reporting can be found on page 69 and further disclosure on the progress we have made in reducing our footprint to date can be found on page 84.

With a history of taking action to reduce our environmental impact, we are well placed to drive down our emissions further.

In recent years we have taken steps to understand where the most carbon-intensive areas of our operations are. One area where we are prioritising our carbon reduction activity is across our accident repair centres.

Fundamental to serving our motor insurance customers, our 22 accident repair centres are embedding a range of solutions as part of our carbon reduction strategy led by colleagues in our Auto Services Sustainability Programme.

In support of our operational Science-Based Target (see page 66), action taken this year has included:

- expanding the use of hydrogenated vegetable oil in our accident repair centres as an alternative fuel for our recovery trucks, resulting in 543 tonnes of CO_2e saved in 2022;
- fitting energy-saving LED lighting to a further six repair centres meaning nearly 70% of our Auto Services sites have now received these upgrades;
- installing a Power Factor Corrector in our Birmingham Auto Services site to maximise the efficiency of our electrical supply on-site. In 2021, installation at our Crawley repair centre delivered a 13% improvement in energy efficiency. We are exploring expanding this to include installation at more repair centres in 2023; and
- further exploring the feasibility of moving from gas powered paint booths to electric.

We are also reducing our office footprint which includes moving our head office from Bromley to a newer smaller Central London property in 2023.

Supply chain

Our Sustainable Sourcing Approach, launched in 2021, aims to reduce the emissions in our supply chain. Our approach means we are engaging with our largest emitting suppliers to encourage them to sign up to SBTi targets or an equivalent. We are also requesting information on what efforts firms have made to measure their carbon footprint across Scopes 1, 2 and 3 and their plans to reduce emissions so we can evaluate whether it is viable to change our sourcing approach on appropriate contracts.

In 2022 we also set an internal emissions reduction target (see page 66) and we report the GHG emissions from our supply chain annually, these can be found on page 69.

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 2022, we:

- received approval from the SBTi for our science-based GHG emission reduction targets in our investment portfolio (see below);
- became a signatory to the CDP's science-based targets campaign; a collective engagement campaign supported by over 300 financial institutions with over $73 trillion in assets 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.

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.

In 2022, we received formal approval of these targets from the SBTi. The targets cover corporate bonds, commercial real estate and commercial real estate loans which, as at the end of 2022, covered 63% of AUM. More information on the targets can be found on page 66.

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 a minimum MSCI ESG rating of 'A' or better.

Note:
1. Scope 1 and 2 emissions as well as elements of our Scope 3 emissions under our direct control (see page 69).

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 action[1].
- 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.
- 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.

Using our influence
We are committed to using our influence to drive wider change. For example, we expect all of our investment managers to be 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 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. Further information can be found in the Risk management section of the Strategic report on page 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 has been broadened to include 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, Customer, Reputation and expert judgement 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, 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 82 and 83.

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

During 2022, this included reviewing:

- the findings from the PRA's 2021 Climate Biennial Exploratory Scenario on financial risks from climate change;
- the Bank of England's letter from Sam Woods on the PRA's supervision of climate-related financial risk; and
- the minutes of the PRA and FCA's joint Climate Financial Risk Forum.

We continue to monitor future developments. Reviews are summarised and distributed to relevant stakeholders, and, where necessary, responses are co-ordinated and overseen by members of Second Line of Defence.

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. 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 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 91.

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.

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) 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 purchase risk covers to protect against large individual commercial losses and we make extensive use of Flood Re to cede high flood risk residential properties.

Metrics and Targets

We use a variety of indicators across the different lines of our business to assess, monitor and manage our climate-related risks and opportunities.

The following pages focus on the metrics and targets we use across the three key areas of activity, as identified earlier in our disclosure: our underwriting activities; our operations; and our approach to investments.

Remuneration

We have now formally introduced a climate-related metric for our LTIP. This incorporates a carbon emissions measure based on our carbon emissions reduction targets that were approved by the SBTi in 2022. More information can be found in the Directors' Remuneration Report on page 141.

Our aim is to explore how we incorporate additional metrics, including cross-industry metrics as recommended by the TCFD, to support measurement and management of transition risks and opportunities in future reporting.

Underwriting

Weather-related loss impact

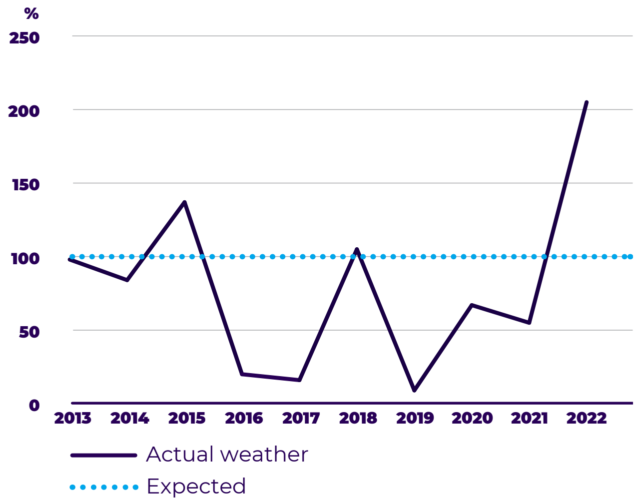
The predominant direct physical drivers of catastrophe weather risk from a capital perspective are major UK floods and windstorms. The last peak of windstorm activity was in the late 1980s and early 1990s; the last decade being particularly benign in comparison. By contrast, flood has seen more elevated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

Catastrophe reinsurance is purchased annually to protect against event losses greater than £150 million and additional reinsurance cover protects against large individual commercial losses (see page 37). Use of the Flood Re scheme mitigates against the highest individual residential flood risks.

The Group uses sophisticated modelling techniques to determine the expected losses from severe weather events and uses these to set a weather load for budgeting purposes.

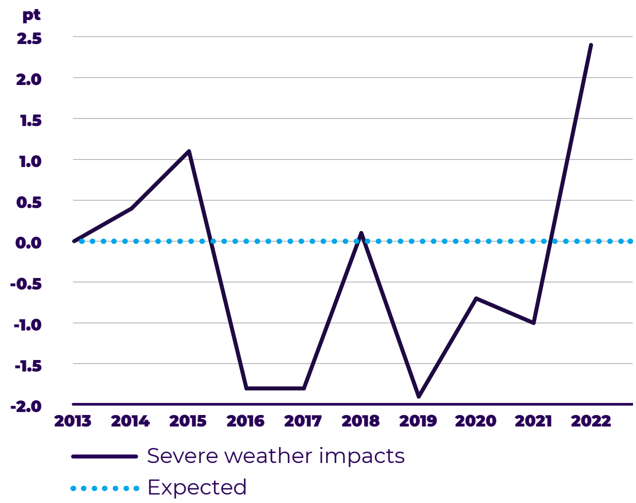
The following graph shows the impact of severe weather events relative to the weather load. In 2022, claims associated with severe weather exceeded our 2022 severe weather assumption, which is set at 100% in the graph.

Severe weather claims (actual % of expected loss)



Both these graphs reflect the number of major weather events in the year that the Group responded to, including three significant storms in Q1, a rise in subsidence claims from extremely high temperatures in the summer and the December freeze event.

Impact of severe weather on combined operating ratio[1] (pt)



Prior to 2022 the trends are reflective of relatively benign activity, although there is significant variability as shown in the graph. The 2018 peak was driven by the 'Beast from the East' freeze event whilst the 2015 peak was a result of a number of weather events in December which caused severe flooding across the UK.

The frequency and severity of extreme weather events will 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. 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. This levy raises around £135 million every year which 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 this risk via our subsidence market share by geo risk classification. This risk classification aims to give a market view of geographic risk 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, for example used car prices. As such we do not currently consider there to be any valuable climate-related risk indicators that can be tracked for this portfolio.

In order to track the transition towards electric and alternatively fuelled vehicles (such as hybrids), we monitor both the number and proportion of policies we underwrite for these types of vehicles as well as electric vehicle and alternatively fuelled vehicle registration data from The Society of Motor Manufacturers and Traders.

Note:
1. The 2022 and 2021 combined operating ratio used is for ongoing operations (see footnote 1 on page 25).

Supplemental guidance for insurance companies

The supplemental guidance for disclosure recommendations (a) and (b) of the metrics and targets section within the TCFD framework recommends that insurers:

- describe the extent to which their insurance underwriting activities, where relevant, are aligned with a well below 2.0°C scenario; and
- disclose the weighted average carbon intensity or GHG emissions associated with commercial property and specialty lines of business where data and methodologies allow.

The Group does not currently disclose information in relation to the above guidance. Our aim is to explore how we develop alignment to these recommendations in future reporting.

Operational

We calculate and report our GHG emissions annually. Our most recent reporting can be found on page 69 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, with greater clarity of the activities under our direct control, as well as our supply chain and homeworking emissions.

Our performance to date

We are proud of the progress we have made on reducing emissions and have a record of setting targets to hold the business to account. In 2013, we set two Group-wide environmental targets for our Scope 1 and 2 GHG emissions which we have tracked, reported against and successfully met in 2020. The two targets we set were:

- a 57% reduction in emissions (Scope 1 and 2) on a like-for-like basis by the end of 2020 against a 2013 baseline. In 2022, we saw a 70% reduction in energy-related emissions against this baseline; and
- a 30% reduction in energy consumption on a like-for-like basis by the end of 2020 against a 2013 baseline. This year we delivered a 56% reduction in energy consumption against this baseline.

With hybrid working well embedded across the business, large numbers of our people continue to work from home regularly which has contributed to a reduction in our Scope 1 and 2 emissions. In recognition of this we have again calculated and reported homeworking emissions under the Scope 3 'Employee Commuting' category (see page 69).

Overall, in 2022, we saw an increase in emissions under our direct control when compared to 2021. This primarily reflects an increase in activities relating to vehicle repair which, in 2021, was less prevalent following the impact of Covid-19 on Motor claims frequency in the first half of the year. This increase was partly offset by a reduction in Scope 1 and 2 emissions in 2022, driven by a reduction in our office footprint and continued investment in energy efficiency measures across our estate. Our GHG emissions reporting can be found on page 69.

From 2023 we will report on progress against our Science-Based Targets which were approved in November 2022 (see below).

Science-Based Targets

We are pleased with the success we have made in reducing our Scope 1 and 2 emissions having met the two targets we set in 2013 and now want to enhance our carbon reduction strategy further.

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 covering our operational emissions. These targets were approved by the SBTi in 2022.

Scope	Target
Operational	We target reducing absolute Scope 1 and 2 GHG emissions by 46% by 2030 from a 2019 base year.

More information on these targets, including how we will disclose progress against them can be found on page 66.

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 2023, we chose to set an internal emissions reduction target for our supply chain in 2022. This target forms part of our Sustainable Sourcing Approach, where we continue to encourage our largest emitting suppliers to sign up to SBTI targets or an equivalent (see page 66).

Other indicators we monitor and manage across our operational activity include our energy sources and consumption and the waste generated from our office sites. See page 67 for more information.

Investments

More than 180 financial institutions have publicly committed to set emissions reduction targets through the SBTi. 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.

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 real estate and commercial real estate loans, these were approved by the SBTi in 2022.

Science-Based Targets

As at the end of 2022 our investment portfolio targets covered 63% of AUM.

Asset Class	Target
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. 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.
Commercial Real Estate	Reduce GHG emissions by 58% per square metre by 2030 from a 2019 base year.
Commercial Real Estate Loans	Reduce GHG emissions by 58% per square metre by 2030 from a 2019 base year.

More information on these targets, including how we will disclose progress against them can be found on page 66.

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 will 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.

For commercial real estate, 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.

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.

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_2e):	
– from activities for which the Company is responsible	67 and 69
– from buying electricity, heat, steam or cooling by the Group for its own use	67 and 69
Annual global energy consumption in kWh, being the aggregate of:	
– energy consumed from activities for which the Company is responsible	67
– energy consumed resulting from buying electricity, heat, steam or cooling by the Group for its own use	67
The proportion of GHG emissions and energy consumed relating to the UK and offshore area[1]	67 and 69
Methodology used to calculate emissions and energy consumption	70
At least one intensity metric in relation to emissions	70
Description of energy efficiency actions taken	68

Note:
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.

Risk management

Our aim is to make risk management simple, well understood and 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 109 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 81 and 82 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 embed 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 has worked collaboratively across the Group to support embedding a positive risk culture, in particular developing an approach to assessing risk culture, to ensure risk is fully integrated within the Group's wider cultural ambitions and aligned on outcomes/behaviours we expect of our people.

Aurore Lecanon
CRO

Our CRO

Aurore Lecanon joined Direct Line Group as Chief Risk Officer in November 2021. She is responsible for developing and driving the risk and compliance agenda, enabling a proactive and forward-looking function where people can collaborate, grow and thrive.

Aurore has over 18 years' experience with global insurers and investment banks and has deep technical, market and commercial knowledge of the insurance and savings industry. She previously held the role of Chief Risk & Compliance Officer at Prudential International Assurance Plc.

She is passionate about ensuring the Risk Function continues to deliver on our responsibilities effectively, while considering new ways of working and ensuring we are positioned for success in a dynamic and technology-enabled future. The past year has shown unprecedented market and regulatory challenges, and as a result the Risk Function had to be focused even more on resilience and the need to be developing constantly, to adapt to support, challenge and add value to the business.

She sees a future for enhanced data-driven risk management across the business using data analytics and machine learning and to do so she is driving the function and building a sustainable Risk capability designed to embrace those trends. This involves investing in our people, culture, frameworks and processes, and technology.

Principal risks and uncertainties

We carefully assess the principal risks facing us. Principal risks are defined as having a residual risk impact of £40 million or more on a 1-in-200 years basis, taking into account customer, financial and reputational impacts.

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. In addition, Insurance, Strategic and Operational Risks are seeing increasing trends, impacted by macroeconomic changes putting pressure on strategy and the changes in technology systems, people and processes.

Principal risk	Description	Risk commentary	
Insurance Risk Relative size of risk Trend – increasing	Is 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.	Key drivers of the outlook for Insurance risk across the Group's strategic plan (the "**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, combined with supply/demand issues following Covid-19 and Brexit, have been key areas of focus for the Group in 2022 and have been the main drivers of the increasing trend in insurance risk. This includes a slow-down in the processing of recoveries and liabilities with third party insurers which increases the estimation risk of these amounts.	Unanticipated claims inflation, particularly in the motor market, has had a significant adverse impact on claims trends leading to uncertainty in claims reserving and pricing in 2022 and beyond. Key risk themes relating to this category include Macroeconomic Environment & Geopolitical Landscape, Organisational Resilience & Agility, and Sales Risk in a post FCA PPR regulations world. We have used scenario testing to understand the potential financial impacts of these risks and continue to monitor these risks closely. Finally, climate change presents a risk of more frequent extreme events and key risk indicators are being continually enhanced to monitor related risks across Home and Motor.
Market Risk Relative size of risk Trend – stable	The risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.	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 macroeconomic environment & geopolitical landscape. Market risk remains at a heightened but stable level over the Plan due to recession risk, volatile markets and the risk of further property devaluations.	Concerns about the risk of a prolonged recession and fiscal policy could affect equity and credit markets within the global economy leading to credit spread increases, foreign exchange rate volatility, interest rate changes and further devaluation of UK property assets. To seek to address this, we have an investment strategy which is approved by the Board and includes limiting exposure to individual asset classes and the amount of illiquid investments we hold. We also use risk reduction techniques such as hedging foreign currency exposures with forward contracts, and de-risking the investment portfolio during volatile periods.

Principal risk	Description	Risk commentary
Operational Risk Relative size of risk Trend – increasing	The risk of loss due to inadequate or failed internal processes or systems, human error or from external events. The key risks within this category relate to Cyber, Change, Partnerships, Model, Technology & Infrastructure, Business Interruption and Material Outsourcing.	Operational risks can arise within all areas of the business and can manifest themselves as a result of inadequate or failed internal processes or systems, human error or because of external events. Key risk themes relating to this category include Organisational Resilience & Agility and People & Culture and our approach is to manage our operational risks proactively to mitigate potential customer harm, regulatory or legal censure, and financial or reputational impacts. The increasing trend in operational risk is driven mainly by increased risk in the control environment as the Group continued during 2022 and continues to implement and embed changes in its technology systems, data flows, pricing models, people, and processes, whilst operating within a more volatile external environment. The implementation and embedding of its motor platform and related matters coinciding with the volatile external environment in 2022 made the operating environment more challenging and increased the risk profile. We have in place operational processes and systems, including prevention and detection measures, that seek to ensure the Group is well placed to absorb and/or adapt to internal or external events that have the potential to have an adverse impact on our customer operations and the wider business more generally. With hybrid working well embedded across the business, large numbers of our people effectively continue to work from home. The business also remains on its journey to improve its use of data, pricing models, controls, processes and management information and the performance and resilience of its IT estate, focusing on delivering system stability, using new technologies to enhance contingency strategies, and seeking to optimise the use of tools and capability across the Group. Reviewing our target operating models across the Group, streamlining change implementation and ensuring we drive effective prioritisation in our investment decisions has remained a key area of management focus, to support the Group in achieving its strategic aims whilst also actively strengthening its controls to further mitigate the impact of potential risk events. Finally, the external threat landscape has continued to remain volatile globally, including the increase in state-sponsored cyber-attacks, more sophisticated ransomware attacks, disruptions to supply chains and the continued challenges associated to the cost of living crisis. The business has continued to monitor the external landscape closely, taking proactive measures to introduce new controls, strengthened existing ones, and enhanced our suite of automated monitoring and reporting, to enable us to respond to malicious and unintended threats from both internal and external entities.
Conduct Risk Relative size of risk Trend – stable	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.	We have maintained a strong culture of delivering on our commitments to our customers. Pricing practices within the general insurance market have remained a key area of focus for the FCA and for the Group. Since the implementation of the FCA's PPR regulations, we have continued to carefully monitor with a view to ensuring that the right outcomes are being delivered to customers and we have maintained regular and close engagement and dialogue with the FCA throughout the year including concerning the requirements of the FCA's PPR regulations. The introduction of the Consumer Duty represents a significant shift in the FCA's expectations of firms and applies to all of the Group's regulated products. 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. 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 finalisation of the Vulnerable Customer Strategy and the launch of Churchill Motor Essentials to adapt to changing customer needs.

Principal risk	Description	Risk commentary
Regulatory Compliance Risk Relative size of risk Trend – increasing	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.	The outlook for regulatory compliance risk is increasing as financial institutions respond to multiple regulatory change priorities, alongside a challenging external environment covered in Strategic risk and Insurance risk. 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. We have maintained an open relationship 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 the key areas of regulatory attention, including implementation of the the FCA's PPR regulations, the Consumer Duty, FCA's 'Dear CEO' letter on cost of living and insurance, FCA guidance on the fair treatment of vulnerable customers, PRA 'Dear Chief Actuary' letter on reserving and capital modelling and inflation risk, and the PRA's 'Dear CEO' letter on the PRA's supervision of climate related financial risk. We have also continued our focus upon operational resilience in accordance with the increased regulatory requirements introduced during the year. 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.
Credit Risk Relative size of risk Trend – increasing	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.	The outlook for credit risk is increasing due to the potential impact on business models from behavioural or societal changes arising from the recession and cost of living crisis. To manage credit risk, we set credit limits for each material counterparty and actively monitor credit exposures. In addition, we only purchase reinsurance from reinsurers with at least A- rating and, for liabilities with a relatively long period of time to settlement, this rating is at least A+. Finally, we also have well defined criteria to determine which customers are offered and granted credit.
Strategic Risk Relative size of risk Trend – increasing	The risk of direct or indirect adverse effects resulting from strategies not being optimally chosen, implemented or adapted to changing conditions.	The trading updates issued in July 2022 and January 2023, the CEO stepping down also in January 2023, and response to the FCA's PPR regulations has led to an increasing strategic risk for the Group over the Plan period and a need to rebuild balance sheet resilience. A period of uncertainty in leadership continuity may restrict the Group's ability to progress with its strategic growth agenda. However, completing the Group's 10% quota share reinsurance contract has contributed to restoring capital resilience. Strategic risk is also influenced by internal and external developments, including the risk of the UK entering a recession, the worst cost of living crisis in decades, high levels of inflation, and the longer-term implications of the war in Ukraine and other geopolitical tensions that could crystallise. 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 has been broadened to include Climate risk within Environmental, Social and Governance risk. The Group takes the following steps to manage its risks: · we agree, monitor and manage performance against the Board-approved plan and targets; · the Board leads an annual strategy and five-year planning process which considers our performance, competitor positioning and strategic opportunities; · as part of the timetable for the strategic plan, the Risk Function carries out a risk review of the Plan which is documented in the Group's Own Risk and Solvency Assessment and presented to the Board; and · we identify and manage emerging risks using established governance processes and forums.

Effects of macroeconomic and trading environments on the Group

The UK is facing into a cost of living crisis and the potential of 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 risks currently being monitored via the emerging risks process are outlined below.

Climate change

The Group recognises that 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.

During 2022, the Group has continued to embed further controls and targets around climate change including receiving approval of its emission targets from the Science Based Targets initiative, whilst the Climate Executive Steering Group has created a sub-group to provide expertise on the reporting and governance of targets.

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 81 to 82, 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 2022, in response to this emerging risk, the business reviewed its new product approval processes to identify opportunities to streamline the approach and enable a faster, but still safe, route to market. It also developed an implementation plan to embed Consumer Duty principles.

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 future innovation at pace.

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, the Group is delivering multiple programmes to provide the Group with the capabilities to enable future innovation at pace.

Geopolitical Tension

Due to heightened tensions on the world stage, 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, Russia/Ukraine), while maintaining a close eye on the political risk landscape.

Automotive Technology

New car technology, such as autonomous vehicles and hydrogen power, are in development which, once on UK roads, is 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 is embedding the Data Ethics Framework within the Pricing & Underwriting team's policies and procedures, while providing guardrails to apply across the Group. As new data capabilities are introduced, our monitoring and oversight is designed to ensure adherence to the principles set out in the Framework.

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 93, 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 198 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 2026, 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 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, delay in pricing, increase in operating expenses 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% with the Group and market response delayed by six months.
- Delay in pricing: future initiatives deliver 50% of expected value.
- Increase in operating expenses: there is a delay of 12 months to achieving benefits from 2023 expense reduction initiatives.
- Fall in asset values: an increase in credit spreads of 50 basis points in the UK and 25 basis points outside of the UK in 2023, with spreads remaining elevated.

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 trading update that was approved by the Board of Directors, and announced to the stock market on 11 January 2023, in respect of the Group's trading for 2022 and outlook for 2023, set out the challenging conditions that the Group has faced, in particular with respect to the severe weather in December 2022 and increases in motor claims inflation, as well as the impact on the Group's investment property portfolio valuation. 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.

In connection with the trading update released on 11 January 2023, a reforecast based on the Plan was prepared without delay.

The Risk Function has also carried out an assessment of the risks to the Group's capital position over 2023 and 2024. Two specific macroeconomic scenarios, a moderate and a severe, have been run to assess the possible impact on the Group's own funds in the period to 31 December 2023 and 31 December 2024. 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".

A reverse stress test was also performed to identify a combination of stresses that would result in capital loss and thus threaten the viability of U K Insurance Limited, the Group's principal underwriter, i.e. a reduction of own funds to below the solvency capital requirement. The reverse stress test combines the severe macroeconomic stress with the impacts from a series of three natural catastrophes from the 2022 PRA Insurance Stress Test.

In the moderate and severe scenarios, it was concluded that the Group's and U K Insurance Limited's solvency capital requirement would not be breached following the implementation of management actions, such as de-risking the asset portfolio, the purchase of additional reinsurance cover, asset disposal or, if necessary, raising equity.

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 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.

Climate change: during the year, the Group updated a number of stress and scenario tests that had previously been performed in 2021, designed to reflect the potential impact of short- and long-term climate change risk on the Group's balance sheet and solvency position. The tests are discussed in more detail on pages 75 to 77. 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 in the year the Group has set out its Science-Based Targets to reduce the Group's 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 2026.

Statement of the Directors in respect of the Strategic report

The Board reviewed and approved the Strategic report on pages 1 to 93 on 21 March 2023.

By order of the Board

Neil Manser
Chief Financial Officer

21 March 2023

Chair's introduction

Dear Shareholders,

On behalf of the Board, I am pleased to present the Corporate Governance report for the year ended 31 December 2022. 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 14, Direct Line's former CEO, Penny James, stepped down from the Board in January 2023 having served as CEO since May 2019. I would like to thank Penny for her contribution in driving progress in respect of many of our key governance topics, including diversity and inclusion and sustainability.

The Nomination and Governance Committee is leading the process to appoint a successor and, in the meantime, I am grateful that Jon Greenwood has taken on the role of Acting Chief Executive Officer. Jon has over 30 years' experience in the insurance industry and has a deep knowledge and understanding of the business, putting him in a strong position to drive the Group's performance until a successor is appointed.

We announced on 17 February 2023 that Mark Lewis, former CEO of MoneySupermarket Group, will join the Board with effect from 30 March 2023. Mark's experience will strengthen the Board's oversight of aggregator and digital marketing strategy, as well as helping the Group to drive continuous improvement in customer experience.

The introduction of the FCA's Consumer Duty rules prompted us to reflect on how the voice of the customer can be represented in the Boardroom and we took the decision to appoint Tracy Corrigan, independent Non-Executive Director, as Consumer Duty Champion. Tracy will work with me and the CEO to ensure that the Consumer Duty is raised in all relevant discussions and will help the Board to assess whether the Group is delivering good outcomes for customers. Tracy will apply her background in customer analytics and insight, coupled with her passion for customer-centricity, to carry out this important role and I look forward to working with her on this topic.

To support me in reviewing the effectiveness of the Board, I engaged Independent Audit Limited to conduct an externally facilitated review. The review involved a comprehensive evaluation of the operation of the Board and its Committees and resulted in some useful insights that will help the Board reflect on potential improvements following the events of 2022, to review the information flow to the Board and to inform our thinking about succession planning. More information on the Board evaluation can be found on pages 113 to 114.

Succession planning continues to be a key focus for the Nomination and Governance Committee, who, mindful of findings from last year's effectiveness review, have spent time considering the medium and long-term needs of the Board in respect of Non-Executive Director experience, expertise, diversity and functional role fulfilment. More information on this can be found in the Nomination and Governance Committee report on pages 124 to 125.

Diversity

We are pleased to have met the FCA's new Board diversity targets throughout 2022. However, Board changes since the beginning of 2023 mean that, as at the date of this report, the proportion of women on the Board has fallen below 40% (see page 58). Board diversity, including gender diversity, remains a key consideration in the Nomination and Governance Committee's succession planning.

When it came to promoting diversity and inclusion in the wider organisation, my Board colleagues and I have looked to support the agenda by sharing our own thoughts and experiences and leading from the front. For example, during the year I hosted a colleague Q&A on social mobility and Adrian Joseph hosted a 'Lunch and Learn' for our Race, Ethnicity and Cultural Heritage DNA strand to celebrate Black History Month. The Board enjoys hearing about what our colleagues make of diversity and inclusion in the Group and what we, as a Board, can do to support the organisation on its journey to becoming an increasingly diverse and inclusive workplace.

Stakeholders

This year, more than ever, it has been important for us to listen to our stakeholders and hear what they are telling us about how we, as a business, can best support them during these challenging times. The table on page 107 sets out how we have engaged with our various stakeholders and the table on pages 105 to 106 sets out how this engagement has fed into Board discussion and decision making. As I explained in my statement on page 14, supporting our colleagues and customers through the cost of living crisis as best we can has been a key focus for the Board.

Sustainability

During the year, the Sustainability Committee had the important job of overseeing the setting and validation of our greenhouse gas emissions reduction targets by the SBTi. I know that these targets are important to many of our key stakeholders and demonstrates our focus on a credible plan to get to net-zero. More information on the work of the Sustainability Committee can be found on pages 126 to 127.

Remuneration

During the year, the Remuneration Committee considered whether to make changes to the Director's Remuneration Policy which is due to be presented to shareholders for approval at our 2023 AGM. It was decided to put forward the Remuneration Policy for approval largely unchanged, with some minor wording clarifications. However, the Committee intends to make some changes to the implementation of the Policy for 2023, in respect of performance measures in the AIP and LTIP.

In terms of remuneration outcomes for the year, whilst we have made positive progress against some of the strategic metrics, particularly in relation to the People measures, the Committee agreed with the Executive Directors that no AIP would be awarded for 2022 in the light of the financial performance and the impact on shareholders. Executives, including the wider senior leadership team, will not receive a bonus for 2022 under the AIP. The remuneration of the wider workforce and the support provided to colleagues in the light of the cost of living crisis have been a key consideration in all of our decision making. More information on remuneration can be found on pages 130 to 161.

Audit and internal control

During the year the Audit Committee led a competitive tender process for an auditor to succeed Deloitte LLP that resulted in a recommendation to appoint KPMG as auditor of the Company starting with the financial year ending 31 December 2024. A resolution in respect of this appointment will be put forward to shareholders seeking their approval at the Company's 2024 AGM. More information in respect of this process can be found on page 119. The Audit Committee also oversaw the arrangements made to transition to IFRS 17 accounting. More information on this activity can be found on page 117.

The review of our risk management and internal control framework by our Risk and Group Audit functions is referred to on page 114 and in the Audit Committee report on page 118. Whilst control deficiencies during the year were not considered to be material to the Group as a whole, the Audit and Board Risk Committees will oversee action being taken to further strengthen specific controls and certain enhancements to provide greater resilience against potential future stress scenarios.

AGM

Our 2023 AGM will be held on Tuesday, 9 May 2023 at 11.00 am. 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

NG RC

Danuta Gray
Chair of the Board

Appointed
Independent Non-Executive Director in February 2017
Chair of the Board since August 2020

Committees
Nomination and Governance Committee (Chair)
Remuneration Committee

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. Danuta has also acted as Senior Independent Director of the Aldermore Group, Non-Executive Chair of St Modwen Properties and was a Non-Executive member of the Ministry of Defence Board. She was also NED and Chair of the Remuneration Committee at both Page Group plc and Old Mutual plc until 2018.

External Appointments
- Non-Executive Chair of the Board of North.
- Non-Executive Director, Chair of the Remuneration Committee and member of the Nomination Committee of Burberry Group plc.

IC

Neil Manser
Chief Financial Officer

Appointed
May 2021

Committees
Investment Committee

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.

SC RC

Tracy Corrigan
Independent Non-Executive Director

Appointed
November 2021

Committees
Sustainability Committee
Remuneration Committee

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.

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.
- Non-Executive Director and member of the Audit, Nomination and Sustainability committees of Domino's Pizza Group plc.
- Non-Executive Director and Chair of the Investment Committee of The Scott Trust.

Penny James served as Chief Executive Officer throughout the 2022 financial year and stepped down from the Board with effect from 27 January 2023.

Key for Committee membership

AC Audit Committee
BR Board Risk Committee
IC Investment Committee
NG Nomination and Governance Committee
RC Remuneration Committee
SC Sustainability Committee
Committee chair

BR RC IC AC

Mark Gregory
Independent Non-Executive Director

Appointed
March 2018

Committees
Board Risk Committee (Chair)
Remuneration Committee
Investment Committee
Audit Committee

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 Risk Committee of Phoenix Group Holdings plc with effect from 1 April 2023.

SC NG RC

Sebastian James
Independent Non-Executive Director

Appointed
August 2014

Committees
Sustainability Committee (Chair)
Nomination and Governance Committee
Remuneration Committee

Key Skills and Experience
- Extensive experience in retail and consumer practice with large retail groups.
- Strong track record of business transformation and change.
- Detailed understanding of UK consumer markets, products and brands.

Sebastian is Managing Director of Boots UK, a subsidiary of Walgreens Boots Alliance, Inc. Until 2018, he was Group Chief Executive of Dixons Carphone plc, having previously held the role of Group Chief Executive of Dixons Retail plc from 2012. Before this, Sebastian was CEO of Synergy Insurance Services Limited, a private equity-backed insurance company, and was previously Strategy Director at Mothercare plc. He began his career at The Boston Consulting Group.

External Appointments
- Managing Director of Boots UK, a subsidiary of Walgreens Boots Alliance, Inc.
- Senior Vice President of Walgreens Boots Alliance, Inc.

SC

Adrian Joseph OBE
Independent Non-Executive Director

Appointed
January 2021

Committees
Sustainability Committee

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 Managing Director, Group Data and Artificial Intelligence at BT Group. 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
- Member of HM Government's AI Council.
- Managing Director, Group Data and Artificial Intelligence at BT Group.

Key for Committee membership

AC Audit Committee
BR Board Risk Committee
IC Investment Committee
NG Nomination and Governance Committee
RC Remuneration Committee
SC Sustainability Committee
Committee chair

IC AC BR

Fiona McBain
Independent Non-Executive Director

Appointed
September 2018

Committees
Investment Committee (Chair)
Audit Committee
Board Risk Committee

Key Skills and Experience
- Extensive experience in retail financial services.
- Strong background in M&A and developing strategic partnerships.
- Expertise in audit having worked as an auditor and serving as Audit Committee Chair of other listed companies.

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. Fiona is a Fellow of the Institute of Chartered Accountants in England & Wales.

External Appointments
- Chair of Audit Committee and Non-Executive Director of Currys plc.
- Chair and Non-Executive Director of the Scottish Mortgage Investment Trust plc.
- Senior Independent Director, Chair of Audit Committee and Non-Executive Director of Monzo Bank Limited.

AC BR

Gregor Stewart
Independent Non-Executive Director

Appointed
March 2018

Committees
Audit Committee (Chair)
Board Risk Committee

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 is a Member of the Institute of Chartered Accountants of Scotland.

External Appointments
- Chair and Non-Executive Director of Alliance Trust plc.
- Chair and Non-Executive Director of FNZ (UK) Limited.
- Chair of the Risk Committee and Non-Executive Director of FNZ Group.

RC NG BR

Dr. Richard Ward
Senior Independent Director

Appointed
January 2016

Committees
Remuneration Committee (Chair)
Nomination and Governance Committee
Board Risk Committee

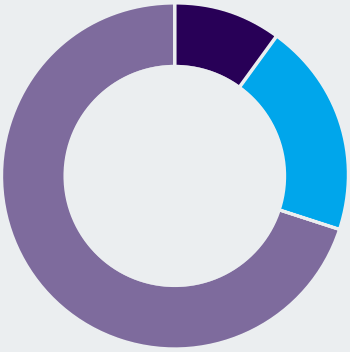
Key Skills and Experience
- Highly experienced financial services professional with expertise in dealing with complex stakeholder groups.
- Extensive knowledge of the insurance industry with deep insight into prudential regulation.
- Background of delivering business transformation and change in challenging 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.

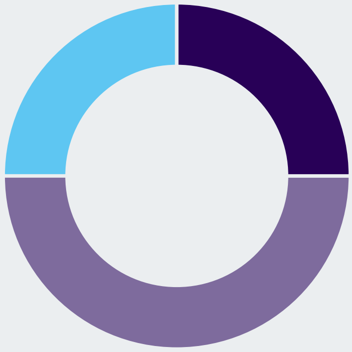
On 17 February 2023, the Board announced that Mark Lewis will be appointed as an independent Non-Executive Director with effect from 30 March 2023. For more information please see page 94.

Board independence[1]



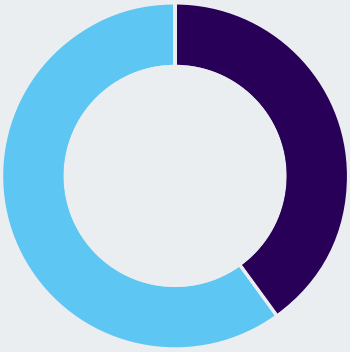
- **10%** Chair (1)
- **20%** Executive Directors (2)
- **70%** Independent Non-Executive Directors (7)

Chair and NED tenure



- **25%** 0-3 Years (2)
- **50%** 4-6 Years (4)
- **25%** 7-9 Years (2)

Board gender[2]



- **40%** Women (4)
- **60%** Men (6)

1. As at 31 December 2022.
   Following Penny James' resignation on 27 January 2023, the Board comprised the Chair (11%), 1 Executive Director (11%) and 7 Independent Non-Executive Directors (78%).
2. As at 31 December 2022.
   Following Penny James' resignation on 27 January 2023, the Board gender split was 67% Men (6) and 33% Women (3).

Executive Committee

Jon Greenwood, Acting CEO, chairs the Executive Committee. Neil Manser is also a member of the Executive Committee, please see page 96 for his biography. Penny James chaired the Executive Committee until she stepped down on 27 January 2023.

Jon Greenwood
Acting CEO and Chief Commercial Officer

Key Skills and Experience:
- Responsible, as Acting CEO, for delivery of the Group's strategic and operational plans.
- Responsible for all aspects of commercial lines, including strategy, product development, sales and service, and marketing.
- Executive Committee responsibility for the oversight of Green Flag operations and the delivery of major change programmes.

Jessie Burrows
Managing Director, Customer Sales, Service & Claims

Key Skills and Experience:
- Responsible for all aspects of personal lines and commercial lines claims, customer sales and service; and the Group's counter-fraud activities.
- Focus on creating value for customers by providing them with exceptional service and value for money.
- Jessie is an Associate Member of the Institute of Chartered Accountants in England and Wales.

External Appointments
- Non-Executive Director of The Motor Insurers' Bureau.
- Advisory Board member of the CII Society of Claims Professionals.

Jazz Gakhal
Managing Director, Motor

Key Skills and Experience:
- Responsible for creating, leading and delivering the Group's Motor insurance strategy and financial forecasts to achieve profitable growth.
- Responsible for design and manufacture of Motor products intended for retail customers.
- Extensive Group experience having previously been Chief Strategy Officer and Managing Director of Direct Line for Business.

External Appointments
- Non-Executive Director of Auto Trader Group Plc.

Gender diversity of our Executive Committee[1]

Gender diversity of Senior Management[2]

Notes:
1. As at 31 December 2022.
   Following Penny James' resignation on 27 January 2023, the Executive Committee gender split is 44% Men (4) and 56% Women (5).
2. Senior Management in this context is defined as the Executive Committee, Company Secretary and direct reports (excluding administrative and support staff) as at 31 December 2022.

Kate Syred
Chief Customer Officer & Managing Director Household, Partnerships, Data and Pricing & Underwriting

Key Skills and Experience:
- Responsible for the design and delivery of the Group's Household, Partnerships and Other personal lines strategy and products for retail customers.
- Defines the principles and standards for the customer experience ensuring the 'look and feel' and 'tone of voice' are consistent.
- Sets and implements the customer and business advanced analytics (data science) strategy.

Humphrey Tomlinson
General Counsel

Key Skills and Experience:
- Responsible for the Group Legal function and oversees a range of legal advice and services across the Group.
- Over 30 years' experience as a solicitor in private practice and in-house.
- Experience includes advising on corporate and commercial matters and on disputes, steering corporate transactions in the UK and internationally, managing legal risk and dealing with corporate governance matters.

Vicky Wallis
Chief People Officer

Key Skills and Experience:
- Responsible for ensuring there is a human resources function which has responsibility for all aspects of talent and employee relations, including engagement surveys, diversity and sustainability initiatives.
- Extensive experience in building HR functions and developing cultural frameworks.
- Focus on enhancing people capabilities.

Ash Jokhoo
Chief Information Officer

Key Skills and Experience:
- Responsible for the development and maintenance of the Group's technology, with a focus on technology in the customer journey.
- Develops Information Security policies and procedures, including cyber security and operational resilience policies.
- Passionate advocate for technology and diversity.

Aurore Lecanon
Chief Risk Officer

Key Skills and Experience:
- Responsible for providing expert advice and opinion on risk matters to the Group through identification, assessment and monitoring of risk in line with risk appetite.
- Responsible for validation of the Group's internal economic capital model and for identifying and managing financial risks from climate change.
- Previously held several Risk roles at M&G/Prudential including Chief Risk and Compliance Officer of Prudential International Assurance.

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 2022. 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 162 to 166.

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.

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:

Board leadership and company purpose

The role of the Board

The Board seeks to promote the long-term success of the Company for the benefit of its shareholders and stakeholders, and establishes the Company's purpose, values, culture, and strategy.

There is a Schedule of Matters Reserved for the Board, which contains items reserved for the Board to consider and approve, relating 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 2022, the Board acted in accordance with the Schedule of Matters Reserved for the Board.

The Board discharges some of its responsibilities through its Committees which 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 130. 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 1.

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 and monitors management's performance and progress against the strategic aims and objectives.

The role of the Board in the Company's culture

Our purpose is why we exist as a business. *We help people carry on with their lives, giving them peace of mind now, and in the future.*

Our vision reminds our people of where we want to take our business in the future. *We want to create a world where insurance is personal, inclusive and a force for good.*

And our culture is the unique set of behaviours and values we use to deliver our strategy and realise our vision. *We prize open dialogue, prioritise wellbeing and recognise the achievements of our people.*

The Board is committed to growing and fostering a strong culture and tracks progress across the Group in a number of ways, including:

Leading by example

The Board always seeks to act with the highest standards of integrity, aligning its approach with the provisions of the UK Corporate Governance Code and leveraging its diversity to strengthen decision-making. The Board aims to demonstrate the balance of mutual respect, challenge and expertise that is expected at every level of the Company.

Customer outcomes

The Board closely monitors customers' perceptions of the Company's performance, including the Net Promoter Score ("**NPS**"), which helps the Board to determine whether the corporate culture is delivering the Group's vision for customers effectively. The Board's new Consumer Duty Champion seeks to ensure good customer outcomes remain at the heart of decision-making, inside and outside the boardroom.

Environment, Social and Governance ("ESG") objectives

The Board views ESG as an integral part of the Group's culture. The Sustainability Committee has delegated responsibility to review sustainability matters and ensure key ESG initiatives are escalated to receive Board-level oversight and challenge. For further information on the work of the Sustainability Committee, please see page 126. For more information on the Group's sustainability strategy, please see pages 50 to 70.

Remuneration

In 2022, we further embedded ESG into our culture by introducing a new emissions metric into our Long-Term Incentive Plan for Executives. For more detail on this metric, please see page 141 of the Remuneration Committee report.

Policies

The Board oversees our policy framework, including our Modern Slavery Statement, risk management framework, environmental targets such as Science-Based Targets ("**SBTs**") and responsible investment approach. Such oversight permits the Board to articulate the standards of behaviour expected from all those working across the business and maintains a consistent approach at every level.

Seeking feedback from our people

The Board reviews the outputs of the employee engagement and satisfaction survey, DiaLoGue, and Directors regularly attend meetings of the Employee Representative Body ("**ERB**"). The Board recognises that employees who are able to grow and develop in a safe, respectful environment are indicative of a successfully embedded culture and an indicator of a healthy business. For further information on colleague engagement please see pages 56 to 57 of the Strategic report and page 108 of the Corporate Governance report.

Whistleblowing

The Board reviews reports received via Rightcall, the Group's confidential independent whistleblowing helpline. The Board considers whether there are any trends in reporting that indicate behavioural or cultural issues that need to be addressed. For further information on whistleblowing, please see the Board Risk Committee report on page 122.

Group Audit

The Audit Committee receives regular reports from the Group Audit Function which include insights into culture and behaviour in the business. For more information on the work of the Group Audit Function, please see the Audit Committee report on page 118.

Wellbeing of our people

Our people are strongly encouraged to 'bring all of themselves to work'. Our informal dress code, combined with our flexible working policy, are designed to create an environment that attracts and retains a diverse, talented workforce. The Board supports enabling people to work in a way that is compatible with their lifestyle choices and personal values.

Valuing diversity

The Board supports our Diversity Network Alliance ("**DNA**"), which has evolved from a knowledge and education hub to a body of colleagues who are consulted with and lead on key diversity and inclusion initiatives, working to improve our people's lived experiences. For more information on the DNA, please see page 57.

Suppliers

The Group's Ethical Code for Suppliers, reviewed by the Sustainability Committee, sets out our commitments to our suppliers and the expectations we have of them. We pay our suppliers on time and, during the year, we were awarded a Fast Payer Accreditation Award by Good Business Pays.

Chief Executive awards

Annually, the business recognises and celebrates those amongst our colleagues who best embody our values. Our values are set out on page 11.

Keeping our culture under review

During 2022, the Board reviewed our culture, considering which aspects should be protected, such as the passion, enthusiasm and energy of colleagues and which aspects could be dialled up e.g. a greater focus on the skills needed for the future. In response to this we launched our future skills academy 'Ignite' and enhanced recruitment activity to ensure we are focused on attracting the skills needed for the future in a highly competitive market. For more information please see page 56.

Board meetings and activity in 2022

Scheduled Board meetings focused on four main themes, as detailed below:

Themes	Description
Strategy and execution Strategic alignment 1 2 3 4 5	• 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 2 4 5	• 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 4 6	• 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; • reviewing the Group's ESG initiatives; and • reviewing and approving the Group's Task Force on Climate-related Financial Disclosures ("**TCFD**") and Sustainability reports.
Board and Board Committee governance Strategic alignment 1 6	• Receiving reports from the Board's Committees; • updating the Schedule of Matters Reserved for the Board; • updating terms of reference for the Board Committees; • receiving corporate governance updates; • overseeing Board and executive succession planning; • conducting the annual review of the Board and Board Committees' effectiveness; 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 2022, 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 strategy

1 Be best at direct
2 Win on price comparison websites
3 Extend our reach
4 Be nimble and cost efficient
5 Have technical edge
6 Empower great people

Board and Committee meeting attendance

The Board and its Committees held a number of scheduled meetings in 2022, 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 2022. 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	Sustainability Committee	Investment Committee	Nomination and Governance Committee	Remuneration Committee
Chair							
Danuta Gray	9 of 9	–	–	–	–	2 of 2	4 of 4
Senior Independent Director							
Richard Ward	9 of 9	–	5 of 5	–	–	2 of 2	4 of 4
Non-Executive Directors							
Tracy Corrigan[1, 3]	9 of 9	–	–	4 of 4	–	–	1 of 2
Mark Gregory[3]	8 of 9	7 of 7	5 of 5	–	4 of 4	–	3 of 4
Sebastian James	9 of 9	–	–	4 of 4	–	2 of 2	4 of 4
Adrian Joseph OBE	9 of 9	–	–	4 of 4	–	–	–
Fiona McBain[2]	9 of 9	7 of 7	4 of 5	–	4 of 4	–	–
Gregor Stewart[3]	9 of 9	7 of 7	4 of 5	–	–	–	–
Executive Directors							
Neil Manser	9 of 9	–	–	–	4 of 4	–	–
Former Executive Directors							
Penny James[3]	9 of 9	–	–	3 of 4	–	–	–

Notes:
1. Tracy Corrigan joined the Remuneration Committee on 1 April 2022.
2. Fiona McBain was unable to attend a meeting due to illness.
3. Mark Gregory, Tracy Corrigan, Gregor Stewart and Penny James were unable to attend certain meetings due to conflicting commitments.

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 16.

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 107.

Section 172(1)

The Directors must act in a way they consider, in good faith, what 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 (amongst other matters):

- 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
- 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.	f Considered shareholder expectations in the context of the Group's published dividend policy. a c Considered the Group's capital position, taking into consideration regulatory and policy holder requirements and the long-term investment needs of the business. a Considered the macro-economic environment and geopolitical uncertainty that arose during the year.	The Board approved an up to £100 million share buyback programme (under which £50 million of shares were repurchased) and an interim dividend of 7.6p per share in respect of the first half of 2022. In July, the Board decided not to launch the second tranche of the buyback programme, and in 2023, took the decision not to recommend a final dividend for 2022. (For more information on capital management see page 30.)

Topic	Section 172(1) considerations	Outcomes
Consumer Duty implementation The Board considered the implementation of the FCA's new Consumer Duty rules, which take effect in July 2023.	c e Considered how the Group could embrace new requirements to further strengthen good outcomes and fair value for customers and how implementation could tie in with existing work streams aimed at improving customer outcomes.	Approved a Consumer Duty implementation plan and monitored progress against the plan. Appointed Tracy Corrigan as Board Consumer Duty Champion to ensure Consumer Duty is being raised in all relevant Board discussions and drive management to focus on consumer outcomes.
Cost of living crisis The Board considered how to respond to changes in real disposable incomes seen during the year.	b Considered feedback received via the ERB about how the cost of living crisis was affecting colleagues and what could be done to support our people.	A range of measures were put in place to support colleagues. See page 56 for more information on these measures.
	c e Considered how the cost of living crisis was impacting customers' ability to pay for their premiums and excesses, and how the Group could help.	Several measures were introduced to support those facing financial difficulty. See page 53 for more information on these measures.
	a c Considered how to adapt the Group's motor products to provide customers with the choice of a stripped-back insurance policy.	The launch of the Churchill Essentials product (see page 53 for more information).
Location of London hub The Company's main London hub has been based in Bromley for a number of years and the Board considered whether this continued to be the optimal location for the hub.	a b Considered the need to attract and retain the talent and skills needed for the future of the business by making the London hub more accessible to a wider geographical area.	It was decided to move the Group's head office to a smaller Central London property.
	a d Considered long-term cost and environmental benefits achieved from taking on a smaller property that would not be underutilised in the new hybrid working environment.	
	b Considered feedback received from colleagues via an ERB consultation about how the move would impact them.	Agreed a revised Travel Assistance Policy and measures to support neurodiverse colleagues (see page 56 for more information).
	d The CEO (at the time) met with the MP for Bromley and the Leader of Bromley Council to discuss how the move could impact the local community in Bromley and what the Group could do to support it.	This engagement led to Bromley Council deciding to purchase the Bromley property from the Company to use as its own headquarters, projecting the move would result in considerable cost savings to the public finances.
Science-Based Target ("SBT") setting The Board considered SBTs to be set and submitted for validation to the SBTi.	a Considered the Group's vision to create a world where insurance is a force for good.	The Board approved five targets for validation. These targets were subsequently validated by the SBTi and published by the Company (see page 66 for more information).
	d Considered advice from specialist adviser Carbon Intelligence.	
	f Considered trends in the investor community towards ethical investment and reducing climate risk.	
	c Considered engagement with suppliers as part of the Group's Supplier SBTi on-boarding programme which assessed suppliers' current status and ambitions in respect of setting SBTs themselves.	Agreed to set a voluntary target. See page 66 for more information.

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. During the year, and following the trading update in January 2023, the Chair attended a number of meetings with institutional investors to discuss the performance and immediate strategic priorities of the business.

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. In 2022, we returned to holding an in-person AGM and saw increased attendance and engagement from retail shareholders compared to the hybrid/virtual AGMs we had held in the previous two years due to the pandemic.

Our People

Meetings of the Group's Employee Representative Body ("**ERB**") are generally attended by the CEO and one or two Non-Executive Directors. Attendance and information on the work of the ERB during the year can be found on page 108.

Executive Directors host interactive sessions with colleagues throughout the year to receive feedback and answer questions. These sessions are held in various formats in order to encourage maximum participation e.g. video conference town halls which include live Q&As and 'virtual cuppas', enabling colleagues to have a more informal discussion with senior managers.

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'.

During the year, the CEO (at the time) visited the Group's operations in Leeds, Bristol, Aldershot, Farnham, Doncaster, Bromley and Glasgow. All of the visits included informal Q&A sessions with colleagues.

More information about the outcomes of this engagement and actions taken in response can be found on page 56.

Our Customers

The Board closely monitors customer conduct and satisfaction. It considers a Customer Conduct 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 and appointed Tracy Corrigan, Non-Executive Director, as Consumer Duty Champion to act as the voice of the customer in the boardroom.

During the year, the CEO (at the time) visited the Company's operations in Doncaster, one of the Group's main customer contact centres. Whilst there, she listened to calls with customers and spoke with customer-facing colleagues to get a better understanding of what our customers are telling us.

Our Suppliers

The Board receives regular updates from management on key issues with suppliers.

During the year, the CEO (at the time) met with a number of key technology suppliers and partners.

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 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 Sustainability Committee can be found on pages 126 to 127.

During the year, the CEO (at the time), the Chair and several Non-Executive Directors visited the Group's new Technology Centre in the Stechford Accident Repair Centre, which is where we test how we can fix Electric Vehicles in a greener way.

Whilst she was CEO, Penny James represented the Group on the Sustainable Markets Initiative Insurance Taskforce, which works with other insurers and brokers to collectively advance progress to a net-zero economy. During the year, the Group led the initiative's "Global Supply Chain Pledge" (see page 127 for more information).

Employee Representative Body

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 (former) CEO, the Chief People Officer and members of the senior leadership team. Non-Executive Directors also attended meetings on a rotational basis (during the year, five 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.

During the year, the ERB considered at one of its meetings how effective the structure of the ERB was in representing colleagues in the new hybrid office and home working environment. It was agreed that it was key to maintain flexibility in the structure to ensure that all areas were appropriately represented. A session was also held where the ERB and management considered how they could work more effectively together in the future in respect of business change activities.

Information about Board representation at ERB meetings can be found in the table below. Information about topics discussed and action taken in response to feedback can be found on page 56.

Meeting	March	June	October	December
Board Representation	Penny James (former CEO) Neil Manser (CFO) Tracy Corrigan (Non-Executive Director)	Penny James (former CEO) Mark Gregory (Board Risk Committee Chair) Gregor Stewart (Audit Committee Chair)	Penny James (former CEO)	Penny James (former CEO) Richard Ward (Remuneration Committee Chair) Fiona McBain (Investment Committee Chair)

Division of responsibilities

Governance framework and structure

The Board oversees the system of governance in operation throughout the Group. This includes a robust system of internal controls and a sound Risk Management Framework. 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 High-Level Control and System of Governance Framework 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;
- High-Level Control and System of Governance Framework document;
- Risk appetite statements, which are described on page 86;
- Enterprise Risk Management Strategy and 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 standards, which interpret the Group's policies into a set of requirements that can be implemented throughout the Group.

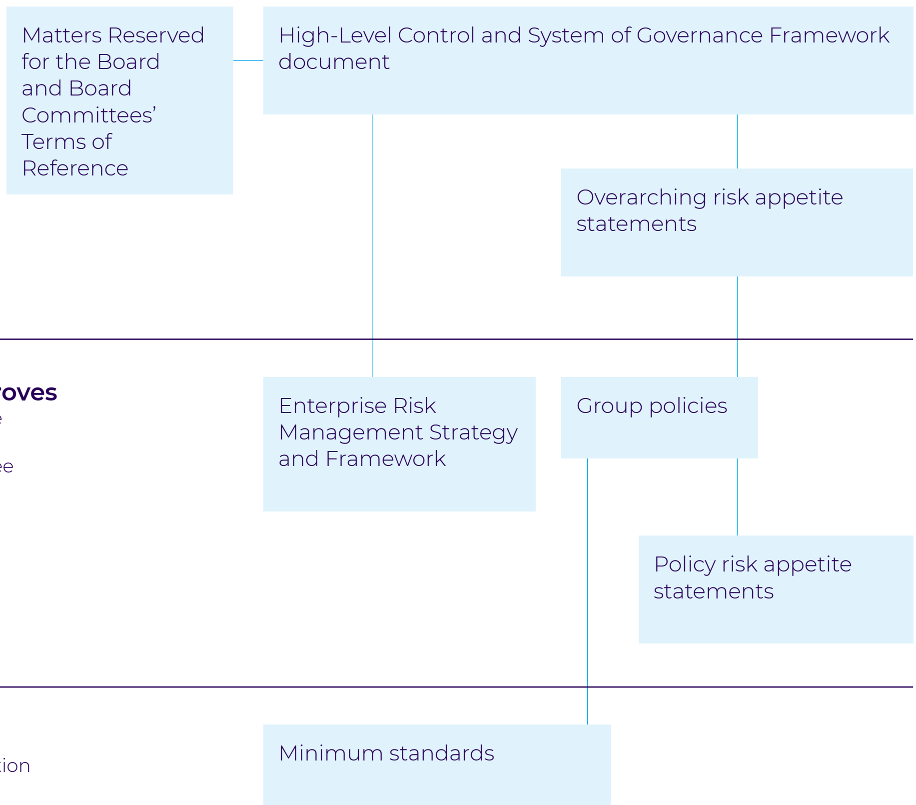
The diagram below summarises the split of responsibilities for the different parts of the Group's governance framework.

The Board approves
The High-Level Control and System of Governance Framework, overarching risk appetite statements and Group policies, following review by the Board Risk Committee.

Matters Reserved for the Board and Board Committees' Terms of Reference.

The Board Risk Committee approves
The Risk Management Framework and the policy risk appetite statements, following review by the Risk Management Committee (a committee comprised of executives).

Policy owner approves
Minimum standards, subject to non-objection from the Risk Management Committee.



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 2022, 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

Board composition

As at the date of this report, the Board comprised the Chair, who had previously served as an independent

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 2022, the Board comprised the Chair, seven independent NEDs, and two executive Directors (the CFO and the (now former) CEO).

Biographies of the full Board can be found on pages 96 to 98.

Board Committees

Full details of membership, responsibilities and activity of each Committee throughout the year can be found on pages 116 to 129.

Audit Committee

Board Risk Committee

Investment Committee

Nomination and Governance Committee

Remuneration Committee

Sustainability Committee

The Executive Committee

The Executive Committee is the principal management committee that helps the CEO manage the Group's operations. It helps the CEO:

- Set performance targets;
- Implement Group strategy;
- Monitor key objectives and commercial plans to help achieve the Group's targets; and
- Evaluate new business initiatives and opportunities.

Biographies of the Executive Committee can be found on pages 100 to 101.

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 they cannot resolve 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 CEO[1] and CFO are members of the Board, with delegated responsibility for the day-to-day operation of the Group and delivering its strategy.
- The 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.
- Alongside the Chair, oversees the governance framework.

Note:

1. Penny James served as CEO and Executive Director until 27 February 2023. Jon Greenwood, who is currently serving as Acting CEO, is expected to be appointed to the Board as an Executive Director once regulatory approval has been obtained.

Non-Executive Director and was independent when appointed as Chair; one Executive Director; and seven independent Non-Executive Directors, including the Senior Independent Director. During 2022, the CEO was Penny James, who served as an Executive Director. Ms James stepped down from the Board on 27 January 2023. Jon Greenwood, the Group's Acting CEO, is expected to be appointed to the Board once outstanding regulatory approvals have been obtained.

Biographical details of the Directors of the Company as at the date of this report are set out on pages 96 to 98. Details of Directors who have served throughout the year can be found in the Directors' Report page 162.

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 124 to 125.

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; and one-to-one meetings with Board members, Senior Management and the Company's advisers.

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. Training topics included competition law, anti-bribery and corruption, the Bank of England's Climate Biennial Exploratory Scenario and the International Financial Reporting Standard 17 (the new accounting standard for insurance contracts). In addition, a series of deep dives into the Group's business areas took place during the year, including technology transformation and pricing strategy.

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 2023 AGM. You can find out more about the activities of the Nomination and Governance Committee's work during the year on pages 124 to 125.

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, Tracy Corrigan's appointment as a Non-Executive Director of Barclays Bank UK plc and Domino's Pizza Group plc. The Board was satisfied that, in taking on the new positions, Tracy 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.

In line with best practice, and as will be required from next year by the new Listing Rule disclosure requirements, the Company has chosen to be an early discloser against the board diversity targets specified in LR 9.8.6R(9), and to disclose numerical data on the ethnic background and sex of the Company's Board and executive management (see tables on pages 99 and 100). The Company reports that as at 31 December 2022 the Board was fully compliant with the new targets, namely that:

a. at least 40% of the Board were women;
b. at least one senior Board position was held by a woman; and
c. at least one Board member was from a minority ethnic background.

Board's approach to diversity and inclusion

The Board is fully committed to promoting Diversity and Inclusion at Board and senior management level as well as throughout the organisation.

Since 31 December 2022, Penny James stepped down as CEO, which means that the Company no longer meets target a). It is the Board's aim to meet this target again and it recognises the challenge in doing so, noting that as the Board's skills and experience are refreshed over time, its gender balance may fluctuate according to the availability of the best candidates for new roles at any given time. The Board will continue to make diversity, including gender diversity, a key consideration in Board succession planning.

The Company currently meets the Parker Review's target to have at least one director from an ethnic minority background by the end of 2024. As at 31 December 2022, the Company had met the FTSE Women Leaders Review targets to have women make up 40% of Board and Leadership Team[1] positions by the end of 2025 but as explained above, has subsequently dropped below the target in respect of Board composition. It aims to be compliant with this target again by or ahead of the target deadline.

Having achieved its Women in Finance target of 30% women in senior management[2] by 2021, the Group chose to adopt an ambitious stretch target of 35% by the end of 2022.

Note:
1. Defined as Executive Committee and their direct reports excluding administrative staff.
2. Women in Finance Charter definition of senior management is based on our internal grading structure.

On 31 December 2022, 31.3% of the Group's senior management were women. Whilst the Group missed its stretch target, it believes the process of target setting has had value and driven the Group's internal work to improve gender representation.

The tables below set out data about the sex and ethnicity of the Board and executive management as at 31 December 2022, 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 management[1]	Percentage of executive management[1]
Men	6	60%	2	5	46%
Women	4	40%	2	6	54%
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 management[1]	Percentage of executive management[1]
White British or other White (including minority-white groups)	9	90%	4	9	82%
Mixed/Multiple Ethnic Groups	1	10%	–	–	–
Asian/Asian British	–	–	–	2	18%
Black/African/Caribbean/ Black British	–	–	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

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.

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 2022 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 page 124 of the Nomination and Governance Committee report).

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 page 125.

Workforce diversity and inclusion

The Board continues to support Group-wide diversity and inclusion activities and initiatives, many of which are outlined on pages 57 to 59. 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). During the year, Non-Executive Director Adrian Joseph hosted a 'lunch and learn' for the REACH DNA strand during Black History Month.

More information about the work of the DNA during the year can be found on page 57 of the Strategic report.

Board skills, experience and knowledge

The Nomination and Governance Committee has an active and dynamic process of assessing and monitoring the skill set, experience and knowledge of Board members. The principles of the UK Corporate Governance Code 2018 are embodied in the Committee's approach to Board evaluation and succession planning. The Chair of the Nomination and Governance Committee goes through a continuous process of evaluating the skill and experience required on the Board.

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 2022, the effectiveness review was supported externally by board evaluation consultants, Independent Audit Limited, who have no other connection with the Company or any Director.

The 2022 evaluation process started in the autumn of a year in which the Group had dealt with rising claims inflation and fundamental regulatory change, along with severe weather events, and the resulting report was updated following the trading update published in January 2023. It focused on the information available to the Board to support its oversight, the interaction between the Board and management, and the Board's approach to basing immediate strategic priorities on the lessons learned from the events of 2022.

Independent Audit Limited conducted one-to-one interviews with Board members, senior managers and others, and were regular attendees of Board and Committee meetings. They reviewed meeting papers and observed Board and Committee meetings. Independent Audit Limited's findings and recommendations were considered by the Board and its Committees in early 2023.

Evaluation process

Step 1	The thematic priorities for the review were established by Independent Audit Limited in discussion with the Chair and the Company Secretary.
Step 2	Independent Audit Limited interviewed members of the Board, senior managers and advisers, reviewed papers and observed Board and Committee meetings.
Step 3	A report was discussed with the Chair and the Company Secretary, updated in light of developments since the initial review had been completed, and submitted to the Board and each Committee for discussion.
Step 4	An action plan was defined following discussion of the reports.

2022 evaluation outcome

The results of the review were presented to the Board and its Committees in early 2023 and will form the basis of an action plan for 2023 as summarised in the table on page 114, along with an update on the action plan that resulted from the 2021 review. Themes emerging from the 2022 review included potential improvements to the quality of the information available to the Board, a reflection on how lessons learned from the challenges faced by the Group in 2022 should inform immediate strategic priorities, and a review of how the breadth and depth of expertise in the wider management team should be refreshed. 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.

2021 focus areas and action taken during 2022

Strategic topics

The Board's agenda was more closely aligned to the Group's prioritised Objectives and Key Results, and included deep dives into the FCA's Pricing Practices Review ("**PPR**") regulations; investment in innovation; digitalisation of customer experience; development of new products; medium-term technology strategy; mobility ecosystems; business culture; the Group's business portfolio; new Consumer Duty regulation; and supporting capital resilience with a quota share reinsurance programme.

Engaging more effectively with the wider Executive team

The Board continued to engage with the wider management team and workforce. Throughout the year, the Executive Committee and members of senior management were invited to attend Board and Committee meetings, and the Board's annual strategy day, to provide updates on their areas of responsibility. Among other site visits, members of the Board visited the new technology centre at the Group's accident repair centre in Stechford, Birmingham, the customer service centre and accident repair centre in Glasgow and attended a Chief Information Office boardwalk in Bromley to learn about progress and innovation being led by the Group's technology teams.

Preserving and refreshing skills and experience in future Board composition

During the year, the Nomination and Governance Committee considered the observations made during the 2021 Board effectiveness review about taking a medium- to long-term view of succession planning. The scope of a succession planning exercise was agreed with a search firm, Teneo, which will continue its work in 2023. A further search for a Non-Executive Director with financial services, retail and e-commerce experience was launched and resulted in the appointment of Mark Lewis with effect from 30 March 2023.

2022 focus areas and proposed action for 2023

Reflecting on 2022 challenges

The Board, with the assistance of external experts, will assess how the lessons learned from managing the challenges of and increased market volatility during 2022 can be used to enhance governance and oversight.

Improving Board information

The Key Performance and Risk Indicators, analysis and insight made available to the Board will be the subject of review, with the objective of streamlining and continuing to improve the reports provided.

Succession planning

In addition to the immediate priority of searching for a new Chief Executive Officer, the Board will carry out a further review of Board and senior management succession plans and talent pipeline development with a view to accelerate some of the actions already in progress. These focus both on further improving diversity in management and the Board as well as enhancing the breadth and depth of the skills and experience required to execute the Group's strategic plan.

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 92 and page 164;
- 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 116.

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 166. The Group's External Auditor explains its responsibilities on page 176.

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 90.

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 £40 million or greater, based on a 1-in-200 year likelihood period. 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 Statement to support the Board in monitoring the effectiveness of the Group's risk management and internal control systems. 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. 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.

The 2022 Internal Risk and Control Assessment process did not identify any material financial, operating or compliance control deficiencies; however, it did identify areas where further enhancements could be made to the Group's risk and control environment. Actions being taken in these areas of enhancement include: ongoing activities related to the Group's pricing practices and controls, claims handling, technology, information and system security, and change and resilience controls.

Whilst neither the Group Audit nor the Risk functions identified any material risk and control deficiencies in the Group's risk management and control framework through the IRCA, both highlighted an increased number of control deficiencies during the year, which were considered by the Risk and Group Audit Functions and the Board to not be material in the context of the Group as a whole and the Group's Risk and Control Framework, resulting in an overall deterioration in the resilience of the risk and control environment.

The issues identified in the IRCA process were in the main caused by a unique combination of external and internal change factors which placed notable short-term strain on certain processes in the Group. For example, exceptional inflation particularly in the Motor market, severe weather events, significant regulatory change in the FCA's Pricing Practices Review regulations and external delays to claims settlement in the light of significant challenges to the supply chain, and with these also coinciding with systems re-platforming and embedding, made for a peculiarly challenging operating environment during the year.

Both Risk and Group Audit functions have confirmed to the Committee that many of these issues were mitigated by compensating controls.

To address the issues identified, some mitigating controls have already been utilised and further actions have been identified to further strengthen specific controls and the resilience of the risk and control environment. Certain enhancements are also planned to provide greater resilience against potential future stress scenarios. The enhancements will be overseen by the Audit Committee and Board Risk Committee.

Notwithstanding the identified and planned risk management and control enhancements, on the basis of the conclusion provided by each of the Risk and Audit functions in the IRCA process, the Audit Committee and Board Risk Committee are satisfied that the risk management and control environment has been satisfactory during the year.

The Group Audit function supports the Board by providing an independent and objective assurance of 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 2022 annual assessment of the risk management, governance and control environment did not identify any matters that conflict with the 2022 Internal Risk and Control Assessment Statement.

On behalf of the Board, the Board Risk Committee reviewed the 2022 Internal Risk and Control Assessment and was satisfied with the conclusion that the Group's risk management systems, including its internal control systems, were fit for purpose 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 assessment carried out in and in respect of 2022, 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 130 to 150, 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 136.

Audit Committee report

Gregor Stewart
Chair

Committee membership

- **Gregor Stewart**
  Chair
- **Mark Gregory**
  Independent Non-Executive Director
- **Fiona McBain**
  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 and other internal controls, and financial and regulatory reporting.
- 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: reviewing and challenging the key accounting estimates and judgements made by management to support the financial statements.
- Insurance reserves: reviewing the Group's insurance reserves to obtain assurance that they remain appropriate for discharging expected liabilities.
- IFRS 17 implementation, including the associated new finance and actuarial systems.
- Audit tender: overseeing the external audit tender process and making a recommendation to appoint a new auditor to the Board.
- Reviewing and challenging the Group's Task Force on Climate-related Financial Disclosures report.

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.

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 and non-financial reporting, insurance reserves, internal controls and Group Audit.

2022 was a particularly challenging year for the Group and this was reflected in the matters considered by the Audit Committee during the year.

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 117.

In addition, the Committee reviewed papers prepared by management on the use of alternative performance measures in the financial statements. It 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 and Regular Supervisory reports on behalf of the Board before submission to the PRA, and concluded that the processes to produce and review the Group's regulatory reports had operated satisfactorily.

Reserves

The Committee reviewed and challenged the key assumptions and judgements, emerging trends, movements, and analysis of uncertainties underlying the estimate of reserves. These assumptions and judgements were informed by actuarial analysis, wider commercial and risk management insights, and principles of consistency from period to period. During the year, inflation risks were discussed in detail, taking account of supply chain constraints, as well as care cost, parts and general labour inflation affecting different lines of business. The Actuarial Director presented scenario analyses for various inflationary drivers, supporting the booking of the claims reserves. After reviewing the reserves, the Committee recommended them to the Board.

The Committee also considered an external actuarial review of material risk areas of the insurance reserves carried out for the Committee by PricewaterhouseCoopers LLP ("**PwC**").

IFRS 17 implementation

During the year, the Committee continued to be highly engaged in overseeing the implementation of IFRS 17. The Committee: reviewed updates on the completion of the programme of works to design and implement the changes required to accounting and reserving processes and systems; reviewed, challenged and approved accounting policy choices and accounting judgements; and reviewed the estimated impact of transitional adjustments and external communication arrangements. The Committee held a deep-dive meeting and a training session focused on IFRS 17 where these matters were considered in depth.

Significant judgements and issues

Matter considered	Description	Action
Insurance reserves valuation	The Committee reviewed the level of insurance reserves of the Group. Insurance reserves relate to outstanding claims at the balance sheet date, including claims incurred but not reported at that date. By their nature, insurance reserves require analysis of trends and risks, and the application of management judgement, knowledge and experience. Further information on reserves is provided on pages 35 to 36.	In 2022, the Committee reviewed and challenged the approach, methodology and key assumptions used by management in setting the level of insurance reserves, 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 2022 were the assumptions made in respect of the cost of care and damage claims inflation, as well as the more wide-ranging impacts of the current macro-economic environment. The Committee discussed the judgements that underpinned the year end reserves, including those based on data received on current and prior-year development and settlement patterns, the development of Motor bodily injury and damage claims for both severity and frequency patterns, and subsidence following the dry summer, as well as severity inflation observed in older years' claims. Because of the increased uncertainty in an inflationary environment, the Committee reviewed detailed analysis of the issues that significantly impacted the booked reserves, alongside supporting data and diagnostics, and the potential range of outcomes. The Committee also reviewed and challenged the scenarios proposed for reserving for the severe weather event in December. In addition, the Committee considered the Dear Chief Actuary letter from the PRA, which highlighted the risks of inflation for general insurers and required them to take certain actions to address those risks, and approved the Group's response plan. The Committee also obtained insight and reviewed results from an independent actuarial review of material elements of the reserves. The Committee was satisfied that management had exercised appropriate control and judgement in estimating insurance liabilities.
Valuation of investments not held at fair value and investment property	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.	In 2022, the Committee considered major 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 one 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 challenging macro-economic environment on the investment property portfolio and noted the year end independent valuation reflected factors in relation to the impact of ongoing economic uncertainty on certain sectors of the portfolio, primarily in relation to the industrial and hospitality sectors. The Committee concluded that the carrying values in the accounts were reasonably stated.

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 72.

Going concern, viability and fair, balanced and understandable

The Committee considered the going concern assumptions and viability statement in the 2022 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 2022 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 117. 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 92.

Internal control

During the year, the Committee reviewed the adequacy and effectiveness of the controls that underpin the Group's financial reporting control framework which are part of the wider internal controls system and addresses financial reporting risks. 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 2022, the Committee received regular reports on any control deficiencies, compensating controls and the mitigating actions taken by management. There were no material control deficiencies reported to the Committee in the year. However, there has been an increase in the number of control deficiencies identified during the year which were considered by the Risk and Group Audit Functions and the Board to not be material in the context of the Group as a whole and the group's Risk and Control Framework. These arose mainly as a result of external and internal changes particular to 2022 (for example, PPR, severe inflation and supply chain challenges, and these coinciding with systems re-platforming and embedding). However, both Group Risk Management and Group Internal Audit functions have confirmed to the Committee that many of these were mitigated by compensating controls. Nonetheless, the Group, through this Committee along with the help of external advisers, is reviewing its controls and processes, including relating to further automation. The reviews will be performed with a view to establishing potential increased resilience and improvements. 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 also monitored management's responses to the control insights and observations raised by the External Auditor in its annual management letter during the year, and were 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 key developments in the Group Audit function, including the development of Group Audit's Vision and Purpose and supporting team structure. Within Group Audit's four Strategy and Vision pillars a particular focus was the data enablement workstream to upskill the team, increase the number of audits using data analytics and to provide more timely and impactful insights on several key audits. Group Audit's performance partner PwC continued to provide independent quality assurance activity with results reported to the Committee on a regular basis.

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 performed continuous oversight of the change portfolio and completed a number of reviews of major programmes during the year. The Committee approved Group Audit's plan on a rolling 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 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 2022 it received sufficient, reliable and timely information to perform its responsibilities effectively.

During the reporting period, the External Auditor and Head of 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.

External Audit

Deloitte LLP ("**Deloitte**") has served as the Company's Auditor since 2000. Adam Addis, ACA, was the lead audit partner for the Company's 2021 and 2022 audits. Andrew Holland, FCA, will take over as lead audit partner for the Company's 2023 audit.

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 tender

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 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, they could only continue as the Company's External Auditor until 31 December 2023 and therefore did not participate in the tender. There were no contractual obligations restricting the Group's choice of External Auditor.

A Working Group was established by the Committee to run the day-to-day process and report back to the Committee on a regular basis. The Working Group was led by a senior member of the procurement function and the process was run in line with corporate governance and procurement best practice. An outline of the process is set out below:

- Audit firms were invited to participate in the tender based on their general insurance industry capability and experience. The invitation was sent to the 'big four' (excluding Deloitte who were not allowed to re-tender as set out above) and a number of mid-tier firms.
- A request for information ("**RFI**") was sent to the firms who had indicated they wished to tender, and responses were reviewed by the Working Group and the Audit Committee.
- All firms who responded to the RFI were invited to participate in the formal tender process.
- A request for proposal ("**RFP**") was reviewed by the Committee and issued. Responses were received and reviewed using a score card system based on a set of non-discriminatory selection criteria.
- The lead audit partners of the short-listed firms met with the Committee Chair to gain greater insight into the business and the work of the Committee.
- Key members of the short-listed firms' audit teams presented to the full Audit Committee in person.
- The Committee met to evaluate the proposals, following which a recommendation was made to the Board, giving it the option of two firms, expressing a preference for one.

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.

The Committee will now work to oversee an efficient and effective handover from Deloitte to KPMG.

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, and this year approved a new provision which sets out safeguards for the cooling-in of a new audit firm.

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 a letter from Deloitte which confirms 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 did not approve any fees for services from Deloitte unrelated to audit work. The following is a breakdown of fees paid to Deloitte for the year ended 31 December 2022 (excluding VAT).

	Fees £m	Proportion %
Audit fees	3.0	94
Audit-related assurance services	0.2	6
Non-audit services	–	–
Total fees for audit and other services	3.2	100

Audit-related assurance services were in respect of the Group's Solvency II reporting and the review of the Half Year report 2022, for which the Company's External Auditor must be used. Further information in respect of audit fees paid to Deloitte is disclosed in note 10 to the consolidated financial statements.

Effectiveness of the external audit process and re-appointing Deloitte as External Auditor

In 2022, 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 recommended to the Board that the Group re-appoint Deloitte as External Auditor, to which the Board agreed. A resolution regarding the reappointment of Deloitte as auditor of the Group will be put to shareholders at the 2023 AGM.

Committee effectiveness review

During the year, an external evaluation of the effectiveness of the Committee was facilitated by Independent Audit Limited as part of the wider review of the Board and the Board Committees. The review found that the Committee functions effectively, provides the right degree of challenge, and interacts well with other Committees and the Board. Further information on the Board effectiveness review can be found on pages 113 to 114.

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 2023.

Gregor Stewart
Chair of the Audit Committee

Board Risk Committee report

Mark Gregory
Chair

Committee membership

- **Mark Gregory**
  Chair
- **Fiona McBain**
  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

- Monitoring and reviewing the Group's top risks across its financial, operational and organisational resilience pillars.
- Regular assessment of the Group's emerging risks, including monitoring of the geopolitical landscape and its impacts on the Group.
- Overseeing and challenging progress and delivery of the FCA's Consumer Duty implementation programme.
- Receiving regular updates on climate change including in relation to the Climate Biennial Exploratory Scenario ("**CBES**") exercise.

Further detail on these areas can be found in the body of the Committee report.

Chief Risk Officer's Report

2022 was a particularly challenging year for the Group and this was reflected in the matters considered by the Board Risk Committee during the year. 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 this 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 climate change, changing consumer behaviours, keeping up with digital advancements, geopolitical tension, automotive technology and data ethics. In addition, the Committee reviewed the plan of risk assurance activities to be undertaken for each quarter and the year ahead to support the Company'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:

- overseeing and challenging progress and delivery of the Consumer Duty implementation programme;
- reviewing customer and conduct risk matters to ensure that fair pricing and outcomes are being achieved for customers across all Direct Line Group products, including reviewing actions taken to support customers through the cost of living crisis, the Group's annual pricing report, its pricing strategy and the pricing governance and control framework;
- examining and monitoring management on its progress to embed climate-related financial risk management in the business, including the Group's response to the Bank of England's CBES exercise, through technical briefings and regular climate-related updates;
- regular assessment of the geopolitical landscape and its impact on the Group;
- review of the Group's operational resilience self-assessment, including important business services and associated impact tolerances;

- review of 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;
- review of key and ongoing change programmes and the Group's change operating model, to ensure delivery in line with the Group's strategic plan;
- review of the Group's adherence to privacy and data protection legislation;
- the stability, security and capability of the Group's IT systems; and
- review of the Risk Function's target operating model and revised approach to the Group's risk culture, risk taxonomy and policy and minimum standard framework.

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: prioritisation of resource and activities to deliver the strategic plan; pricing and underwriting risk; and internal model validation activity. In addition, the Committee monitors and challenges the stress and scenario testing plan and outputs. The Committee also reviews 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.

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 Russia/Ukraine conflict led to an unprecedented number of new sanctions being implemented against the Russian regime. Whilst the new sanctions led to a significant increase in the number of sanctions list updates in H2 2022, the impact of the Russia/Ukraine conflict on the Group's ability to adhere to sanctions requirements was low. During 2022, two positive sanctions matches to the Russian regime were identified in relation to insurance via certain packaged bank accounts – all necessary internal and external reporting action was taken. New sanctions on Russia are continuously coming into effect and 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 2022 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 external evaluation of the effectiveness of the Committee was conducted by Independent Audit Limited as part of the wider review of the Board and the Board Committees. The review found that the Committee's effectiveness had been improved by reshaping the agenda and improving information flow; the purpose of meetings was clear and challenge and questioning was focused. Further information on the Board effectiveness review can be found on pages 113 and 114.

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 2023.

Mark Gregory
Chair of the Board Risk Committee

Nomination and Governance Committee report

Danuta Gray
Chair

Committee membership

- **Danuta Gray**
  Chair
- **Sebastian James**
  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

- Took a long-term view of the skills and experience needed by the Board, given the terms of appointment of existing Non-Executive Directors, and started a talent-mapping and market-scanning exercise to identify future candidates with relevant strategic experience.
- Monitored progress on senior management succession planning and the development of a diverse talent pipeline.
- Oversaw a search for a Non-Executive Director with financial services, retail and e-commerce experience.

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, diversity and cultural alignment, and matching its expertise with the Group's long-term strategy.

Since the end of the year, Penny James has stepped down as CEO and as a member of the Board. The Committee is leading the search for a permanent successor, 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. We have engaged international experts 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) to assist with the search.

During the year, the Committee considered the board roles that will need to be recruited for as some current Non-Executive Directors' tenures reach nine years (a circumstance which is identified by the UK Corporate Governance Code as likely to impair, or which could appear to impair, a Non-Executive Director's independence) over the coming four years. Taking into consideration observations made during the 2021 Board effectiveness review about the approach to future Non-Executive appointments, the Committee chose to take a longer-term view and engaged Teneo, the global executive search and advisory firm (which has no other connection with the Company or any individual Director) to help conduct a talent mapping and market scanning exercise. The object of the exercise is to begin to identify possible candidates for future appointment as Non-Executive Directors, focusing on the expertise that the Board will need to oversee the development and execution of the Group's long-term strategy, as well as on diversity, including gender, ethnic and cognitive diversity, and on the succession plan for specific Board roles. The preparatory stage of the talent mapping review is expected to continue into 2023.

With medium-term succession planning in mind, the Committee recommended that Tracy Corrigan, independent Non-Executive Director, be appointed as a member of the Remuneration Committee. Tracy Corrigan's appointment was approved by the Board on 24 March 2022 and took effect on 1 April 2022.

The Committee also engaged Sciteb, the international strategy and search firm (which has no other connection with the Company or any individual Director), to conduct a search for a Non-Executive Director with deep and recent financial services, retail and e-commerce experience. As announced on 17 February 2023, this process resulted in the appointment, with effect from 30 March 2023, of Mark Lewis, a former CEO of Moneysupermarket Group, as an independent Non-Executive Director.

The Committee reviewed the Chief Executive's short and medium-term plans for the evolution of the Executive Committee, noting the availability of a number of senior managers in the Group capable of being developed over the next few years, as well as short-term emergency cover for contingency planning purposes.

Electing and re-electing Directors

Before recommending the proposed election or re-election of Directors at the 2022 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.

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 (plus Mark Lewis whose appointment is effective from 30 March 2023) will submit themselves for election or re-election at the Company's 2023 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 111 to 112, 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 found on page 100.

Non-Executive Directors' fees

During the year, the Committee reviewed the fees for chairmanship of the Investment and Sustainability Committees, and for membership of the Investment Committee. Recognising the time invested by Non-Executive Directors in the work of those Committees, the increasing prominence of sustainability risks and opportunities and the strategic importance of the Group's investment activity, the Committee proposed an increase in fees for chairmanship of both Committees from £10,000 to £15,000 p.a. and the introduction of a fee for membership of the Investment Committee of £5,000 p.a. The proposal was approved by the Board in February 2022 and took effect from 1 April 2022.

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 evaluation of the effectiveness of the Committee was facilitated by Independent Audit Limited as part of their wider review of the effectiveness of the Board. The review found that the Committee functions effectively and transparently, and that an appropriate balance is struck between the Committee's and the Board's discussions about Board composition and executive succession planning. Further information about the Board effectiveness review can be found on pages 113 to 114.

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 2023.

Danuta Gray
Chair of the Nomination and Governance Committee

Sustainability Committee report

Sebastian James
Chair

Committee membership

- **Sebastian James**
  Chair
- **Tracy Corrigan**
  Independent Non-Executive Director
- **Penny James**[1]
  Former Chief Executive Officer
- **Adrian Joseph**
  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 against 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, including setting, validating and tracking progress against the Group's Science-Based Targets.
- Considered decision making on ethical matters, including the Group's Ethical Code for Suppliers and Modern Slavery Statement.
- Reviewed performance and approach on key stakeholder matters, including compliance with the FCA's Consumer Duty and charitable activity in the local community.
- Reviewed the Group's people plans, including improving gender and ethnic diversity at senior leadership level and developing a culture of inclusivity.

Main activities during the year

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: "to help people carry on with their lives, giving them peace of mind now and in the future." The Committee received updates on management's strategy to implement the FCA's new Consumer Duty, and considered how this could be used as an opportunity to reorientate the business to meet customers' evolving needs, as well as ensuring regulatory compliance.

The Committee reviewed management's activity to support financially-distressed customers affected by the cost of living crisis and encouraged the business to continue to be guided by customers' needs, including being able to drive for work.

People

Over the course of 2022, the Committee oversaw work to promote a culture that helps people thrive through celebrating difference. This supported progress to increase the representation of women, minority ethnic and Black professionals in leadership roles. The Committee challenged management to further improve diversity and inclusion at all levels of the business and to strengthen the talent pipeline by focusing on candidates' potential and competencies.

The Committee oversaw enhancements to the Group's recruitment processes and encouraged ongoing work to grow the diversity profile of the Group's senior leadership team and build a culture of inclusivity. The publication of our second ethnicity pay gap report in 2022 was seen as an important step towards further improving inclusivity in the Group.

The Committee monitored employee wellbeing throughout the year, taking particular note of colleagues' experiences of the cost of living crisis and the uncertain economic climate. The Committee considered the effectiveness of the Group's hybrid working proposition and the opportunity to help colleagues improve their work-life balance. To enhance understanding of colleagues' concerns, during the year, some Committee members attended meetings of the Employee Representative Body ("**ERB**"). For more information on the work of the ERB, please see page 108.

Note:
1. Penny James was a member of this Committee until she stepped down from the Board on 27 January 2023.

Planet

Throughout 2022, the Committee oversaw work to protect the business from the impact of climate change and to achieve the goal of "giving more back to the planet than the Group takes out." The Committee oversaw the Group's involvement in external engagement initiatives, most notably, the Group's achievement of setting validated Science-Based Targets ("**SBTs**"). To this end, the Committee received insights into challenges facing the three most carbon-intensive areas of the business – Auto Services, procurement and investments – and examined strategies for setting meaningful targets and meeting them. For further details on alignment of the Group's investment portfolio with initiatives which will support the transition to a low-carbon economy, see the Investment Committee report for 2022 on pages 128 to 129.

During the year, the Climate Executive Steering Group, which reports into the Sustainability Committee, actively monitored progress towards sustainability across the business, including work to set, and monitor progress against, the Group's first SBTs. For more information on the Group's journey to setting SBTs, please see pages 65 to 66.

The Committee received updates on additional activities undertaken by the Group as part of its commitment to the environment, most notably:

- its partnership with Climate Impact Partners to support the Uruguay afforestation Project;
- the Global Supply Chain Pledge, part of the Sustainable Markets Initiative sponsored by His Royal Highness King Charles III; and
- supporting the Get Nature Positive campaign, as part of which the Group has partnered with the nature recovery charity Heal.

Updates on the Group's continuing involvement in the Bank of England's Climate Biennial Exploratory Scenario ("**CBES**") were received and noted by the Committee. Further detail regarding the Group's CBES submission and feedback responses can be found on pages 77 and 121.

Society

Over the course of the year, the Committee reviewed the distribution of the Community Fund. A sum of over £750,000 was allocated to help build a more inclusive and equitable Britain by improving social mobility and accelerating inclusion.

In 2022, funding priority was given to mentoring, work experience and career insight opportunities for disadvantaged young people. The Committee noted the success of community outreach events for sixth form students with the Executive Committee and the Chair of the Board and the strong participation from the wider Group population.

Additional Community Fund projects during the year included a £15,000 contribution to a sport initiative in Bromley and a £50,000 donation to the Pakistan disaster emergency appeal.

Governance

The Chair reported on matters dealt with at each Committee meeting to the subsequent scheduled Board meeting.

The Committee is committed to its role in supporting ethical and sustainable business practice across the Group, and challenging management's approach to delivering outcomes in line with the Group's vision and purpose.

Modern Slavery Statement

In February 2022, 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.html

Ethical Code for Suppliers

The Committee received the updated Ethical Code for Suppliers and assessed its alignment with the Group's wider strategy. In particular, the Committee noted that the business was encouraging its suppliers to align with its own commitment to reducing carbon emissions, and it welcomed the Group's ambition to work with suppliers with robust diversity and inclusion programmes.

Committee effectiveness review

During the year, an external evaluation of the effectiveness of the Committee was conducted as part of the wider review of the Board and the Board Committees which was facilitated by Independent Audit Limited. The review found that the Committee pushed energetically for SBTs, is adept at overseeing the Group's sustainability agenda and has organised its areas of focus appropriately. Further information on the Board effectiveness review can be found on pages 113 to 114.

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 2023.

Sebastian James
Chair of the Sustainability Committee

Investment Committee report

Fiona McBain
Chair

Committee membership

- **Fiona McBain**
  Chair
- **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 as yields in global financial markets rose rapidly, reflecting aggressive monetary policy tightening by central banks to control inflation and concerns that higher financing costs would lead to a period of economic recession.
- Received progress updates on the calibration of Science-Based Targets ("**SBTs**") for each asset class in scope within the investment portfolio. The work formed part of the Group's wider application to the Science-Based Targets initiative, which approved the Group's SBTs in November 2022. Further details on the SBTs, which includes investment targets, can be found on pages 64 to 68.
- 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.
- Ensured the investment portfolio held appropriate allocations and remained within agreed aggregate risk and exposure limits.
- Reviewed a detailed analysis setting out how the Group's investment governance framework and key related controls ensure investment activities and key decisions meet the PRA's expectations under the Prudent Person Principle.

Market Developments

At each scheduled meeting, the Committee received a market update from Jim Hardie, the Director of Investment Management & Treasury and more recently from Nicola Hartley, the Director of Investments and Capital Management. The updates covered: economic conditions and key data points in the UK, the US and the Eurozone; the outlook for growth, interest rates and inflation; and developing issues viewed as appropriate to be brought to the attention of the Committee.

Jim Hardie retired from his role in December 2022, I thank him for his valued contribution and commitment over the past ten years. I am also pleased to welcome Nicola Hartley as Jim's successor.

The Committee also monitored market consensus views and forward guidance on the development of interest rate policies set by the Bank of England, the US Federal Reserve, and the European Central Bank, and invited external asset managers to provide their own house views on market developments.

During 2022, the Committee's market discussions centered on the consequences of inflation rates having risen to levels materially higher than Central Bank target ranges, and the knock-on impacts for financial markets and the Group's investment portfolio.

Suitability of investment strategy

Studies examining stressed liquidity requirements and asset and liability matching were presented to the Committee during the year. This work informed strategic benchmark allocations and provided part of the context for the addition of new asset classes or disposing of holdings.

During the year, the Committee agreed small increases to minimum liquidity stress requirements covering one month and three month time horizons, and to a small rebalancing of benchmark weightings between GBP investment grade credit portfolios to better align with changes in liability duration. The Committee also examined and challenged a tactical credit spread de-risking proposal tabled by management which was subsequently approved with some changes reflected in the executed strategy.

Monitoring investment activity and performance

The Committee received a comprehensive report at each scheduled meeting covering: the financial results of investment activity; aggregate portfolio positioning against strategic benchmarks; performance of each individual portfolio against benchmark; adherence to operational controls; performance of suppliers; the alignment of the investment portfolio with the agreed ESG framework; and compliance with an agreed framework of risk, exposure and liquidity limits.

During the year, the Committee invited two external managers responsible for, respectively, certain investment grade credit portfolios and the US high yield credit portfolio, to present updates on: their respective portfolios; their assessments of investment conditions; and the outlook for fixed income markets. The Committee also received presentations from the external managers responsible for investment property and infrastructure debt and the internally managed credit portfolios.

Given the likelihood of a period of economic recession, the in-house investment team undertook a comprehensive review of the robustness of existing assets held in the investment portfolio, which was reviewed and discussed by the Committee.

The Trading Update provided to the market on 11 January 2023 in respect of the Group's trading for 2022 and outlook for 2023 set out the impact on the Group's investment property portfolio valuation. Information on the steps taken to counter some of the challenges which faced the Group last year can be found in the CEO review which begins on page 17.

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 external evaluation of the effectiveness of the Committee was conducted by Independent Audit Limited. The review found that the Committee is well-run, the level of technical discussion is suitable and Committee members have a good mix of technical and business expertise. Further information on the Board effectiveness review can be found on pages 113 to 114.

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 2023.

Fiona McBain
Chair of the Investment Committee

Directors' Remuneration report

Dr Richard Ward
Chair of the Remuneration Committee

Committee membership

- **Dr Richard Ward**
  Chair
- **Tracy Corrigan**
  Independent Non-Executive Director
- **Danuta Gray**
  Chair of the Board
- **Mark Gregory**
  Independent Non-Executive Director
- **Sebastian James**
  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

Areas of focus in the reporting period

- Appropriate remuneration outcomes for Executive Directors, senior management, and the wider workforce in a difficult year for the Group. Overall performance fell below our expectations and did not reflect our track record of delivering strong returns for our shareholders, and our people faced cost of living challenges
- Reviewing the current Directors' Remuneration Policy, which included considering all-employee remuneration and other stakeholder interests. The Committee were satisfied that the Policy remains fit for purpose

Dear Shareholders,

On behalf of the Remuneration Committee (the "**Committee**"), I am pleased to introduce this year's Directors' Remuneration Report, including our updated Directors' Remuneration Policy (the "**Policy**").

During 2022, Direct Line Group faced a volatile operating environment with elevated inflation, severe weather events, significant regulatory changes and challenging investment markets, which resulted in a material fall in operating profit. Whilst our other businesses performed broadly in line with our expectations (when normalised for weather), Motor delivered a disappointing result. As such the Group results fell significantly below expectations resulting in the Board's decision to not recommend paying a final dividend for 2022.

These factors have inevitably impacted remuneration outcomes for the 2022 financial year, and the Committee carefully considered a range of factors when making remuneration decisions in respect of 2022 performance. In doing so we were also cognisant of the challenges faced by our people in the context of the cost of living crisis and the actions the Group has taken to best support them through this period. Further details of which are set out later in this letter.

As part of this report, we are presenting our new Policy which, if approved, will apply from the date of the 2023 Annual General Meeting ("**AGM**"). No material changes are proposed to the Policy as the Committee concluded that the existing Policy remains largely appropriate for the Group at the current time. However, the Committee intends to make some changes to the implementation of the Policy for 2023 in respect of the Annual Incentive Plan ("**AIP**") and the Long-Term Incentive Plan ("**LTIP**") performance measures, and to simplify the LTIP by moving to a single annual grant, improving transparency and alignment with market practice. A summary of the proposals is included on page 132 and the full Policy is set out on pages 151 to 161.

The Committee's objectives include:

- rewarding Directors for results that are generated within the risk appetite set by the Board;
- setting an appropriate framework for remuneration for the Executive Directors, Executive Committee, and other senior management with enough flexibility so that the Group can attract and retain the best people for the organisation; and
- having oversight of remuneration policies throughout the Group and ensuring all our colleagues are paid fairly.

The Report is set out in the following sections:

Performance and incentive outcomes for 2022

Group financial and trading results fell materially below expectations in 2022 and although we have supported our customers and people in these challenging circumstances, we did not navigate these challenges as effectively as we would have wished. Nor did we maintain our track record of delivering strong returns for shareholders. The performance outcomes of the AIP and LTIP awards reflect these factors and challenges, and are set out below.

AIP

Financial performance in 2022 was heavily influenced by the challenging external environment, which was not navigated as effectively as we would have wished. Motor, in particular, was affected by high claims inflation, which remained ahead of our expectations throughout the year as well as headwinds from significant regulatory changes, higher used car prices, higher claims costs and longer repair times. As a result, there was a profit before tax of £0.2m (excluding restructuring and one-off costs), which was below the threshold level for this element of the AIP (55% weighting).

The remainder of the AIP (45% weighting) is based on Customer & Growth, Cost and People. Performance in respect of Customer & Growth and Cost elements were below the objectives set at the start of the financial year, although performance in respect of the People element was stronger, with delivery of industry-recognised training programmes to address skills gaps in particular areas and good inclusion and engagement scores.

However, the Committee and Executive Directors recognised the adverse impact of the Group's trading and financial performance this year on our shareholders (including the decision not to recommend a dividend in respect of 2022) and agreed that no AIP awards would be paid in respect of 2022.

Full details on the outcomes for the year are included on pages 138 to 139.

LTIP

In accordance with the remuneration reporting regulations, the reported figures in the single figure table for 2022 include the RoTE element of the 2019 LTIP awards and the TSR element of the 2020 LTIP awards. The Group granted LTIP awards in two tranches in 2019 and 2020.

- RoTE: the performance of this element (performance period ending 31 December 2022) was 14.2%. This was below the threshold target level of 17.5%, and therefore this element will lapse in full.
- Relative TSR: the performance of this element (performance period from grant to vesting date) was below the threshold performance level (median) leading to these elements lapsing in full.

This means that the overall outcome of the March and August 2019 LTIP awards, which vested in 2022 were both 60% of maximum (including the RoTE outcomes disclosed last year).

The relative TSR elements of the 2020 LTIP, and therefore the overall outcome of the March and August 2020 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

As noted, the Committee agreed with the Executive Directors that they would not receive an AIP award in respect of 2022, recognising the impact on the Group's financial performance during the year.

The level of vesting of the 2019 LTIP awards was 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.

The Committee recognises that the 2020 LTIP awards (in particular the March 2020 awards) were granted during a period of significant market volatility in share prices at the onset of the Covid-19 pandemic. Due to the ongoing uncertainty at that time, the Committee determined that it would not be appropriate to adjust awards at grant, but would instead consider whether there had been a "windfall gain" at vesting, in line with prevailing market practice. The Committee considered the continued appropriateness of this decision at each subsequent LTIP grant, but noted that there had not been a rapid recovery in the Group's share price since the pandemic (which may otherwise have been an indicator of a potential windfall gain).

In advance of the vesting of awards in March and August 2023, the Committee will conduct a final assessment of whether there has been a windfall gain in relation to either award. However, taking the factors above into account, and as the Group's share price is currently lower than it was at the grant of the awards, the Committee considers it highly unlikely that a windfall gain would arise on the 2020 LTIP awards were they to vest (noting that the RoTE elements of the awards will lapse but 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 2022

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 challenging cost of living environment. The Committee was acutely cognisant of the wider macroeconomic environment throughout the year, in particular the impact that high inflation and increases in energy bills have had on our people.

The Committee was supportive of the management's proposal to award a 5% salary increase to all staff (excluding Executive Directors and the Executive Committee) effective from 1 January 2023 (3 months earlier than the usual salary increase date of 1 April 2023). The increase was announced to staff in August 2022 to provide greater certainty in advance of higher energy bills over the winter period.

In addition, in early February 2023, we announced further support to our lower paid colleagues by awarding a cash lump sum of £1,000 to those earning less than £40,000. Whilst the Committee and Executive Directors agreed that there would be no AIP awards in respect of 2022, the Committee agreed with the management team's recommendation to recognise personal contribution to the business in 2022 within the wider workforce (excluding Directors, Executive Committee and senior leadership) by making moderate payments to this population based on personal performance and band.

The Group has also supported 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
- continuing to provide 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 2022, where I provided a recap of how executive pay operates at Direct Line Group and how this aligns with the remuneration structures in place throughout the Group. I listened to concerns from the ERB members regarding the extent to which our people were being affected by the cost of living challenges and how best to make a meaningful difference.

The Chief People Officer and 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. This year, updates included information on the Group's gender and ethnicity pay gaps and cost of living interventions outlined above. 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.

Directors' Remuneration Policy (the "Policy")

In line with the usual triennial Policy approval timescales, we will be proposing a new Policy to shareholders for approval at the AGM in May 2023. During the year, the Committee conducted a review of the current Policy, considering alignment to our strategic objectives and developments in market practice over the last three years, as well as the broader external environment. We also noted the high level of shareholder support received for our current Policy at the 2020 AGM (c.98%) and the subsequent high level of support for the implementation of the Policy disclosed in the 2020 and 2021 Directors' Remuneration Reports (c.97-98%).

Considering shareholder support for the existing arrangements and recognising the current economic uncertainty, inflationary challenges and complexities associated with the Insurance industry transition to IFRS 17, the Committee concluded that the existing Policy remains appropriate at the current time.

We are therefore proposing to roll-forward our existing Policy for approval at the 2023 AGM, subject to wording clarifications, in particular to remove the minimum weighting on relative TSR of 25% in order to provide greater flexibility in relation to LTIP targets. The Committee notes that there are currently no plans to remove the relative TSR measure. The Committee retains the ability to conduct a further review of the Policy as the external landscape evolves prior to the next scheduled shareholder vote at the 2026 AGM.

There are some minor changes to the implementation of the Policy for 2023 in respect of the performance measures for the AIP and the LTIP:

In the AIP:

- replacing Profit Before Tax with Operating Profit to align with the Group's KPIs going forward following the transition to IFRS 17; and
- introducing an assessment of the delivery of improved underwriting performance during 2023 to the Strategic metrics whilst continuing to recognise the importance of delivering great customer outcomes and supporting great people.

In the LTIP:

- introducing a cumulative Operating EPS measure to provide an assessment of absolute earnings levels over the performance period, in addition to the return measures reflected by RoTE and relative TSR;
- changing the relative TSR comparator group from the FTSE 350 (excluding Investment Trusts) to the FTSE 51-150 (excluding Investment Trusts) to more appropriately reflect companies of similar size to Direct Line Group; and
- going forward we expect to grant LTIP awards once per year (previously twice per year in March and August) to further simplify the remuneration structure and align with typical market practice.

We wrote to our largest shareholders in December 2022 to share our intention to roll-forward the Policy and outline some of the proposed changes to the implementation of the Policy for 2023. In light of the positive feedback received, we did not make any changes to our initial proposals. I would like to take this opportunity to thank them for their engagement.

Further details of the changes are set out in the Directors' Remuneration Policy on page 155 and the remuneration arrangements for 2023 on pages 149 to 150.

Executive Director remuneration for 2023

The Committee carefully considered salary increases for the Executive Directors (and Executive Committee) for 2023, taking into account the wider workforce level (5%) and shareholder expectations in light of the current inflationary environment. For the Chief Financial Officer the Committee determined an increase of 3% appropriate, being lower than the wider workforce, with effect from 1 April 2023 (rather than the accelerated date of 1 January 2023 for the wider workforce).

As outlined above, the Committee intends to make some changes to the performance measures under the incentive schemes for 2023. The 2023 AIP will operate on a similar basis to 2022, except that Operating Profit will replace Profit Before Tax as the financial metric (55% weighting) to align with the Group's KPIs going forward following the transition to IFRS 17.

The LTIP awards for 2023 will be based on the following measures and weightings:

– RoTE (30% weighting)
– Cumulative Operating EPS (30% weighting)
– Relative TSR vs FTSE 51-150 (excluding Investment Trusts) (30% weighting)
– Emissions (10% weighting)

The Committee is in the process of finalising the RoTE and Operating EPS targets for the 2023 award to take allowance for the move to IFRS17. The targets will be disclosed in due course.

Further details are set out on page 150.

Executive Director changes

On 27 January 2023, Penny James agreed with the Board to step down as Chief Executive Officer and as a Director with immediate effect. The Board has initiated a process to identify and appoint a successor CEO. Until that process is complete, Jon Greenwood (previously Chief Commercial Officer), has been appointed as Acting Chief Executive Officer, and is to join the Board, subject to regulatory approvals.

I would like to thank Penny James for her contribution, dedication and commitment to the Company since joining as CFO in late 2017, and subsequently as CEO from May 2019. Penny's employment with the Group ceased on 28 February 2023. Further details of her terms in relation to departure are provided on page 147, and in the Section 430 (2B) statement on the Group's website.

In setting Jon's remuneration as Acting CEO, the Committee considered a range of factors, including;

– 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.

Jon's salary is set at £725,000, which is below that of the previous CEO (£817,000). Jon's maximum opportunity under the AIP and LTIP is 175% and 200% of salary respectively, consistent with the CFO and the previous CEO. In line with the wider workforce, Jon's pension contribution is 9% of salary. Details of Jon's remuneration, which took effect from 27 January 2023, is set out on page 150.

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 113 to 114.

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, subject to some minor clarifications, which were incorporated.

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 both the Remuneration Report and Policy resolutions will receive your support at the upcoming AGM.

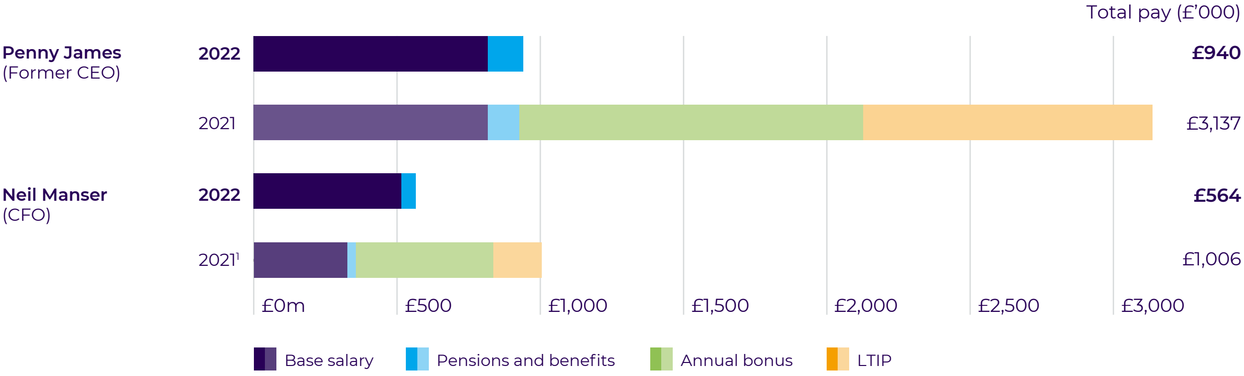
Should you have any questions about the Committee's Report please email our AGM email address shareholderenquiries@directlinegroup.co.uk and I or one of my colleagues at Direct Line Group will respond to you.

Yours sincerely,

Dr Richard Ward
Chair of the Remuneration Committee

Remuneration at a glance

Remuneration outcomes



– **Find out more on page 137**

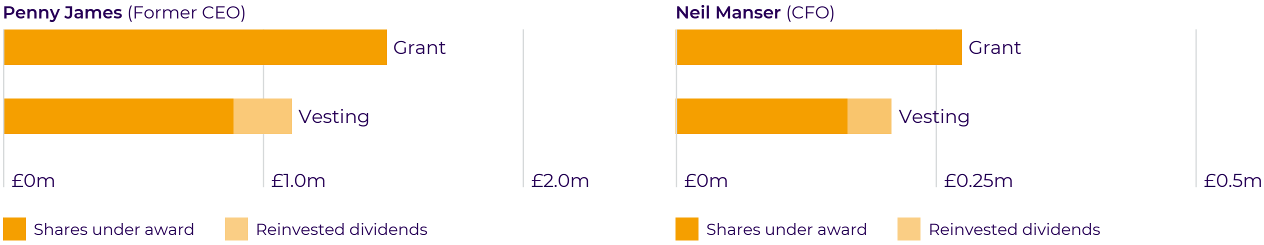
Note:

1. Neil Manser was appointed to the Board on 13 May 2021. His salary, bonus, benefits and pension for 2021 have been pro-rated accordingly.

LTIP

Release of value under the LTIP

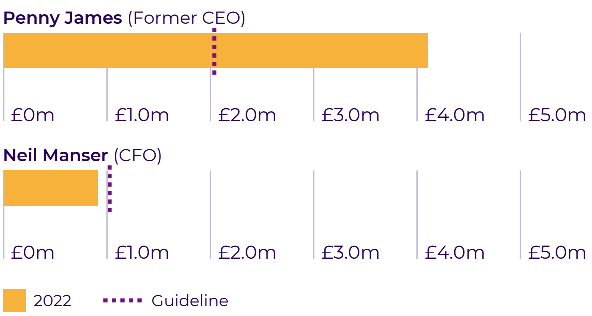
This chart illustrates the total value of the 2019 LTIP awards that vested in 2022.



> **Find out more on page 140**

Shareholding at 31 December 2022

This chart illustrates the number of shares held at the end of 2022 by the Executive Directors against the share ownership guidelines of 250% of salary for the CEO and 200% of salary for the CFO.



> **Find out more on page 142**

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 2022. You can find information about each member's attendance at meetings on page 105. You can find their biographies on pages 96 to 98.

Committee Chair	
Dr Richard Ward	
Non-Executive Directors	
Danuta Gray	
Tracy Corrigan[1]	
Mark Gregory	
Sebastian James	

Notes:

1. Tracy Corrigan joined the Committee with effect from 1 April 2022.

Advisers to the Committee

The Committee consults with the CEO, CFO, 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, Chief Executive Officer, Chief Financial Officer and Chief People Officer 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, reserving and tax services during 2022. 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 2022 were £124,600 excluding VAT. PwC charged its fees on a time and expenses basis.

Wider workforce engagement and pay considerations for 2022

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 2022 where there was an introductory session around executive pay which included a Q&A session covering topics such as alignment of incentive outcomes to strategic objectives, and feedback was shared about how our people were being affected by the cost of living challenges and how best to make a meaningful difference.

The outcome of our DiaLoGue 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 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 2022 this included information on our gender and ethnicity pay gap, updates on supporting colleagues with cost of living and the approach to 2023 salary increases for the wider workforce. This standing agenda item provides valuable insight and context for framing executive pay and policies.

The Committee considers it important to monitor and assess internal pay relativities, including the CEO pay ratio disclosure, and takes these into account when determining Executive Director remuneration. During 2022, neither the CEO nor CFO was awarded a salary increase, consistent with the approach we took across our senior leadership population given the challenging economic climate. Salary increases were awarded to the wider workforce population in April 2022. In August 2022, it was announced that the wider workforce would receive a 5% salary increase, accelerated to be effective 1 January 2023, rather than the usual effective date of 1 April 2023.

To support continued focus on senior diversity, at the end of 2019 the Group set new stretch targets to grow women senior leaders to 35%, ethnic minority leaders to 13% and Black leaders to 1.5% by the end of 2022. As at 31 December 2022, women made up 31.3%, ethnic minority colleagues 12.1% and Black colleagues 1.5% of these respective populations. While we missed two out of three stretch targets, we believe the process of target setting has supported progress to improve representation. Alongside, the Group has made strong progress growing the representation of women at the most senior levels of the business with women comprising 40% of Board, 60% of Executive Committee, and 41.1% of direct reports to Executive Committee, as at 31 December 2022.

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.

Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	– The remuneration arrangements for the Executive Directors are set out in a clear and simple way in the Directors' Remuneration Policy ("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. – Some of the feedback received from employees on the cost of living challenges (e.g. via the DiaLoGue survey and ERB) helped us better understand the nature of the challenges and which form of support would be most suitable and when. The feedback on the 5% salary increase, and decision to bring forward the salary increase, was communicated via a town hall meeting with an interactive Q&A session led by the Executive Directors. – 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 2022. Further details are set out on pages 132 and 135. – As part of dialogue with our investors regarding the proposed Policy, we shared further detail to better explain the rationale for changing the constituents of the TSR peer group, as well as understanding how we will fully reflect the experience of our shareholders during 2022 in the remuneration decisions for our Executive Directors.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	– 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"). – For 2023, it is proposed to simplify further, via a single annual grant of LTIP, rather than the previous approach to split into two grants, in March and August each year. – The Committee reviews the appropriateness of targets annually, being mindful of alignment with strategy. Whilst we endeavour to keep the measures themselves as simple as possible, we recognise adding a fourth measure adds complexity, but better reflects underlying financial performance because it recognises the importance of absolute earnings and growth alongside a focus on the efficient use of capital.

Risk
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.
	– The ability to mitigate potential risks is within the Policy. Examples include:
	  – 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. As such, in relation to the trading results in 2022, the Committee was in agreement with management that no AIP should be paid in respect of performance in 2022.

Predictability The range of possible values of rewards to individual directors should be identified and explained at the time of approving the Policy.	– 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 is also included. – The 2022 AIP and LTIP award opportunities were in line with the maximum opportunity in the Policy.
Proportionality 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.	– Payments under variable incentive schemes require robust performance against challenging conditions over the short and longer term. For example, 55% of the AIP is based on Profit and from 2023, there will be equal focus between RoTE and EPS – both measures are 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. This is evidenced by the decisions reached between the Remuneration Committee and management not to make any AIP payments for 2022.

Alignment to culture
Incentive schemes should drive behaviours consistent with company purpose, values, and strategy.
	– 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 values are reflected in the measures used in our incentive schemes. Our incentive arrangements link to them in the following ways:
	  – **Work 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.
	  – **Take ownership** – 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 2022 performance

Single figure table (Audited)

£'000		Salary[1]	Benefits[2]	Annual bonus[3]	Long-term Incentives[4,5]	All-employee share plans	Pension contributions and cash allowance in lieu of pension	Fixed pay and benefits sub-total	Variable remuneration sub-total	Total
Penny James	2022	817	49	–	–	–	74	940	–	940
	2021	817	36	1,201	1,009	–	74	927	2,210	3,137
Neil Manser[6]	2022	515	2	–	–	1	46	564	–	564
	2021	326	1	479	169	1	29	357	649	1,006

Notes:

1. Salary – the Company operates a flexible benefits policy, and salary is reported before any personal elections are made.
2. 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.
3. Annual bonus – includes amounts earned for performance during the year but deferred for three years under the DAIP. For more information, see pages 138-139. These deferred awards are normally subject to continuous employment. Awards remain subject to malus and clawback.
4. The expected vesting outcome figures for the RoTE portion of the awards granted under the LTIP in 2019 and reported in 2021 have been updated. These updates are based on the actual vesting of the RoTE portion of the awards and a share price of £2.80 and £2.06 on 29 March 2022 and 30 August 2022 respectively, compared to the three-month average share price of £2.78 used in reporting this figure in the 2021 report. The revised figures include the actual number of dividends accrued on this portion of the award at vesting. This results in an adjusted reportable decrease of approximately £97,955 for Penny James, and a decrease of £17,092 for Neil Manser, with a corresponding change in the single figure in 2021 reflected in the table above. Further information on LTIP awards can be found on pages 140-141.
5. The 2022 LTIP figures for Penny James and Neil Manser reflect the performance of the relative TSR element of the 2019 LTIP awards and (for Neil only) the RoTE element of the 2020 awards (as Penny's 2020 LTIP award lapsed on her cessation of employment with Direct Line Group on 28 February 2023). Further information on LTIP awards can be found on pages 140-141.
6. Neil Manser was appointed to the Board on 13 May 2021. His salary, bonus, benefits, and pension for 2021 have been pro-rated accordingly.
7. Tim Harris stepped down from the Board on 13 May 2021. His pro-rated remuneration for this period was £157k in fixed pay and benefits, and £19k in variable remuneration, a single figure of £176k.

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 2022 (Audited)

The chart illustrates the final assessment, performance measures and weightings under the AIP.

Performance measures and weighting

55% Financial

15% Cost

10% People

20% Growth & Customer

Executive Director	Achievement under the 2022 AIP	2022 AIP payment
Penny James	0%	nil
Neil Manser	0%	nil

Although the Committee recognised positive progress in some of the strategic metrics, particularly in relation to the People measure, the Committee agreed with the Executive Directors that no AIP would be awarded for 2022 in light of the financial performance and the impact of this on shareholders.

Financial element (55% weighting)

The financial performance measure for 2022 was profit before tax (excluding restructuring costs and one-off costs of £45.3 million). 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%	2022 Actual	2022 Achievement
Profit before tax	£413.9m	£505.9m	£0.2m	nil

Strategic metrics (45% weighting)

A summary assessment of the strategic metrics is set out below.

Measure	Assessment
Growth & Customer (20% weighting) To better align focus of our leadership teams on delivery of growth without compromising customer experience	Growth – In-force policies from ongoing operations were 9.7 million at the end of December 2022, 3.2% lower than prior year with reductions across all segments except Commercial which continued to deliver strong growth. – Adjusted gross written premium from ongoing operations experienced a similar reduction, falling by 3.2% to £2,974.0 million. Growth in Commercial was offset by reductions in Motor and Home arising from the combination of challenging market conditions together with the impact of regulatory change. Total Group in-force policies were 11.9 million and total adjusted gross written premium was £3,098.4 million. Customer – During 2022, we continued to maintain NPS scores consistent with our performance over the last five years, however the majority of our metrics ended the year below the on-target levels set at the start of the year. This was due to internal and external factors, such as supply chain issues caused by the macro-economic and political instability as well as inflationary pressures. Performance improved during Q3, given the mitigating actions put in place to improve sales and service journeys. Although good performance was delivered against some of the Customer metrics during 2022, the trading results did not achieve sufficient levels to assess that this element would have met target performance.
Cost (15% weighting) Improve our competitiveness to deliver better value and experience for customers by reducing operating expenses	– Despite inflationary pressures, controllable costs reduced by £27.6 million, more than off-setting a £23.5 million increase in amortisation, depreciation and levies. – The reduction in controllable costs was driven by a range of cost saving initiatives including reducing the Group's office footprint, reducing technology run costs and increased customer adoption of digital and self-service channels. The Committee considered a qualitative assessment of performance with reference to the internal controllable expense savings targets in our Strategic Plan, but the results did not achieve sufficient levels to assess that this element would have met target performance.
People (10% weighting) 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	Engagement, Diversity & Inclusion – A score of 79% was reached for our inclusion indicator, but only 72% for engagement, which is below the target of 75%. However, given the external volatility and internal change programmes during 2022, we have done extremely well to end the year with broadly the same levels of engagement that we started with. – While we have strengthened our approach to inclusive recruitment and promotion at the senior levels of our business and made progress as a result, we did not meet two diversity targets, predominantly due to higher attrition of women in senior leadership and lower levels of ethnic minority joiners and promotions. Closing the skills gap – Over 2022 our focus was on building future skills, continuing to push forward promoting diversity and inclusion in the business and engaging with our people during the cost of living crisis. – We launched our Ignite academies which incorporate apprenticeship programmes to develop the vital skills needed to serve our increasingly tech savvy customers. 170 new apprentices are already working in Data, Customer Service and Data, Software Engineering and Pricing and Underwriting, joining the 224 we already had. – We also launched our Data Academy so all colleagues can grow their data capability and learn new skills, with over 1,000 engaging in courses, lunch and learn sessions and using resources from the website. The Committee considered these indicators, and noted that while the results did achieve sufficient levels to assess that this element would have met target performance, it was agreed that no AIP would be awarded for 2022.

LTIP outcomes for 2022 (Audited)

2019 LTIP awards (vesting in 2022)

Awards under the LTIP granted in March and August 2019 vested during 2022. They were subject to relative TSR performance over the three-year period from the date of grant, and RoTE performance in 2019, 2020 and 2021.

Consistent with the Regulations, the expected RoTE vesting outcomes for the year ended 31 December 2021 (together with the TSR elements from the 2018 awards) are included in the 2021 LTIP column of the single figure table, because the performance period for these elements ended in 2021. The performance outcomes of these elements are included in the table below.

The TSR elements of the 2019 awards (and the RoTE elements of the 2020 awards – see below) are included in the 2022 single remuneration figure because the performance period for those elements ended in 2022. Details of the targets and performance achieved are set out in the table below.

The Committee was satisfied that the financial and risk underpins were met at the end of the vesting period and therefore 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 2019	RoTE (2021 single figure)	60%	17.5%	20.5%	21.4%	100.0%	60.0%
	Relative TSR (2022 single figure)	40%	Median	Upper quintile	Below threshold	0.0%	0.0%
August 2019	RoTE (2021 single figure)	60%	17.5%	20.5%	21.4%	100.0%	60.0%
	Relative TSR (2022 single figure)	40%	Median	Upper quintile	Below threshold	0.0%	0.0%

2020 LTIP awards (vesting in 2023)

Awards under the LTIP granted in March and September 2020 for Neil Manser will vest, subject to Committee approval, during 2023. The March and September 2020 LTIP awards for Penny James lapsed on cessation of her employment with Direct Line Group on 28 February 2023.

Vesting of the awards is subject to relative TSR performance over the three-year vesting period, and RoTE performance in 2020, 2021 and 2022. The RoTE performance period for these awards ended on 31 December 2022 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 2023 and September 2023 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 2020 LTIP awards (together with the TSR elements from the 2019 awards above) are included in the 2022 single remuneration figures. You can find details of this on page 137.

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	Performance period not yet complete		
September 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	Performance period not yet complete		

LTIP awards granted during 2022 (Audited)

The table below shows awards granted under the LTIP to Executive Directors in 2022 in the form of nil-cost options.

		Awards granted in 2022 under the LTIP[1]		
Director	Position	Award as % of salary	Number of shares granted	Face value of awards (£)
Penny James[2]	Chief Executive Officer	100% 100%	297,090 390,909	817,000 817,000
Neil Manser	Chief Finance Officer	100% 100%	187,272 246,411	515,000 515,000

Notes:

1. The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £2.75 in March 2022 and £2.09 in August 2022.
2. As outlined on page 147 the awards granted to Penny James lapsed on cessation of her employment with the Company.

The performance conditions that apply to the LTIP awards granted in 2022 are set out below:

	Performance conditions for awards granted in 2022 under the LTIP		
Performance Measure	Proportion of award	Performance for threshold vesting (20%)	Performance for maximum vesting
RoTE (average over three years)	50%	17.5%	20.5%
TSR (vs FTSE 350 (excluding Investment Trusts))	40%	Median	Upper quintile
Emissions	10%	1 out of 3 targets are met	All 3 targets are met

Emissions targets are:

– Operational Scope 1 and 2: Reduce Scope 1 emissions by 32% by 2024 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 2.30°C in 2024.
– 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 2.60°C in 2024.

A straight-line interpolation occurs from threshold to maximum performance.

The performance period for the awards granted on 29 March 2022 will end on 31 December 2024 for both the RoTE and Emission elements, and 28 March 2025 for the TSR element. The performance period for the awards granted on 30 August 2022 will also end on 31 December 2024 for the RoTE and Emission elements and 29 August 2025 for the TSR element.

DAIP awards granted during 2022 (Audited)

The table below shows the deferred share awards granted under the DAIP to Executive Directors on 29 March 2022 in respect of the 2021 AIP. Awards will vest after three years, normally subject to continued service, and were granted in the form of nil-cost options.

		Awards granted in 2022 under the DAIP	
Director	Position	Value of deferred bonus (£)	Number of shares granted[1]
Penny James	Chief Executive Officer	480,396	174,689
Neil Manser	Chief Financial Officer	269,247	97,908

Note:

1. The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £2.75. In accordance with the DAIP rules, dividends in respect of the deferred shares are reinvested in additional shares, which vest when the deferred shares vest.

Direct Line Group 2012 Share Incentive Plan ("SIP") (Audited)

During 2022, 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, e.g. 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 Neil Manser under the SIP. Penny James did not participate in the plan.

	Matching shares granted during the year	Matching shares cancelled during the year	Value of matching shares granted (£)[1]	Balance of matching shares at 31 December 2022[2]
Neil Manser	382	–	899	995

Notes:

1. The accumulated market value of matching shares at the time of each award. Purchase of the matching shares takes place within 30 days of the contributions being deducted from salary.
2. 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 as at 31 December 2022.

	At 31 December 2022				Share plan interests exercised during the year to 31 December 2022	
	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]
Penny James	1,791,421	476,187	757,245	1,156,840	114,380 462,753	2.77 2.16
Neil Manser	813,153	184,236	–	298,571	58,023 98,222 36,780	2.77 2.09 2.06

Notes:

1. 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 2022 but are not realised until exercise.
2. LTIP awards include an additional two-year holding period before awards may be released.
3. Unvested awards subject to performance conditions represent LTIP awards. For awards granted up to 2021, 60% is based on RoTE performance and 40% on relative TSR performance – the exact targets for each award were disclosed in the relevant Annual Report on Remuneration. For awards granted in 2022, 50% is based on RoTE performance, 40% on relative TSR performance and 10% on emissions. The targets for the 2022 awards are set out on page 141.
4. These awards include beneficial share interests acquired under the SIP. At 20 March 2023, the number of shares beneficially held by Neil Manser has increased to 298,786. There was no change to the number of shares held by Penny James.
5. Penny James exercised options on 30 March 2022 and 28 November 2022.
6. Neil Manser exercised options on 30 March 2022, 8 August 2022, and 31 August 2022.

The table below shows the Non-Executive Directors' beneficial interests in the Company's shares[1].

Director	**Shares held at 31/12/2022**	Shares held at 31/12/2021
Danuta Gray	**26,500**	26,500
Tracy Corrigan	–	–
Mark Gregory	–	–
Sebastian James	**5,000**	5,000
Adrian Joseph	–	–
Fiona McBain	–	–
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.

Non-Executive Directors (Audited)

Fees were the only remuneration paid to Non-Executive Directors in 2021 and 2022. 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.

	Fees		Taxable benefits[2]		Total	
Director[1]	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Danuta Gray	**350**	350	**6**	–	**356**	350
Tracy Corrigan	**88**	13	**–**	–	**88**	13
Mark Gregory	**129**	125	**–**	–	**129**	125
Sebastian James	**104**	100	**–**	–	**104**	100
Adrian Joseph	**80**	80	**–**	–	**80**	80
Fiona McBain	**109**	101	**11**	–	**120**	101
Gregor Stewart	**115**	115	**12**	–	**127**	115
Richard Ward[3]	**150**	143	**0**	0	**150**	143

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 Richard Ward in 2022 totals £454, compared to £222 in 2021, these values are rounded to 0 for consistency within the table above.

Shareholdings (Audited)

This table sets out the Executive Directors' share ownership guidelines and actual share ownership levels:

Name	Position	Share ownership guideline[1] (% of salary)	Value of shares held at 31 December 2022[2,3] (% of salary)
Penny James[4]	Chief Executive Officer	250%	502%
Neil Manser	Chief Financial Officer	200%	177%

Notes:

1. Executive Directors are 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.
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 30 December 2022 share price of £2.21.
4. Penny James will maintain a shareholding of 250% of salary for a period of two years after she has left employment, with the number of shares to be held in order to comply with these requirements being fixed as at the date of termination of her employment.

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.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2022	Option A	35:1	27:1	18:1
2021	Option A	122:1	95:1	65:1
2020[1]	Option A	132:1	108:1	73:1
2019[2]	Option A	123:1	101:1	67:1

Notes:

1. The 2021 figures have been updated for Penny James' updated 2021 single figure value (see page 137 note 4).
2. 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 2022 and remuneration figures are determined with reference to the financial year ending on 31 December 2022 (consistent with the approach taken in previous years).

Option A, as set out under the reporting regulations, was used to calculate remuneration for 2022 as we continue to believe 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 2022 financial year.

	25th percentile (P25)	Median (P50)	75th percentile (P75)
Salary	£24,103	£29,433	£36,762
Total pay and benefits	£27,147	£35,158	£52,218

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. For reference, the CEO base salary median pay ratio is 28:1 (2021: 28:1). 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 those of 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 (as has been the case in 2022).

The 2022 ratios are significantly lower than the prior year. This is primarily attributable to the CEO's single figure of remuneration being lower for 2022 due to the zero AIP and LTIP outcomes. Over the longer term, the CEO pay ratios have moved broadly in line with the CEO's single figure of remuneration.

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 135. The Committee notes that the pay ratios for 2022 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. Furthermore, the Committee is satisfied that our pay and broader people policies drive the right behaviours and reinforce the Group's values which in turn drive our culture. For these reasons, the Committee believes that the ratios are consistent with these policies.

Percentage change in Executive Directors' and Non-Executive Directors' pay for 2020 to 2022

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.

	Salary/Fees[1]			Benefits[2]			Bonus (including deferred amount)[3]		
	2022	2021	2020	**2022**	2021	2020	**2022**	2021	2020
Executive Directors									
Chief Executive Officer	**0.0%**	0.5%	7.6%	**38.4%**	37.3%	(24.6%)	**(100.0%)**	3.0%	16.1%
Chief Finance Officer	**0.0%**	n/a	n/a	**3.8%**	n/a	n/a	**(100.0%)**	n/a	n/a
Non-Executive Directors[4,5,6]									
Danuta Gray	**0.0%**	67.4%	90.1%	**n/a**	0.0%	(100.0%)	**n/a**	n/a	n/a
Tracy Corrigan	**17.8%**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Mark Gregory	**3.0%**	15.0%	7.2%	**0.0%**	0.0%	(100.0%)	**n/a**	n/a	n/a
Sebastian James	**3.7%**	4.2%	1.0%	**0.0%**	0.0%	0.0%	**n/a**	n/a	n/a
Adrian Joseph	**0.0%**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Fiona McBain	**7.3%**	6.7%	14.6%	**n/a**	(100.0%)	(79.9%)	**n/a**	n/a	n/a
Gregor Stewart	**0.0%**	0.0%	0.0%	**n/a**	(100.0%)	(87.2%)	**n/a**	n/a	n/a
Richard Ward	**5.1%**	18.9%	0.0%	**105.0%**	193.3%	(5.7%)	**n/a**	n/a	n/a
All employees (average)	**5.6%**	2.7%	3.5%	**57.0%**	(18.6%)	(1.4%)	**(40.9%)**	8.8%	3.9%

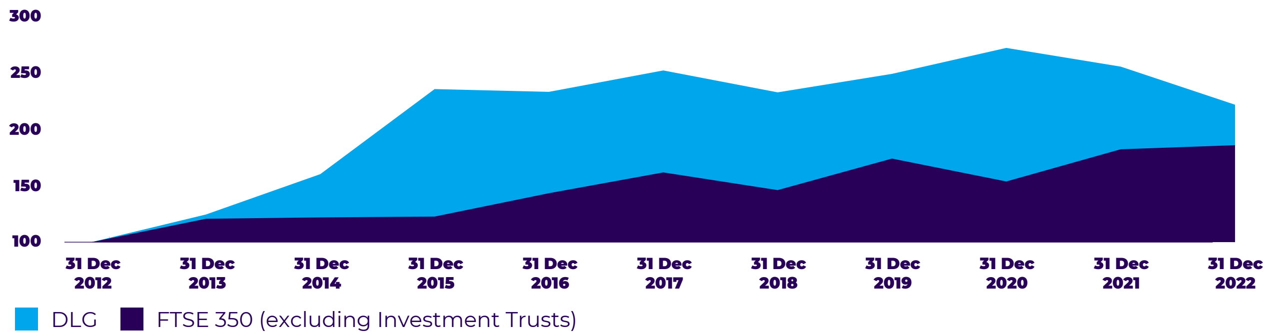
Notes:

1. Based on the change in average pay for employees employed in the year ended 31 December 2022 and the year ended 31 December 2021. The increase to the CEO salary in 2020, reflected her being CFO for part of the year before promotion to CEO, the actual pay increase from 1 April 2020 was 2.1%. Non-Executive Director fee levels were unchanged between 2020 and 2021, any changes above relate to individual changes in committee membership through the year. Some Non-Executive Director fee levels changed between 2021 and 2022.
2. For the CEO, the decreased value of benefits from 2019 to 2020 relate to the car service used by the CEO, for which usage was reduced due to the Covid-19 pandemic. The increase in 2021 and 2022 reflects increased usage of the car service, of which the Group also pays for any associated tax liability that arises on this benefit. For all employees, there were no changes in benefits provision between 2020 and 2021, and 2021 and 2022. 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 and quarterly incentive schemes operated in certain parts of the Group. Non-Executive Directors are not eligible to participate in any of the Group's bonus or incentive schemes.
4. The decreased value of benefits in 2020 related to a decrease in travel expenses due to the Covid-19 pandemic.
5. Adrian Joseph, Neil Manser and Tracy Corrigan joined the Board during 2021, and the respective 2021 figures in the table are based on an annualised amount to compare to the current year.
6. Danuta Gray, Fiona McBain and Gregor Stewart had expenses in 2022, however it is not possible to display as a percentage increase due to their nil expenses in 2021. See page 143 for further information.

Chief Executive Officer's pay between 2013 and 2022 and historical performance of TSR

The table below shows historical levels of the CEO's pay between 2013 and 2022. 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 2012 to 31 December 2022, as the Company is a constituent of this index.

Total Shareholder Return (%)



	2013[1]	2014[1]	2015	2016[2]	2017	2018	2019[3]	2019[3]	2020	2021[4]	2022
	Paul Geddes							Penny James			
CEO single figure of remuneration (£'000s)	2,536	5,356	4,795	4,071	4,039	3,250	774	2,773	3,286	3,137	940
Annual bonus payment (% of maximum)	63%	75%	83%	43%	88%	68%	76%	76%	82%	84%	0%
LTIP vesting (% of maximum)[1]	55%	88%	96%	86%	99%	71%	0%	100%	80%	75%	0%

Notes:

1. 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 £728,000 in 2013 and £2,437,428 in 2014.
2. 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.
3. 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.
4. The 2021 single figure and LTIP vesting have been revised to reflect the actual vesting of the 2018 awards under the LTIP.

Payments to Past Directors (Audited)

Tim Harris

Tim Harris retired as Chief Financial Officer and stepped down from the Board on 13 May 2021. Following cessation of his Directorship with effect from 13 May 2021, Tim's contractual salary, pension and benefits were paid in monthly instalments until the end of his 12-month notice period on 12 May 2022. The table below details the payments received during 2022.

	Salary (£'000)	Benefits (£'000)	Pension (£'000)	Total (£'000)
Tim Harris	197	5	18	220

Penny James

Penny James stepped down from the Board on 27 January 2023, and her employment with the Group ceased on 28 February 2023. Penny's contractual salary, pension and benefits were paid in the normal way until the end of her employment, after which an amount equivalent to salary, pension and benefits will be paid in monthly instalments in lieu of the remainder of her contractual notice period (subject to reduction to take account of any sums earned during the payment period in any new role that Penny begins).

DAIP

The 2020, 2021 and 2022 DAIP awards will continue to vest on their third anniversaries of award and remain subject to the scheme rules, including malus and clawback provisions. Awards will be exercisable for 12 months after they vest.

LTIP

Awards under the 2018 and 2019 LTIP which are currently in a two-year holding period, will continue to be subject to the holding period, and then will be exerciseable for a period of 12 months. These awards will be subject to the scheme rules, including malus and clawback provisions.

All other awards under the LTIP lapsed on cessation of employment with the Group.

Share Ownership Guidelines

Penny is to comply with the Company's post-employment shareholding requirements, maintaining a shareholding of 250% of salary for a period of two years post employment. Penny's current shareholding includes shares owned outright, as well as unvested DAIP awards, and LTIP awards within the holding period. Penny will be permitted to sell sufficient shares to cover any tax liability on exercise of these awards.

Outplacement and legal costs

DL Insurance Services Limited will cover the reasonable costs of outplacement support up to £50,000 (excluding VAT but including all disbursements) and will contribute up to £13,750 (excluding VAT but including all disbursements) towards legal fees incurred by Penny for advice in connection with the termination of her employment.

March and August 2019 LTIP

The table below sets out the awards which vested during the year to Mike Holliday-Williams (former MD, Personal Lines) and Tim Harris (former CFO) who exited the Group on 30 September 2019 and 12 May 2022 respectively:

Award	Executive Director	Number of share options awarded (inc. dividends)	Vesting proportion (inc. performance and pro-rata)	Number of share options vested[1]	Total value of share options (including dividends) vested (£)
March 2019[2]	Mike Holliday-Williams	178,701	11.4%	20,299	£56,756
October 2019[3]	Tim Harris	446,570	52.6%	234,701	£435,370

Notes:

1. LTIP awards for Executive Directors are subject to an additional two-year holding period following the three-year vesting period, during which time awards may not normally be exercised or released.
2. Based on closing share price of £2.80 on the vesting date (29 March 2022).
3. Based on closing share price of £1.86 on the vesting date (1 October 2022).

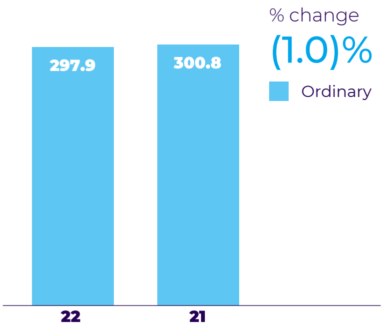
The March 2019 LTIP award vested overall at 60%, with the RoTE element (60% weighting) achieving 100%, and relative TSR (40% weighting) at 0%.

The October 2019 LTIP award vested at 60%, with the RoTE element (60% weighting) achieving 100% and relative TSR (40% weighting) at 0%. Both former Directors have confirmed that they complied with the requirements of their individual exit agreements, which enabled the Committee to approve the vesting of these awards.

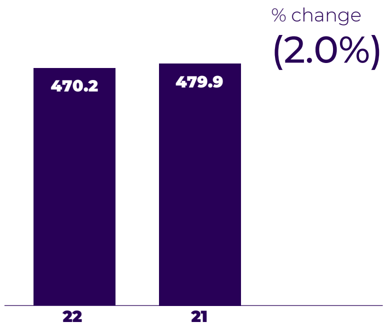
Distribution statement

This chart shows the overall pay expenditure across all Group employees compared with the total dividend value paid to shareholders in 2021 and 2022.

Dividend (£m)



Overall expenditure on pay (£m)



Notes:
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 10 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 2021 Directors' Remuneration Report (which was put to shareholders at the 2022 AGM) and the Policy (which was put to shareholders at the 2020 AGM).

	For		Against		Number of votes withheld (abstentions)
	Number	Percentage	Number	Percentage	
Approval of Directors' Remuneration Policy (2020 AGM)	1,051,904,620	97.55%	26,440,027	2.45%	60,251
Approval of Directors' Remuneration Report (2022 AGM)	969,196,035	96.95%	30,526,555	3.05%	50,850,116

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 2023

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 2023
- The Acting CEO's salary will be £725,000 from his appointment on 27 January 2023
- 3% increase for the CFO to £530,450
- The former CEO did not receive a salary increase for 2023 and her salary remained at £817,000

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 2023
- Acting CEO and CFO pension contribution remains 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 2023
- No change to the maximum opportunity
- There will be a straight-line vesting between AIP threshold and maximum performance
- Financial measures (55%): Operating Profit
- Strategic measures (45%): 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
- The performance targets will be set with reference to internal and consensus forecasts and the key strategic priorities for the Group in 2023
- 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 2023
- No further performance conditions apply

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 2023

- 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
- 30% will be based on RoTE; 30% on TSR; 30% on EPS and 10% on emissions
- The relative TSR comparator group will be FTSE 51-150 (excluding Investment Trusts)
- The emissions targets for the 2023 LTIP awards will be set based on the SBTi certified targets with the targets being:
  - 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.
- The Committee is in the process of finalising the RoTE and Operating EPS targets for the 2023 award to take allowance for the move to IFRS17. The targets will be disclosed in due course.

New Acting Chief Executive Officer

On 27 January 2023, following the announcement that Penny James would be stepping down, Jon Greenwood, the then Chief Commercial Officer, was appointed Acting CEO. Jon's annual salary is £725,000. This salary was set with consideration to the FTSE 51-150 CEO benchmark, other FTSE 350 insurers, and is below the previous CEO's salary level. Jon's pension allowance will be 9% of salary, the same as the wider workforce. He also participates in the Group's Annual Incentive Plan up to a maximum of 175% of salary and the Long-term Incentive Plan of up to 200% of salary.

Non-Executive Directors' fees

The fees for the Chair and Non-Executive Directors for 2023 are set out below (unchanged from 2022).

Position	Fees for 2023 £'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

This section sets out our proposed remuneration policy for the Executive and Non-Executive Directors of the Group. This Policy will be put forward for shareholder approval at the 2023 AGM on 9 May 2023 and, if approved, will apply to payments made from that date. Until this time, the Policy approved on 14 May 2020 will continue to apply. The existing Policy is being rolled-forward, with only some minor wording clarifications. These are summarised in the Remuneration Committee Chair's statement and in the notes to the Policy table.

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

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

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

Notes to the policy table

Changes from 2020 Policy

Considering the shareholder support for the existing arrangements the Committee concluded that the existing Policy remains appropriate for Direct Line Group at the current time. Therefore, the existing Policy is rolled-forward for approval with some minor wording clarifications, in particular to remove the minimum weighting on relative TSR of 25% in order to provide greater flexibility in relation to LTIP targets. The Committee notes that there are currently no plans to remove the relative TSR measure (with a 30% weighting expected for the 2023 LTIP).

The Committee also intends to make changes to the implementation of the Policy for 2023, as outlined in the Chair's Statement, including:

- adopting an Operating Profit measure in the AIP (replacing Profit Before Tax following the transition to IFRS 17);
- introducing a cumulative Operating EPS measure in the LTIP to provide an assessment of absolute earnings levels over the performance period;
- changing the relative TSR comparator group from the FTSE 350 (excluding Investment Trusts) to the FTSE 51-150 (excluding Investment Trusts) in the LTIP to more appropriately reflect companies of similar size to the Group; and
- moving to a single LTIP grant per year (currently twice per year) to further simplify remuneration arrangements and align with market practice.

Malus and clawback

Malus and clawback provisions apply to the AIP (cash and deferred element) and LTIP if, in the Committee's opinion, any of the following has occurred:

- there has been a material misstatement of the Group's financial results, which has led to an overpayment;
- the assessment of performance targets is based on an error, or inaccurate or misleading information or assumptions;
- circumstances warranting summary dismissal in the relevant period;
- a material failure of risk management; and
- an event during the relevant period which has, in the view of the Committee, sufficiently and adversely affected the Company's reputation so as to justify such action.

Amounts in respect of awards under both plans (LTIP and DAIP) may be subject to clawback for up to four years post payment or vesting/exercise of options (with such period lengthened if there is an investigation as to whether relevant circumstances exist) as appropriate. Consistent with developments in the market generally, the provisions clarify that any recoupment is out of the post-tax amount, except to the extent that the participant recovers tax from the relevant tax authority.

Exercise of discretion

In line with market practice, the Committee retains discretion relating to operating and administering the AIP, DAIP and LTIP. This discretion includes, but is not limited to:

- timing of awards and payments;
- size of awards, within the overall limits disclosed in the policy table;
- determination of vesting;
- ability to override formulaic outcomes;
- treatment of awards in the case of change of control or restructuring;
- treatment of leavers within the rules of the plan and the termination policy shown on pages 158 and 159; and
- adjustments needed in certain circumstances, for example, a rights issue, corporate restructuring or special interim dividend.

While performance conditions will generally remain unchanged once set, the Committee has the usual discretions to amend the measures, weightings and targets where the original conditions would cease to operate as intended.

Any such changes would be explained in the subsequent annual remuneration report and, if appropriate, be the subject of consultation with the Company's major shareholders. Consistent with best practice, the LTIP rules also provide that any such amendment must not make, in the view of the Committee, the amended condition materially less difficult to satisfy than the original condition was intended to be before such event occurred.

Adjusting the number of shares under deferred bonus and LTIP

The number of shares subject to deferred bonus and LTIP awards may be increased to reflect the value of dividends that would have been paid in respect of any dates falling between the grant of awards and the date of vesting (or, if later, the expiry of any holding period) of awards.

The terms of incentive plan awards may be adjusted in the event of a variation of the Company's share capital, demerger or a similar event that materially affects the price of the shares, or otherwise in accordance with the plan rules.

Remuneration payments agreed before appointment to the Board

The Committee reserves the right to make any remuneration payments and payments for loss of office (including, where relevant, exercising any discretion available to it connected with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) provided the terms of the payment were consistent with any shareholder-approved Directors' remuneration policy in force at the time they were agreed; (ii) at a time when the relevant individual was not a Director of the Group and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes, 'payments' include pension arrangements and the Committee satisfying awards of variable remuneration. Relating to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Selecting performance measures and targets

Annual Incentive Plan

The Committee select AIP performance measures each year to incentivise Executive Directors to achieve financial targets and specific strategic objectives for the year. These measures are aligned with the Key Performance Indicators we use as a business to monitor performance against our strategic priorities, as shown on pages 22 and 23.

The relevant performance targets are set at or following the start of each year with reference to internal and external forecasts and the Group's strategic targets.

Long-Term Incentive Plan

The goal of our strategy is to provide long-term sustainable returns for our shareholders. Therefore, the 2023 LTIP awards will be subject to performance against RoTE and Operating EPS (which are important KPIs to the business), Relative TSR (to assess shareholder returns on a relative basis) and emissions targets (aligned with our sustainability strategy, outlined on pages 50-51). The Committee believes this combination provides a balanced approach to measuring Group performance over the longer term by using stated financial KPIs which incentivise individuals to keep growing the business efficiently, a measure based on relative shareholder return and a measure which aligns with our commitment to building a sustainable business. This combination of measures appropriately balances absolute and relative returns. The performance measures are set with reference to internal and external forecasts and the Group's strategic targets.

As set out in the Policy implementation table on pages 149 to 150, different performance measures may apply for awards granted in future years.

Differences in remuneration policy from broader employee population

To ensure that the arrangements in place remain appropriate, when determining Executive Directors' remuneration, the Committee accounts for pay throughout the Group.

The Group has one consistent reward policy for all levels of employees. Therefore, the same reward principles guide reward decisions for all Group employees, including Executive Directors. However, remuneration packages differ to account for appropriate factors in different areas of the business:

- **AIP** – approximately 3,700 employees participate in the AIP. The corporate performance measures for all employees are consistent with those used for Executive Directors, although the weighting attributable to those factors may differ. The Group's strategic leaders (approximately 60 employees) also receive part of their bonus in Company shares deferred for three years.
- **Incentive awards** – approximately 3,200 employees, excluding Executive Directors, participate in a function or team specific incentive plan which assesses personal performance over a monthly period. These incentive awards may pay out monthly or quarterly.
- **LTIP** – our strategic leaders participate in the LTIP, currently based on the same performance conditions as those for Executive Directors.
- **Restricted Shares Plan** ("**RSP**") – RSP awards are used across the Group to help recruit and retain critical staff, and for talent management. Executive Directors do not receive grants under the RSP (with the exception of buyout awards which may be granted under the RSP).
- **All employee share plans** – the Committee considers it important for all employees to have the opportunity to become shareholders in the Group. The HMRC-approved SIP has operated since 2013, and, in addition, the Group has made periodic awards of free shares. These awards have no performance criteria attached and vest on the third anniversary of the award grant date, subject to the completion of three years continuous employment. At year-end, approximately 4,000 employees throughout the Group had signed up to these schemes with 7,700 holding free shares in the Company.
- **Pension and benefits** – the Company currently contributes 9% of salary to the defined contribution pension scheme without any requirement for an employee contribution. Employees may also opt for a proportion or all of this to be paid as cash rather than into the pension scheme.

Remuneration Policy for Non-Executive Directors

Element	Purpose and link to strategy	Approach to setting fees and cap	Other items
Chair and Non-Executive Directors' fees	To enable the Group to recruit and retain Non-Executive Directors of the highest calibre, at an appropriate cost	– Non-Executive Directors are paid a basic annual fee. Additional fees may be paid to Non-Executive Directors who chair a Board Committee, sit on a Board Committee, and for the SID to reflect additional responsibilities, as appropriate – The fees paid to the Chair of the Board include all Board and Committee membership fees, and are determined by the Remuneration Committee – Non-Executive Directors may receive certain expenses, including the reimbursement of travel expenses and accommodation or similar which, consistent with general market practice, will be grossed-up for any tax arising on such expenses (where the tax on those expenses is paid by the Company). It is the Committee's view that expenses (which are deemed to be benefits) are covered under the aggregate cap set by the Articles of Association and that this cap is not restricted to fees only – Similarly, while not benefits in the normal usage of that term, certain other items such as hospitality or retirement gifts may also be provided – Fee levels for Non-Executive Directors are reviewed and may be increased at appropriate intervals by the Board, with affected individual Directors absenting themselves from deliberations – In setting the level of fees, the Company accounts for the role's expected time commitment, and fees at other companies of a similar size, sector and/or complexity to the Group – Fees (including expenses which are deemed to be benefits) for Non-Executive Directors are subject to an aggregate cap in the Articles of Association (currently £2,000,000 per annum). The Company reserves the right to change how the elements and weightings within the overall fees are paid, and to pay a proportion of the fees in shares within this limit	– The Non-Executive Directors are not entitled to receive any compensation for loss of office, other than fees for their notice period – They do not participate in the Group's bonus, employee share plans or pension arrangements, and do not receive any employee benefits

Recruitment Remuneration Policy
To strengthen the management team and secure the skills to deliver the Group's strategic aims, the Recruitment Remuneration Policy aims to give the Committee enough flexibility to secure the appointment and promotion of high-calibre executives.

Principles for recruitment remuneration
1. In terms of the principles for setting a package for a new Executive Director, the starting point for the Committee will be to look at the Policy for Executive Directors as set out in the Policy table and structure a package in accordance with that Policy.
2. For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment, as appropriate.
3. For external and internal appointments (including a major change in role), the Committee may agree that the Company will meet certain relocation expenses, legal and other fees involved in negotiating any recruitment, or pay expatriate benefits in line with the Policy table, as appropriate.
4. Where it is necessary to make a recruitment-related pay award to an external candidate, the Company will not pay more than necessary, in the view of the Committee, and will in all cases seek to deliver any such awards under the terms of the existing incentive pay structure.
5. All such awards for external appointments, whether under the AIP, LTIP or otherwise, to compensate for awards forfeited on leaving their previous employer ("buyout awards") will be determined considering the commercial value of the amount forfeited, and the nature, time horizons and performance requirements of those awards. The Committee's starting point will be to ensure that any awards being forfeited which remain subject to outstanding performance requirements (other than where substantially complete) are bought out with replacement requirements, and any awards with service requirements are bought out with similar terms. However, exceptionally, the Committee may relax those obligations where it considers it to be in the interests of shareholders and those factors are, in the Committee's view, equally reflected in some other way, for example through a significant discount to the face value of the awards forfeited.

The elements of any package for a recruit, including the maximum level of variable pay, but excluding buy-outs, will be consistent with the Executive Directors' Remuneration Policy described in this report, as modified by the above statement of principles where appropriate. The Committee reserves the right to avail itself of the current Listing Rule 9.4.2 (being the rule which permits exceptional recruitment awards on terms different from any shareholder approved ongoing plans) if needed to facilitate, in exceptional circumstances, recruiting an Executive Director. Awards granted under this provision will only be used for buy-out awards.

Any commitments made before promotion to the Board (except when made in connection with the appointment to the Board) can continue to be honoured under the Policy, even if they are not consistent with the Policy prevailing when the commitment is fulfilled.

In exceptional circumstances, the initial notice period may be longer than the Group's 12-month policy up to a maximum of 24 months. However, this will reduce by one month for every month served, until it has reduced to 12 months in line with the Group's policy position.

The Remuneration Policy for the Chair and Non-Executive Directors as set out earlier in this report will apply relating to any recruitments to those positions.

Service contracts

Subject to the discretion noted above for new recruits, it is the Group's policy to set notice periods for Executive Directors of no more than 12 months (by the Director or by the Company). During this period, base salary, benefits and pension will normally continue to be paid.

The Executive Directors' service contracts may permit a payment for the unexpired portion of the notice period to be made in respect of base salary, benefits and pension only either a) in a lump sum or b) in monthly instalments (in which case instalments are subject to mitigation if an alternative role is found).

The service contracts for Executive Directors have no fixed duration.

There are no further obligations which could give rise to a remuneration or loss of office payment other than those set out in the Remuneration Policy table and the termination policy overleaf.

Termination policy

It is appropriate for the Committee to retain discretion to consider the termination terms of any Executive Director, having regard to all the relevant facts and circumstances available to them at the time. A Director is deemed a 'good' leaver if the following circumstances are met:

- **AIP and LTIP** – death, injury, disability, ill-health, redundancy, retirement, the sale of the individual's employing company or business out of the Group, or in such other circumstances as the Committee determines
- **DAIP** – for any reason other than summary dismissal or resignation. However, the Committee may determine that, in the case of resignation only, awards may be retained

The table below sets out the general position. However, it should be noted that the Committee, consistent with most other companies, has reserved a broad discretion to determine whether an Executive Director should be categorised as a 'good' leaver, and that discretion forms part of the approved policy.

Incentives	If a leaver is a 'bad' leaver, for example leaving through resignation or summary dismissal	If a leaver is deemed to be a 'good' leaver	Other events, for example, change in control of Company
Annual Incentive Plan	No awards made	Bonus based on performance, paid at the normal time and on a time pro-rata basis, unless the Committee determines otherwise	Bonus determined on such basis as the Committee considers appropriate and paid on a time pro-rata basis, unless the Committee determines otherwise
Deferred Annual Incentive Plan	All awards will lapse	Deferred shares typically vest on the normal vesting date, although the Committee reserves discretion to accelerate vesting. In the case of the participant's death or other exceptional circumstances, awards may vest immediately	Awards will vest in full. In the event of a demerger or similar event, the Committee may determine that awards vest on the same basis
Long-Term Incentive Plan	All unvested awards will lapse. During the holding period, awards cease to be contingent on employment and, therefore, will not lapse (except on dismissal for cause) but may be subject to malus	Awards will vest on the normal vesting date (plus any applicable holding period, unless the Committee determines otherwise) subject to performance and, unless the Committee determines otherwise, time pro-rating. In exceptional circumstances, as determined by the Committee, for example, in the case of the participant's death, awards may vest immediately	Awards will vest subject to applying the performance conditions and, unless the Committee determines otherwise, time pro-rating. The Committee may determine that such awards shall not vest early and, instead, be rolled over into replacement awards (subject to approval of the acquiring company) granted on a similar basis, but over shares in the acquirer or another company or settled in cash or other securities. In the event of a demerger or similar event, the Committee may determine that awards vest on the same basis

Service agreements for all Executive Directors provide that they are not eligible to receive any enhanced redundancy terms which may be offered by the Group from time to time. Their rights to a statutory redundancy payment are not affected.

Depending on the circumstances of departure, an Executive Director may have additional claims under relevant employment protection laws, and the Company may contribute to any legal fees involved in agreeing a termination. It may also agree to incur certain other expenses such as providing outplacement services. Any such fees would be disclosed as part of the detail of any termination arrangements. The Committee reserves the right to make any other payments connected with a Director's cessation of office or employment, where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment.

Non-Executive Director letters of appointment

Non-Executive Directors have letters of appointments (as opposed to service contracts) and are appointed for a three-year term which may be extended by mutual agreement. In common with the Executive Directors, all Non-Executives are subject to annual re-election by shareholders.

The Directors may appoint additional members to join the Board during the year. Directors appointed in this way will be subject to election by shareholders at the first AGM after their appointment. In subsequent years, the Directors who wish to remain on the Board must submit themselves for re-election at each AGM.

Terms and conditions of appointment of all the Directors are available for anyone to inspect at the Company's registered office and AGM.

The Chair and Non-Executive Directors have notice periods of three months from either party which do not apply in the case of a Director not being re-elected by shareholders or retiring from office under the Articles of Association. Other than fees for this notice period, the Chair and Non-Executive Directors are not entitled to any compensation on exit.

External directorships

The Company encourages Executive Directors to accept, subject to the Chair's approval, an invitation to join the board of another company outside the Group in a non-executive capacity, recognising the value of such wider experience. In these circumstances, they are permitted to retain any remuneration from the non-executive appointment. Executive Directors are generally limited to accepting one external directorship but may accept more with the Chair's prior approval.

Considering employment conditions elsewhere in the Group

As explained elsewhere in this report, the Committee reviews the overall pay and bonus decisions in aggregate for the wider Group, and, therefore, considers pay and conditions in the wider Group in determining the Directors' Remuneration Policy and the remuneration payable to Directors. Through the CEO and other senior management, the Committee may receive input from employee groups in the Group, such as the Employee Representative Body, as required. The Chair of the Remuneration Committee typically attends at least one Employee Representative Body meeting per year to explain the alignment of executive remuneration with the wider workforce pay policy, answer employee questions and understand employee concerns in relation to wider workforce remuneration.

In accordance with prevailing commercial practice, the Committee did not consult with employees in preparing the Directors' Remuneration Policy.

Considering shareholders' views

The Committee takes into account the approval levels of remuneration-related matters at the AGM in determining whether the current Directors' Remuneration Policy remains appropriate. Furthermore, we consulted with our largest shareholders on the roll-forward of our Directors' Remuneration Policy and its implementation in the form of a letter, with some shareholders requesting a follow up meeting via conference call and others responding via email. In light of the positive feedback received, we did not make any changes to the proposal to roll-forward the previous Policy.

When setting the Policy the Committee, consistent with its approach of operating within the highest standards of corporate governance, takes significant account of guidelines issued by the leading shareholder and proxy agencies.

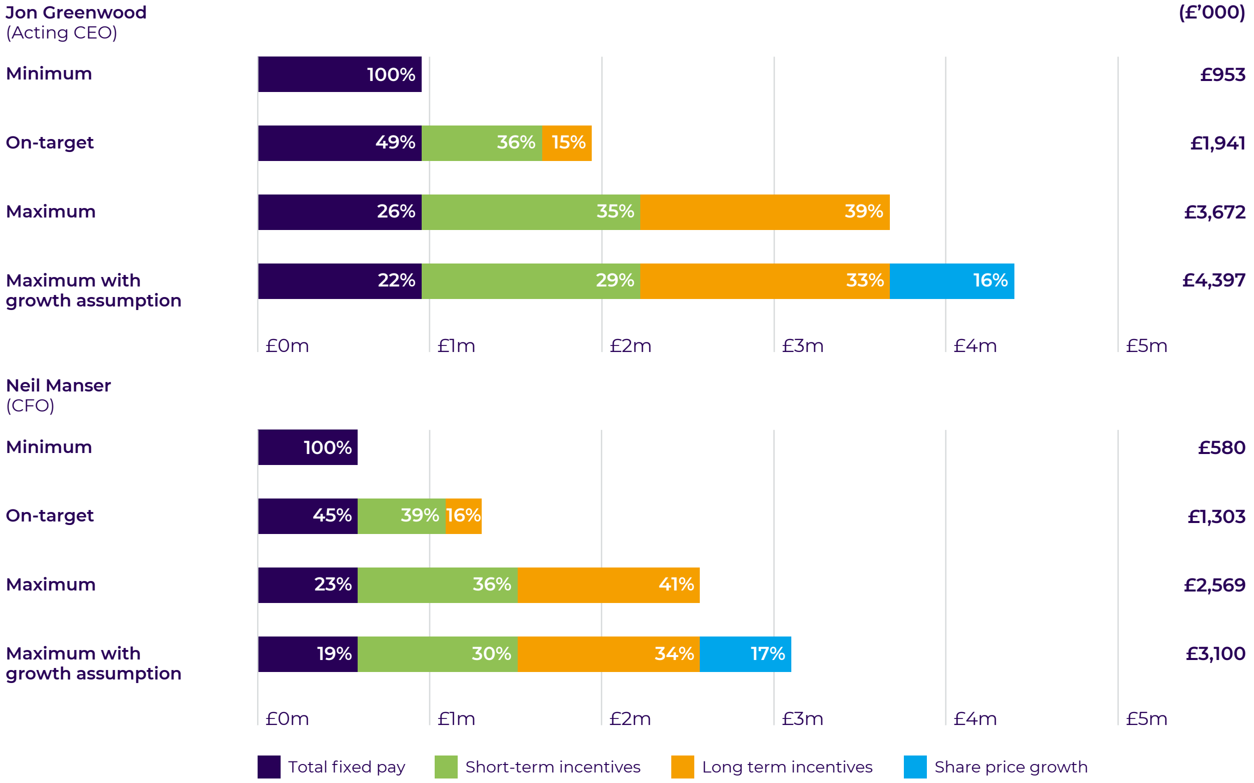
The Committee also seeks to build an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and, particularly, relating to any changes to the Company's executive pay arrangements.

The Committee is satisfied that no element of the Directors' Remuneration Policy conflicts with the Group's approach to environmental, social and governance matters.

Performance scenarios

The Directors' Remuneration Policy has been designed to ensure that a significant proportion of total remuneration is delivered as variable pay and, therefore, depends on performance against our strategic objectives.

The Committee has considered the level of remuneration that may be paid under different performance scenarios to ensure it would be appropriate in each situation, in the context of the performance delivered and the value created for shareholders.



The elements of remuneration included in each scenario are as follows:

Minimum	Consists of fixed remuneration only (that is base salary, benefits and pension): – Base salary is the salary as at 1 April 2023 – Benefits measured as benefits paid in 2022 as set out in the single figure table on page 137, with an estimated figure for the Acting CEO based on the assumed value of benefits for 2023 – Pension measured as the defined contribution or cash allowance in lieu of Company contributions, as a percentage of salary
On-target	Based on the on-target remuneration receivable (excluding share price appreciation and dividends): – Fixed remuneration as above – AIP – as there is no target, for the purposes of this illustration, taken as vesting half-way between threshold and maximum (55% of maximum) – LTIP – consists of the threshold level of vesting (20% vesting)
Maximum	Based on the maximum remuneration receivable (excluding share price appreciation and dividends): – Fixed remuneration as above – AIP – consists of the maximum bonus (175% of base salary) – LTIP – consists of the face value of awards (200% of base salary)
Maximum with growth assumption	Based on the above plus a 50% share price growth assumption

The Board reviewed and approved this Policy on 21 March 2023.

Directors' report

The Board of Directors present their report for the financial year ended 31 December 2022 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 259.

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 93 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	27, 33, 34
Important events since the financial year end	14 to 19
Likely future developments in the business	19
Employee engagement	23, 56 to 57, 106 to 108, 139
Engagement with suppliers, customers and other business relationships	52 to 54, 107
Research and development	11, 54
Greenhouse gas emissions, energy consumption and energy-efficient action	66 to 67, 69
Branches outside the UK	245

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	Page
Interest capitalised by the Group	Not applicable
Unaudited financial information	Note 3.5
Details of long-term incentive schemes	140 to 141
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	163
Controlling shareholder agreements	Not applicable

Dividends

Further to the Company's announcement on 11 January 2023, the Board has decided not to recommend a final dividend in respect of the 2022 financial year. More information on dividend and capital management can be found in the CFO review, on page 30.

Directors

The names of all current Directors and their biographies are set out on pages 96 to 98. We also recently announced that Mark Lewis will join the Board as an Independent Non-Executive Director with effect from 30 March 2023. All Directors will retire and those wishing to continue to serve will be submitted for election or re-election at the 2023 AGM. This is in accordance with the Corporate Governance Code and the Articles of Association of the Company, which govern appointing and replacing Directors.

The Directors listed on pages 96 to 98 were the Directors of the Company throughout the year under review. Penny James was a Director of the Company throughout 2022 but stepped down from the Board as a Director and as the Chief Executive Officer with effect from 27 January 2023.

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 130 to 161.

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 2022, 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 260.

Share capital

The Company has a premium listing on the London Stock Exchange. As at 31 December 2022, the Company's share capital comprised 1,311,388,157 fully paid Ordinary Shares of 10 $^{10}/_{11}$ pence each.

At the Company's 2022 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 £48,326,432, and to allot further shares up to an aggregate nominal amount of £48,326,432 for the purpose of a rights issue;
- allot shares having a nominal amount not exceeding in aggregate £7,248,964 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 £7,248,964 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 132,897,688 shares in the Company, representing 10% of the Company's issued share capital at the time. This authority, which expires at the conclusion of the AGM being held on 9 May 2023, was used during the year under review to purchase 7,861,245 shares. The Company also used the similar authority granted at the Company's 2021 AGM during the year under review to purchase 11,463,610 shares between 9 March 2022 and 10 May 2022; 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 ("**RT1**") Instruments.

To date, the Directors have not used these authorities granted in 2022, with the exception of the authority to make market purchases of shares, as referred to above and described in more detail below. At the 2023 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 2022 in notes 31 and 37 of the consolidated financial statements.

On 9 March 2022, the Company announced the launch of a share buyback programme of up to £100 million. A first tranche of £50 million worth of shares were purchased between 9 March 2022 and 28 June 2022. On 18 July 2022 the Company announced that the Board had decided not to launch the second £50 million tranche of the programme.

During 2022, the Company used the authority to purchase its own shares in the market as granted by the shareholders at Annual General Meetings in 2021 and 2022. A total number of 19,324,855 ordinary shares of 10 $^{10}/_{11}$ pence each were repurchased under the share buyback programme (of which 11,463,610 were repurchased under authority granted in 2021 and 7,861,245 were repurchased under authority granted in 2022) representing 1.47% of the called up share capital of the Company as at 31 December 2022. The aggregate consideration paid was £49,697,109.44 and all shares purchased have been cancelled. The effect of the share buyback has been to: reduce the weighted average number of Ordinary Shares in issue during 2022, which is used to calculate earnings per share, from 1,335.8 million in 2021 to 1,304.3 million in 2022 (see note 15 to the consolidated financial statements for more details); and reduce the closing number of Ordinary Shares at 31 December 2022 to 1,298.2 million from 1,317.3 million at 31 December 2021 (see note 16 to the consolidated financial statements for more details).

Further information on the Company's share buyback programme can be found in the CFO review on page 30.

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 37 on page 235. 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.

Use of financial instruments

Information regarding the Company's use of financial instruments, and financial risk management objectives and policies, can be found in the Risk Management section of the Strategic report from page 86 and note 3 of the consolidated financial statements.

Articles of Association

Unless expressly specified to the contrary in the Articles of Association, they 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 2022 and as at 21 March 2023, 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 2022	21 March 2023	Nature of Holding
FMR, LLC	N/A	5.55%	Indirect
Ariel Investments	5.09%	5.09%	Direct/ Indirect
Ameriprise Financial, Inc	5.06%	5.06%	Indirect
BlackRock, Inc.	5.42%	Below 5%	Indirect
Majedie Asset Management Limited	4.99%	4.99%	Indirect
T.Rowe Price Associates, Inc.	4.94%	4.68%	Indirect
Artemis Investment Management LLP	5.07%	4.82%	Indirect
abrdn plc	4.57%	4.57%	Indirect
Norges Bank	2.96%	4.13%	Direct
APG Asset Management N.V.	2.99%	2.99%	Direct

Political donations

The Group made no political donations during the year (2021: nil).

Disabled and neurodivergent 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.

At recruitment, 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 57 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 trading update that was approved by the Board of Directors and announced to the stock market on 11 January 2023 in respect of the Group's trading for 2022 and outlook for 2023, set out the challenging conditions that the Group has faced, in particular with respect to the severe weather in December 2022 and further increases in motor claims inflation, as well as the impact on the Group's investment property portfolio valuation. 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 financial disclosures relating to the Group's principal risks are set out in note 3 of the consolidated financial statements. This covers insurance, market and credit 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 2026, The Group's Risk Function has carried out an assessment of the risks to the strategic plan ("**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, delay in pricing actions, increase in operating expenses 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% with the Group and market response delayed by six months;
– delay in pricing: future initiatives deliver 50% of expected value;
– increase in operating expenses: there is a delay of 12 months to achieving benefits from 2023 expense reduction initiatives; and
– fall in asset values: an increase in credit spreads of 50 basis points in the UK and 25 basis points outside of the UK in 2023, with spreads remaining elevated.

In connection with the trading update released on 11 January 2023, a reforecast based on the Plan was prepared without delay.

The Risk Function has also carried out an assessment of the risks to the Group's capital position over 2023 and 2024. Two specific macroeconomic scenarios, a moderate and a severe, have been run to assess the possible impact on the Group's own funds in the period to 31 December 2023 and 31 December 2024. 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".

A reverse stress test was also performed to identify a combination of stresses that would result in capital loss and thus threaten the viability of U K Insurance Limited, the Group's principal underwriter, i.e. a reduction of own funds to below the solvency capital requirement. The reverse stress test combines the severe macroeconomic stress with the impacts from a series of three natural catastrophes from the 2022 PRA Insurance Stress Test.

In the moderate and severe scenarios, it was concluded that the Group's and U K Insurance Limited's solvency capital requirement would not be breached following the implementation of management actions, such as de-risking the asset portfolio, the purchase of additional reinsurance cover, asset disposal or, if necessary, raising equity.

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.

Therefore, having made due enquiries, the Directors reasonably expect that the Group has adequate resources to continue in operational existence for at least 12 months from 21 March 2023 (the date of approval of the consolidated financial statements). Accordingly, the Directors have adopted the going concern basis in preparing the 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 has confirmed its willingness to continue in office as the External Auditor for the financial year ending 31 December 2023. A resolution to reappoint Deloitte will be proposed at the forthcoming 2023 AGM. You can find an assessment of the effectiveness of, and a recommendation for, reappointing Deloitte in the Audit Committee report on page 120.

As announced on 10 October 2022, Deloitte will step down following completion of the audit of the financial year ending 31 December 2023, in line with mandatory rotation requirements. Following a competitive tender process led by the Audit Committee, the Board has 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.

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 96 to 98, 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 93) and Directors' report (on pages 162 to 166) 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 2023 and signed on its behalf by:

Roger C. Clifton
Company Secretary

Registered address: Churchill Court, Westmoreland Road, Bromley, BR1 1DP

Registered number: 02280426

Contents

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 2022 and of the Group's loss 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 ("**UK**") Generally Accepted Accounting Practice, including FRS 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 Income Statement;
- the Consolidated and Parent Company Statement of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated Cash Flow Statement; and
- the related notes 1 to 45 of the Consolidated financial statements and related notes 1 to 15 on the Parent Company financial statements, excluding the capital adequacy disclosures in note 3 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 UK 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 ("**FRC**") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group for the year are disclosed in note 10 to the consolidated 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	The key audit matters that we identified in the current year were: – valuation of insurance liabilities: 1) The frequency, severity and inflationary assumptions for large bodily injury claims; and 2) Periodic payment orders ("**PPOs**") inflation and discount rates. – valuation of illiquid investments: 1) Commercial real estate loans, infrastructure debt and private placement bonds; and 2) Investment property; – disclosure of the impact of adoption of IFRS 17. Within this report, key audit matters are identified as follows: 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 the shareholder's equity.
Scoping	Our Group audit scoping included two entities being subject to a full scope audit and a further two entities being subject to an audit of specified account balances. These four entities represent the principal business units and account for 97% of the Group's shareholder's equity, 100% of the Group's gross earned premium and 100% of the Group's insurance liabilities. We performed 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 a full scope audit or an audit of specified balances.
Significant changes in our approach	During the year we have made the following changes to our audit approach: a. We updated our key audit matters to include inflation assumptions with regard to bodily injury claims and margins above the actuarial best estimate, removing our previously separate key audit matter on these margins; and b. We identified a new key audit matter relating to the risks arising from the opening balance sheet disclosure as a result of transitioning to IFRS 17. In direct response to the trading updates issued by the Group, we have further made the following changes to our audit approach: a. We reassessed our approach to determining materiality and changed our key benchmark from profit before tax to shareholders' equity including profit/loss for the period, resulting in a £4 million decrease to materiality applied; b. We increased our Group audit scoping to include a third entity subject to a full scope, rather than specified procedures; c. We changed our controls testing strategy in light of the economic environment and the Group's results; and d. We engaged additional internal specialists to assist us in performing audit procedures to address the incremental risks across the audit, including fair value and regulatory specialists.

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 the profit warnings issued during the year on management's control environment and forecasting and evaluated the impact on historical forecasts;
- we assessed the impact of management's actions in relation to the profit warnings on the future capital position of the Group;
- 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 rate and discount rate given our understanding of the Group and its industry; and
- we evaluated management's reverse stress test; independently performing sensitivity analysis to assess the impact of various scenarios on the Group's liquidity and solvency headroom.

4. Conclusions relating to going concern continued

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.

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 liabilities

Refer to page 117 (Audit Committee Report), page 186 (Accounting policies), page 197 (Notes to the consolidated financial statements - note 2.3) and page 232 (Notes to the consolidated financial statements - note 35).

The Group's gross insurance liabilities total £3.7 billion (2021: £3.7 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 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, and actuarial assumptions being consistent with emerging data, market factors and the Group's reserving policy. As a result of these factors, there is a significant level of estimation uncertainty in the valuation of these claims, which increases the susceptibility of the balance to material misstatement due to error and fraud.

Furthermore, reduced traffic volumes throughout accident years 2020 and 2021 and a return to normality during 2022 increased 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 further amplified given the long-tailed nature of bodily injury claims. Further, continued uncertainty regarding the impact of the Whiplash Reform in May 2021 increases inherent uncertainty underlying bodily injury claims.

Moreover, we have identified that inflationary assumptions have a significant impact on the valuation of bodily injury insurance liabilities and there is a significant level of estimation uncertainty inherent with these assumptions in light of the macroeconomic environment. The allowance for inflation has been made by the Group within both their best estimate and margin above the best estimate.

How the scope of our audit responded to the key audit matter

We have gained a detailed understanding of the end-to-end claims and reserving process and obtained an understanding of relevant controls.

In order 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 have evaluated 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 in relation to bodily injury claims undertaken by assessing relevant documentation and meeting with the Actuarial Director and their team;
- inspect and challenge the Group's documented methodology and key assumptions in respect of the prior years as well as the current year, with particular reference to inflationary impacts. This included:
    - using our in-house reserving software to help us challenge the Group's response to emerging claims trends;
    - conducting sensitivity testing on the methodology and assumptions used in the current year selections and challenging changes from prior year;
    - comparing the Group's cost per claim and frequency diagnostics to market benchmarks and independent reserve review results;
- analyse the consistency in reserving strength and reserve releases in comparison with prior years;
- leverage third party economic studies to challenge the appropriateness of management's adverse scenarios, with a specific focus on care worker wage inflation given the sensitivity of the Group's bodily injury claims to this assumption, whilst looking back to outcomes from previous economic downturns; and
- perform a 'stand back' test to challenge the reasonableness of the overall insurance liabilities between periods in light of the level of uncertainties that existed at each respective reporting date.

Key observations

We have concluded that the assumptions used in the calculation of the bodily injury claims reserves are reasonable.

5.1.2 Periodic Payment Orders ("PPOs") 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 £632.8 million (2021: £757.8 million) on a discounted gross basis as detailed in note 35.

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 economic assumptions selected and as at 31 December 2022, the Group valued PPOs using an inflation rate curve linked to the PRA published risk free rate (2021: fixed 3.5%). Additionally, the Group used a discount rate curve linked to the investment yield of assets used to match the PPO liabilities (2021: fixed 3.5%). 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 have gained a detailed understanding of management's process for setting these assumptions and obtained an understanding of the relevant controls surrounding the setting of the inflation rates across the book of the business and the discount rate used in the PPO valuation, namely the challenge and approval of these assumptions by the reserving committee.

We have worked with our actuarial specialists to:

- Inspect and challenge management's PPO inflation assumption by evaluating relevant documentation, meeting with the Actuarial Director and their 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 on the methodology and rational for deriving the discount rate by benchmarking the selected discount rate against external sources and comparing with market economic data.

In addition, we performed the following procedure:

- worked with our valuations specialist to evaluate the reasonableness of the selected discount rate curve.

Key observations

We have determined that the inflation and discount rate assumptions used in the calculation of the PPO claims reserve are reasonable.

5.2 Valuation of illiquid investments

Refer to page 117 (Audit Committee Report), pages 188 and 189 (Accounting policies) and pages 224 and 229 (Notes to the consolidated financial statements - notes 20 and 28).

In the current year, we continue to identify the valuation of illiquid investments, specifically the commercial real estate loans, infrastructure debt, private placement bonds and investment property investments as a key audit matter as described below.

5.2.1 Commercial real estate loans, infrastructure debt and private placement bonds

Key audit matter description

We have identified a key audit matter in relation to these credit portfolios totalling £535.5 million (2021: £542.8 million).

Given the Group continues to recognise and measure financial instruments under IAS 39 'Financial Instruments: Recognition and Measurement', these instruments are measured at amortised cost and 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.

We deem there to be 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 rising inflation and interest rates.

5. Key audit matters continued

5.2.1 Commercial real estate loans, infrastructure debt and private placement bonds continued

How the scope of our audit responded to the key audit matter

We have obtained an understanding of and tested the relevant controls that mitigate the risk over the valuation of illiquid investments. Our work included attendance at the year-end impairment review meeting in order to observe the operation of a key management review control.

In addition, we performed the following procedures:

- tested a sample of interest payments to banks during the year to test for default or delinquency in interest payments;
- utilised market indices to identify commercial real estate loans at risk and inspected the tenancy breakdowns for potential risks of store closure given the current economic issues facing the UK high street;
- challenged management on loans of interest where indicators could point to issuer financial difficulty and obtained evidence to help assess whether the 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 book cost.

Key observations

We considered the accounting treatment applied to be reasonable. In performing our procedures, we did not note any indicators of material impairment.

5.2.2 Investment property

Key audit matter description

The investment properties held by the Group comprise retail, retail warehouse, supermarkets and foodstores, industrial, hotel and alternative properties. As noted in disclosure note 20, the total value as at 31 December 2022 is £278.5 million (2021: £317.0 million). Given the current UK macroeconomic environment with inflationary pressures and increasing interest rates affecting the cost of debt, we have identified the methodology and assumptions used for valuing the investment property portfolio as a key audit matter in the current year. In light of the volatility across the whole investment property market, we have expanded the scope of the key audit matter to cover the whole portfolio (£278.5 million) rather than just the retail and alternative sectors identified in the prior year (2021: £101.6 million).

We considered the valuation of the investment properties to be a key audit matter as the determination of fair value involves significant judgement by the external valuation experts. Valuation methodology for investment properties are subjective in nature and involve 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 have obtained an understanding of and tested the relevant control related to the annual meeting with management’s external valuation expert; this is where management review and challenge the assumptions and methodologies used in determining the fair value. In addition, we performed the following procedures:

- worked with our real estate specialists who challenged the management’s expert on the estimated rental value, yield and capitalisation rate assumptions and methodologies used in the valuation of the properties;
- 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, 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 accounting treatment applied to be reasonable. In performing our procedures, we did not note any indicators of material misstatements within the investment property portfolio fair value.

5.3 Disclosure of the impact of the adoption of IFRS 17 !

Key audit matter description

On 1 January 2023, the Group transitioned to IFRS 17: 'Insurance Contracts' which replaced the existing standard for insurance contracts, IFRS 4 'Insurance Contracts'.

The estimated transitional impact is disclosed in Note 1 to the financial statements in accordance with the requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. The disclosures in 2022 are intended to provide users with an understanding of the estimated impact of the new standard and, as a result, are more limited than the disclosures to be included in the first year of adoption, being 2023.

We have deemed the disclosure of the impact of the adoption of IFRS 17 a key audit matter as this is a new and complex accounting standard which has required considerable judgment and interpretation in its implementation. Furthermore, the new standard has introduced a number of significant changes, including new requirements regarding the measurement and presentation of insurance contracts and related account balances and classes of transactions.

The Group has disclosed that it adopted the full retrospective approach on transition to IFRS 17 and applied the Premium Allocation Approach ("**PAA**") to the measurement of groups of insurance contracts issued and groups of reinsurance contracts held at the transition date. The Group took advantage of the accounting policy choice to expense insurance acquisition cash flows as incurred and determined the discount rates to apply to future cash flows using the "bottom-up" approach.

In order to meet the requirements of the new standard, significant changes have also been made to the systems, processes and controls with effect from 1 January 2023.

How the scope of our audit responded to the key audit matter

While further testing of the financial impact will be performed as part of our 2023 year end audit, we have performed the following audit procedures for the purposes of assessing the disclosures made in accordance with IAS 8. Specifically we have:

- gained a detailed understanding of the process to estimate the transitional adjustment and obtained an understanding of relevant controls;
- challenged the appropriateness of key technical accounting decisions, judgments, assumptions and elections made in determining the estimate against the requirements of the standard;
- involved our internal actuarial specialists in performing procedures to challenge the Group's IFRS 17 calculation models, including those related to the testing of PAA eligibility, the estimate of the fulfilment cash flows, the risk adjustment and discounting; and
- tested the IAS 8 disclosures related to the transition impact and reconciled the disclosed impact to underlying accounting records.

Key observations

Based on the procedures described above, we consider the assumptions, methodologies and models applied in preparing the IFRS 17 transition disclosure to be 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.

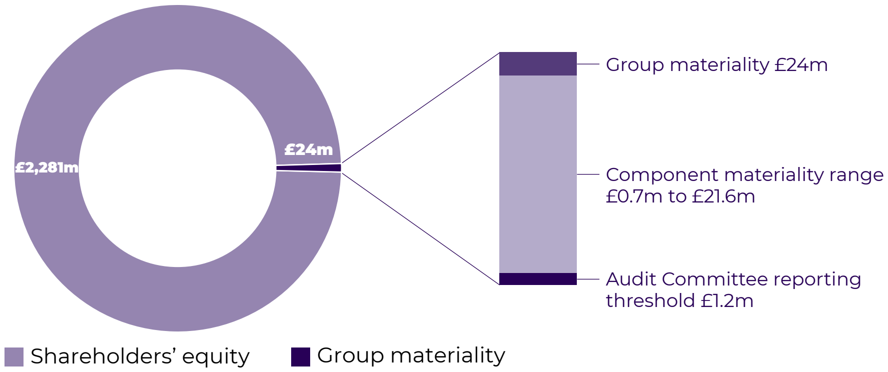
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£24.0 million (2021: £28.0 million)	£21.6 million (2021: £25.2 million)
Basis for determining materiality	The materiality approximates 1.0% (2021 equivalent: 1.0%) of shareholders' equity including profit/loss for the period. In the prior year, we used the three-year average profit before tax, excluding the impact of the Ogden discount rate change to minus 0.25% in the 2019 results. However, given the profit warnings, within the trading updates, issued in the year and the increased focus on the capital position of the Group, we have changed benchmark to shareholders' equity.	The materiality approximates 1.0% (2021 equivalent: 1.0%) of shareholders' equity and is capped at 90% (2021: 90%) of Group materiality.
Rationale for the benchmark applied	In light of the economic circumstances identified in the current year, the cancellation of the dividend and the trading updates issued by the Group, we determined that the critical benchmark for the Group was no longer average profit before tax. Instead, we determined that the critical benchmark for the Group was shareholders' equity (including profit/loss for the period) given the focus on distributable reserves and future dividend payment capability. We also considered this measure in conjunction with gross earned premium, with our materiality equating to 0.8% (2021: 0.9%) of gross earned premium.	We determined that the critical benchmark for the Parent Company was shareholders' equity including profit/loss for the period. 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.

6. Our application of materiality continued

6.1 Materiality continued

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 components 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 gross earned premium and 99% of Group insurance liabilities, is scoped to a component materiality of £21.6 million (2021: £25.2 million). Component materiality for other entities within the scope of our Group audit ranged from £0.7 million to £21.6 million (2021: £0.9 million to £25.2 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	67.5% (2021: 70%) of Group materiality	67.5% (2021: 70%) of Parent Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: – the impact of the trading updates on the Group; – we have audited the Group for a number of years and so have knowledge of both the Group and the environment it operates in; – our ability to rely on controls over a number of significant business processes; and – our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods, and our assessment that these were not likely to recur in the current period.	

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 (2021: £1.4 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

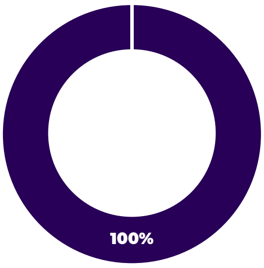
7.1 Identification and scoping of components

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.

Consistent with the prior period, this resulted in two entities being subject to a full scope audit and a further two were 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.

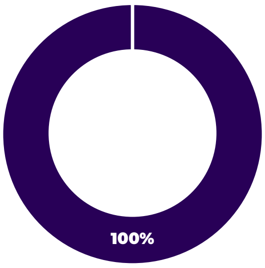
These four entities represent the principal trading and service operations of the Group and account for 97% (2021: 97%) of the Group's shareholder's equity, 100% (2021: 100%) of the Group's gross earned premium and 100% (2021: 100%) of the Group's insurance liabilities. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

Gross earned premium



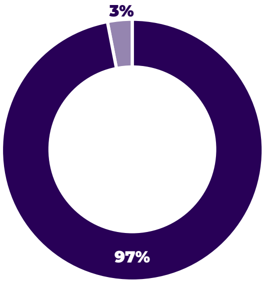
■ Full audit scope

Insurance 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 listed above, including the Parent Company.

7.2 Our consideration of the control environment

IT Controls

In planning our 2022 audit, we identified 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. Having worked with our in-house IT specialists to assess the operating effectiveness of the IT controls associated with these systems, as well as the wider general IT control environment across the Group, we were able to rely upon the IT controls associated with 17 systems, with 1 system in the process of establishing controls and 1 system having insufficient evidence.

Business processes and financial reporting controls

In planning our 2022 audit, we identified 21 business processes that were material to the Group's financial reporting and which we tested. These processes spanned 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 directly rely on the business controls associated with 19 of these processes. Further, in response to the heightened engagement risk we changed our control rotation strategy, and tested 2 more processes in the current year for operating effectiveness. Having completed our testing over the operating effectiveness of business controls associated with these processes, through a combination of current period testing and reliance on prior period testing, we concluded that we were able to rely upon the business controls associated with 12 processes planned.

Across 8 of these business processes, we identified deficiencies and across a further 2, we identified insights which we communicated to those charged with governance and these have been remediated or are in the process of being remediated.

7.3 Our consideration of climate-related risks

We have gained an understanding of management's processes to address climate-related risks, including management's implementation of the Climate Executive Steering Group and Group sustainability framework. We have assessed whether these initiatives undertaken by management are aligned with the Climate Change Roadmap developed by the Association of British Insurers. Management has performed a risk assessment for climate-related risks, further details are disclosed in the Strategic report. 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, utilising the support of a climate change risk 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 read the disclosure relating to climate risks in the Planet section of the Annual Report and considered whether they were materially 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 reviewed by the Audit Committee on 2 November 2022;
- results of our enquiries of management, internal audit, and the Audit Committee about their own identification and assessment of the risks of irregularities;
- 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, forensic 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 valuation of the insurance 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.

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.

11.2 Audit response to risks identified

As a result of performing the above, we identified the valuation of insurance liabilities a key audit matter related to the potential risk of fraud or 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 to the above, 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 in response to the trading updates issued by management;
- 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 164 and 165;
- 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 92 and 93;
- the Directors' statement on fair, balanced and understandable set out on page 114;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 114;
- the section of the Annual Report and Accounts that describes the review of effectiveness of risk management and internal control systems set out on page 198; and
- the section describing the work of the Audit Committee set out on page 116.

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 ("**RBSG**"), which at the time owned Direct Line Insurance Group plc, we were appointed by the Board of Directors of RBSG 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 23 years, covering the years ending 31 December 2000 to 31 December 2022.

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**") 4.1.14R, these financial statements form part of the European Single Electronic Format ("**ESEF**") prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ("**ESEF RTS**"). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

ADAM ADDIS, ACA

SENIOR STATUTORY AUDITOR

FOR AND ON BEHALF OF DELOITTE LLP

LONDON, UNITED KINGDOM

21 March 2023

Consolidated Income Statement
For the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Gross earned premium		**3,132.2**	3,168.0
Reinsurance premium		**(165.7)**	(210.6)
Net earned premium	5	**2,966.5**	2,957.4
Investment return	6	**51.6**	146.3
Instalment income		**92.4**	97.3
Other operating income	7	**55.3**	46.7
Total income		**3,165.8**	3,247.7
Insurance claims	8	**(2,218.0)**	(1,915.3)
Insurance claims (payable to)/recoverable from reinsurers	8	**(16.6)**	196.6
Net insurance claims	8	**(2,234.6)**	(1,718.7)
Commission expenses	9	**(211.1)**	(240.9)
Operating expenses (including restructuring and one-off costs)	10	**(744.8)**	(807.8)
Total expenses		**(955.9)**	(1,048.7)
Finance costs	11	**(20.4)**	(34.3)
(Loss)/profit before tax		**(45.1)**	446.0
Tax credit/(charge)	12	**5.6**	(102.3)
(Loss)/profit for the year attributable to the owners of the Company		**(39.5)**	343.7
(Loss)/earnings per share:			
Basic (pence)	15	**(4.3)**	24.5
Diluted (pence)	15	**(4.3)**	24.1

The attached notes on pages 184 to 241 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	Notes	2022 £m	2021 £m
(Loss)/profit for the year attributable to the owners of the Company		**(39.5)**	343.7
Other comprehensive loss			
Items that will not be reclassified subsequently to the income statement:			
Remeasurement (loss)/gain on defined benefit pension scheme	27	**(9.8)**	3.8
Tax relating to items that will not be reclassified	13	**2.5**	(0.8)
		(7.3)	3.0
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges		**0.2**	(0.3)
Fair value loss on AFS investments	32	**(295.8)**	(84.1)
Add: net loss/(gain) on AFS investments transferred to income statement on disposals	32	**24.9**	(7.9)
Tax relating to items that may be reclassified	32	**67.2**	17.1
		(203.5)	(75.2)
Other comprehensive loss for the year net of tax		**(210.8)**	(72.2)
Total comprehensive (loss)/income for the year attributable to the owners of the Company		**(250.3)**	271.5

The attached notes on pages 184 to 241 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet
As at 31 December 2022

	Notes	2022 £m	2021 £m
Assets			
Goodwill and other intangible assets	17	**822.2**	822.5
Property, plant and equipment	18	**83.7**	113.8
Right-of-use assets	19	**73.0**	76.1
Investment property	20	**278.5**	317.0
Reinsurance assets	22	**1,101.7**	1,211.8
Current tax assets		**71.9**	14.4
Deferred tax assets	12	**62.0**	–
Deferred acquisition costs	23	**188.3**	186.6
Insurance and other receivables	24	**791.6**	762.8
Prepayments, accrued income and other assets	25	**105.8**	125.1
Derivative financial instruments	26	**31.3**	35.9
Retirement benefit asset	27	**1.6**	12.1
Financial investments	28	**3,698.5**	4,633.6
Cash and cash equivalents	29	**1,003.6**	955.7
Assets held for sale	30	**40.9**	41.2
Total assets		**8,354.6**	9,308.6
Equity			
Shareholders' equity		**1,934.0**	2,550.2
Tier 1 notes	33	**346.5**	346.5
Total equity		**2,280.5**	2,896.7
Liabilities			
Subordinated liabilities	34	**258.6**	513.6
Insurance liabilities	35	**3,654.3**	3,680.5
Unearned premium reserve	36	**1,462.7**	1,500.7
Borrowings	29	**65.2**	59.2
Derivative financial instruments	26	**29.6**	19.5
Provisions	38	**64.3**	96.4
Trade and other payables, including insurance payables	39	**457.8**	457.3
Lease liabilities	42	**81.6**	84.2
Deferred tax liabilities	13	**–**	0.5
Total liabilities		**6,074.1**	6,411.9
Total equity and liabilities		**8,354.6**	9,308.6

The attached notes on pages 184 to 241 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 2023.

They were signed on its behalf by:

NEIL MANSER

CHIEF FINANCIAL OFFICER

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital (note 31)	Employee trust shares	Capital reserves (note 32)	AFS revaluation reserve (note 32)	Foreign exchange translation reserve	Retained earnings	Shareholders' equity	Tier 1 notes (note 33)	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2021	148.9	(40.3)	1,451.1	83.9	–	1,056.1	2,699.7	346.5	3,046.2
Profit for the year	–	–	–	–	–	343.7	343.7	–	343.7
Other comprehensive (loss)/ income	–	–	–	(74.9)	(0.3)	3.0	(72.2)	–	(72.2)
Total comprehensive (loss)/ income for the year	–	–	–	(74.9)	(0.3)	346.7	271.5	–	271.5
Dividends and appropriations paid (note 14)	–	–	–	–	–	(317.4)	(317.4)	–	(317.4)
Shares acquired by employee trusts	–	(20.3)	–	–	–	–	(20.3)	–	(20.3)
Shares cancelled following buyback (note 31)	(3.7)	–	3.7	–	–	(101.0)	(101.0)	–	(101.0)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	17.0	17.0	–	17.0
Shares distributed by employee trusts	–	19.2	–	–	–	(19.2)	–	–	–
Tax on share-based payments	–	–	–	–	–	0.7	0.7	–	0.7
Total transactions with equity holders	(3.7)	(1.1)	3.7	–	–	(419.9)	(421.0)	–	(421.0)
Balance at 31 December 2021	145.2	(41.4)	1,454.8	9.0	(0.3)	982.9	2,550.2	346.5	2,896.7
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(39.5)**	**(39.5)**	**–**	**(39.5)**
Other comprehensive (loss)/ income	**–**	**–**	**–**	**(203.7)**	**0.2**	**(7.3)**	**(210.8)**	**–**	**(210.8)**
Total comprehensive (loss)/ income for the year	**–**	**–**	**–**	**(203.7)**	**0.2**	**(46.8)**	**(250.3)**	**–**	**(250.3)**
Dividends and appropriations paid (note 14)	**–**	**–**	**–**	**–**	**–**	**(314.5)**	**(314.5)**	**–**	**(314.5)**
Shares acquired by employee trusts	**–**	**(11.0)**	**–**	**–**	**–**	**–**	**(11.0)**	**–**	**(11.0)**
Shares cancelled following buyback (note 31)	**(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)**	**–**	**–**	**–**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**	**–**	**0.2**
Total transactions with equity holders	**(2.1)**	**2.4**	**2.1**	**–**	**–**	**(368.3)**	**(365.9)**	**–**	**(365.9)**
Balance at 31 December 2022	**143.1**	**(39.0)**	**1,456.9**	**(194.7)**	**(0.1)**	**567.8**	**1,934.0**	**346.5**	**2,280.5**

The attached notes on pages 184 to 241 form an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement
For the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Net cash (used by)/generated from operating activities before investment of insurance assets	40	**(60.3)**	271.8
Cash generated from investment of insurance assets	40	**860.5**	167.2
Net cash generated from operating activities		**800.2**	439.0
Cash flows used in investing activities			
Purchases of goodwill and other intangible assets	17	**(108.4)**	(109.4)
Purchases of property, plant and equipment	18	**(11.7)**	(29.3)
Proceeds on disposals of assets held for sale		**19.3**	—
Net cash used in investing activities		**(100.8)**	(138.7)
Cash flows used in financing activities			
Dividends paid	14	**(297.9)**	(300.8)
Appropriations paid	14	**(16.6)**	(16.6)
Finance costs (including lease interest)		**(23.0)**	(31.4)
Principal element of lease payments		**(8.9)**	(101.9)
Purchase of employee trust shares		**(11.0)**	(20.3)
Redemption of subordinated Tier 2 notes	40	**(250.0)**	—
Shares purchased in buyback	31	**(50.1)**	(101.0)
Net cash used in financing activities		**(657.5)**	(572.0)
Net increase/(decrease) in cash and cash equivalents		**41.9**	(271.7)
Cash and cash equivalents at the beginning of the year	29	**896.5**	1,168.2
Cash and cash equivalents at the end of the year	29	**938.4**	896.5

The attached notes on pages 184 to 241 form an integral part of these 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 IFRSs issued by the IASB as adopted by the UK. The Group has elected to prepare its parent entity financial statements in accordance with FRS 101 'Reduced Disclosure Framework'.

The consolidated financial statements are prepared on the historical cost basis except for available-for-sale ("**AFS**") and equity investments held at fair value through profit or loss ("**FVTPL**") financial assets; investment property and derivative financial instruments, which are measured at fair value (fair value is defined in note 43); and assets held for sale which are measured at the lower of carrying amount and fair value less costs to sell.

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 2022 and 31 December 2021 to items considered material to the consolidated financial statements.

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 trading update that was approved by the Board of Directors and announced to the stock market on 11 January 2023 in respect of the Group's trading for 2022 and outlook for 2023, set out the challenging conditions that the Group has faced, in particular with respect to the severe weather in December 2022 and further increases in motor claims inflation, as well as the impact on the Group's investment property portfolio valuation. The Chief Financial Officer 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 financial disclosures relating to the Group's principal risks are set out in note 3. This covers insurance, market and credit 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 2026. The Group's Risk Function has carried out an assessment of the risks to the strategic plan ("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, delay in pricing actions, increase in operating expenses 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% with the Group and market response delayed by six months;
- delay in pricing: future initiatives deliver 50% of expected value;
- increase in operating expenses: there is a delay of 12 months to achieving benefits from 2023 expense reduction initiatives; and
- fall in asset values: an increase in credit spreads of 50 basis points in the UK and 25 basis points outside of the UK in 2023, with spreads remaining elevated.

In connection with the trading update released on 11 January 2023, a reforecast based on the Plan was prepared without delay.

The Risk Function has also carried out an assessment of the risks to the Group's capital position over 2023 and 2024. Two specific macroeconomic scenarios, a moderate and a severe, have been run to assess the possible impact on the Group's own funds in the period to 31 December 2023 and 31 December 2024. 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".

A reverse stress test was also performed to identify a combination of stresses that would result in capital loss and thus threaten the viability of U K Insurance Limited, the Group's principal underwriter, i.e. a reduction of own funds to below the solvency capital requirement. The reverse stress test combines the severe macroeconomic stress with the impacts from a series of three natural catastrophes from the 2022 PRA Insurance Stress Test.

In the moderate and severe scenarios, it was concluded that the Group's and U K Insurance Limited's solvency capital requirement would not be breached following the implementation of management actions, such as de-risking the asset portfolio, the purchase of additional reinsurance cover, asset disposal or, if necessary, raising equity.

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.

Therefore, having made due enquiries, the Directors reasonably expect that the Group has adequate resources to continue in operational existence for at least 12 months from 21 March 2023 (the date of approval of the consolidated financial statements). Accordingly, the Directors have adopted the going concern basis in preparing the consolidated financial statements.

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 2022. None of the changes have a material impact for the Group.

In May 2020, the IASB issued narrow-scope amendments to three standards:

- Amendments to IFRS 3 'Business Combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations;
- Amendments to IAS 16 'Property, Plant and Equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss; and
- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' specify which costs a company includes when assessing whether a contract will be loss-making.

Also, in May 2020, the IASB issued 'Annual Improvements to IFRS Standards 2018-2020' which makes minor amendments to:

- IFRS 1 'First-time Adoption of International Financial Reporting Standards' which simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter of IFRS standards later than its parent;
- IFRS 9 'Financial Instruments' – this amendment clarifies that – for the purpose of performing the '10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf; and
- IFRS 16 'Leases' which removes the illustration of payments from the lessor relating to leasehold improvements.

1.1 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 2022 and 31 December 2021. 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.

All intercompany transactions, balances, income and expenses between Group entities are eliminated on consolidation.

1.2 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 balance sheet 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 income statement.

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 income statement except for differences arising on AFS non-monetary financial assets and 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 balance sheet 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 comprehensive income. The amount accumulated in equity is reclassified from equity to the consolidated income statement on disposal or partial disposal of a foreign operation.

1.3 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.

1.4 Revenue recognition

Premiums earned

Insurance and reinsurance premiums comprise the total premiums receivable for the whole period of cover provided by contracts incepted during the financial year, adjusted by an unearned premium reserve, which represents the proportion of the premiums incepted in the year or prior periods that relate to periods of insurance cover after the balance sheet date. Unearned premiums are calculated over the period of exposure under the policy on a daily basis, a monthly basis or allowing for the estimated incidence of exposure under policies.

Premiums collected by intermediaries or other parties, but not yet received, are assessed based on estimates from underwriting or past experience and are included in insurance premiums. Insurance premiums exclude insurance premium tax or equivalent local taxes and are shown gross of any commission payable to intermediaries or other parties.

Cash back payments to policyholders under motor telematics policies represent a reduction in earned premiums.

1. Accounting policies continued

1.4 Revenue recognition continued

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 income statement on a straight-line basis over the period of the contract.

Dividend income is recognised when the right to receive payment is established.

Instalment income

Instalment income comprises the interest income earned on policyholder receivables, where outstanding premiums are settled by a series of instalment payments. Interest is earned using an effective interest rate method over the term of the policy.

Other operating income

Vehicle replacement referral income (accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers')

Vehicle replacement referral income comprises fees recognised at a point in time in respect of referral income received when a customer or a non-fault policyholder (claimant) of another insurer has been provided with a hire vehicle from a preferred supplier.

Income is recognised when the customer or claimant has been provided with a vehicle by the supplier.

Revenue from vehicle recovery and repair services (accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers')

Fees in respect of services for vehicle recovery and income from salvage are recognised at a point in time on satisfaction of performance obligations. The cost of providing the service is incurred as the service is rendered.

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 are accounted for at the point of sale.

Legal services income (accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers')

Legal services income represents the amount charged to clients for professional services provided during the year including recovery of expenses but excluding value added tax. Income relating to variable legal services fees is recognised on a best estimate basis.

Other income (accounted for in accordance with IFRS 4 'Insurance Contracts')

Other income includes arrangement and administration fee income. 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 are spread evenly over the term of the policy.

1.5 Insurance claims

Insurance claims are recognised in the accounting period in which the loss occurs. Provision is made for the full cost of settling outstanding claims at the balance sheet date, including claims incurred but not yet reported at that date, net of salvage and subrogation recoveries.

Outstanding claims provisions are not discounted for the time value of money except for claims to be settled by periodic payment orders ("**PPOs**") established under the Courts Act 2003.

A court can award damages for future pecuniary loss in respect of personal injury, or for other damages in respect of personal injury and may order that the damages are wholly or partly to take the form of PPOs. These are covered in more detail in note 2.3. Costs for both direct and indirect claims handling expenses are also included.

Provisions are determined by management based on experience of claims settled and on statistical models which require certain assumptions to be made regarding the incidence, timing and amount of claims and any specific factors such as adverse weather conditions. When calculating the total provision required, the historical development of claims is analysed using statistical methodology to extrapolate the value of incurred claims (gross and net) at the balance sheet date. Also included in the estimation of incurred claims are factors such as the potential for judicial or legislative inflation.

Provisions for more recent claims make use of techniques that incorporate expected loss ratios and average claims cost (adjusted for inflation) and frequency methods. As claims mature, the provisions are increasingly driven by methods based on actual claims experience. The approach adopted takes into account the nature, type and significance of the business and the type of data available, with large claims generally being assessed separately. The data used for statistical modelling purposes is generated internally and reconciled to the accounting data.

The calculation is particularly sensitive to the estimation of the ultimate cost of claims for the particular classes of business at gross and net levels and the estimation of future claims handling costs. Actual claims experience may differ from the historical pattern on which the actuarial best estimate is based and the cost of settling individual claims may exceed that assumed. As a result, the Group sets reserves based on a management best estimate, which includes a prudence margin that exceeds the internal actuarial best estimate. This amount is recorded within claims provisions.

A liability adequacy provision is made for unexpired risks arising where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premium reserve in relation to such policies after the deduction of any acquisition costs deferred and other prepaid amounts. The expected value is determined by reference to recent experience and allowing for changes to the premium rates.

The provision for unexpired risks is calculated separately by reference to classes of business that are managed together after taking account of relevant investment returns.

1.6 Reinsurance

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, with the arrangement and retention limits varying by product line. Outward reinsurance premiums and claims are generally accounted for in the same accounting period as the direct business to which they relate.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a consistent manner with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract. Recoveries in respect of PPOs are discounted for the time value of money.

A reinsurance bad debt provision is assessed in respect of reinsurance debtors to allow for the risk that the reinsurance asset may not be collected or where the reinsurer's credit rating has been downgraded significantly and this is taken as an indication of a reinsurer's difficulty in meeting its obligations under the reinsurance contracts. This also includes an assessment in respect of the ceded part of claims provisions to reflect the counterparty default risk exposure to long-term reinsurance assets particularly in relation to PPOs. Changes in the provision affect the Group by changing the carrying value of the net reinsurance asset with the movement being recognised in the income statement.

1.7 Deferred acquisition costs

Acquisition costs relating to new and renewing insurance policies are matched with the earning of the premiums to which they relate. A proportion of acquisition costs incurred during the year is therefore deferred to the subsequent accounting period to match the extent to which premiums written during the year are unearned at the balance sheet date.

The principal acquisition costs deferred are direct advertising expenditure, directly attributable administration costs, commission paid and costs associated with telesales and underwriting staff.

1.8 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.

1.9 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 balance sheet 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 income statement 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.

1.10 Property, plant and equipment

Items of property, plant and equipment (except investment property – see note 1.13) 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 income statement 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
Vehicles	3 years
Computer equipment	Up to 5 years
Other equipment, including 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.

1.11 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 income statement. 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.

1. Accounting policies continued

1.11 Right-of-use assets ("ROU") and lease liabilities continued

Where the Group is a lessee continued

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 income statement 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.

1.12 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 income statement 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.

1.13 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 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 income statement.

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 income statement in the year of retirement or disposal.

1.14 Financial assets

Financial assets are classified as available-for-sale, held-to-maturity, designated at FVTPL, or loans and receivables.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place are recognised on the date that the Group commits to purchase or sell the asset.

Available-for-sale ("**AFS**")

Financial assets can be designated as AFS on initial recognition. AFS financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Impairment losses and exchange differences, resulting from translating the amortised cost of foreign currency monetary AFS financial assets, are recognised in the income statement, together with interest calculated using the effective interest rate method. Other changes in the fair value of AFS financial assets are reported in a separate component of shareholders' equity until disposal, when the cumulative gain or loss is recognised in the income statement.

A financial asset is regarded as quoted in an active market if 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. The appropriate quoted market price for an asset held is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (for example, a change in the risk-free interest rate following the most recent price quote for a corporate bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate. The valuation methodology described above uses observable market data.

If the market for a financial asset is not active, the Group establishes the fair value by using a valuation technique. Valuation techniques include using recent arm's-length market transactions between knowledgeable and willing parties (if available), reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument, and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

AFS financial assets include insurtech-focused equity funds which are neither classified as held for trading nor designated at FVTPL.

Held-to-maturity ("**HTM**")

Non-derivative financial assets not designated as AFS, or loans and receivables with fixed or determinable payments and fixed maturity, where the intention and ability to hold them to maturity exists, are classified as HTM.

Subsequent to initial recognition, HTM financial assets are measured at amortised cost using the effective interest rate method less any impairment losses.

Loans and receivables

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as AFS or HTM. Loans and receivables are initially recognised at fair value plus directly related transaction costs and are subsequently measured at amortised cost using the effective interest rate method less any impairment losses.

Equity investments held at FVTPL

Quoted equity investments are designated upon initial recognition at FVTPL. Dividends are included in investment return in the income statement when the right of payment has been established. Equity investments held at FVTPL are held on the balance sheet at fair value with net changes in fair value included within investment return in the income statement.

Impairment of financial assets

At each balance sheet date, the Group assesses whether there is any objective evidence that a financial asset or group of financial assets classified as AFS, HTM or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

AFS

When a decline in the fair value of a financial asset classified as AFS has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in the income statement. The loss is measured as the difference between the amortised cost of the financial asset and its current fair value.

Impairment losses on AFS equity instruments are not reversed through profit or loss, but those on AFS debt instruments are reversed, if there is an increase in fair value that is objectively related to a subsequent event.

HTM or loans and receivables

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as HTM or loans and receivables has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets, discounted at the effective interest rate of the instrument at initial recognition.

Impairment losses are assessed individually, where significant, or collectively for assets that are not individually significant.

Impairment losses are recognised in the income statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for the impairment losses. If in a subsequent period the amount of the impairment loss reduces, and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

Insurance receivables

Insurance receivables comprise outstanding insurance premiums where the policyholders have elected to pay in instalments or amounts due from third parties where they have collected or are due to collect the money from the policyholder.

Receivables also include amounts due in respect of the provision of legal services.

For amounts due from policyholders, the bad debt provision is calculated based upon prior loss experience. For all balances outstanding in excess of three months, a bad debt provision is made. Where a policy is subsequently cancelled, the outstanding debt that is overdue is charged to the income statement and the bad debt provision is released back to the income statement.

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 income statement unless the derivative is the hedging instrument in a qualifying hedge. The Group enters into fair value hedge relationships and a small number of immaterial cash flow hedges.

Hedge relationships are formally documented at inception. The documentation identifies the hedged item and the hedging instrument and details the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in cash flows and fair values attributable to the hedged risk, consistent with the documented risk management strategy, or if the hedging instrument expires or is sold, terminated or exercised, hedge accounting is discontinued.

In a cash flow hedge, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income. Any ineffective portion is recognised in the income statement.

In a fair value hedge, the gain or loss on the hedging instrument is recognised in the income statement. The gain or loss on the hedged item attributable to the hedged risk is recognised in the income statement and, where the hedged item is measured at amortised cost, adjusts the carrying amount of the hedged item.

Derecognition of financial assets

A financial asset is derecognised when the 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 has transferred substantially all the risk and rewards of ownership of the asset.

1. Accounting policies continued

1.15 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.

1.16 Assets 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 income statement 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 balance sheet and are not depreciated or amortised.

1.17 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.

1.18 Subordinated liabilities

Subordinated liabilities comprise subordinated guaranteed dated notes which are initially measured at the consideration received less related transaction costs. Subsequently, subordinated liabilities are measured at amortised cost using the effective interest rate method.

1.19 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.

The Group makes provision for all insurance industry levies, such as the Financial Services Compensation Scheme and Motor Insurance Bureau.

When the Group has an onerous contract, 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.

1.20 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.

1.21 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 income statement when payable.

The Group's defined benefit pension scheme, as described in note 27, 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 balance sheet 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 income statement and presented in other comprehensive income under "Items that will not be reclassified subsequently to the income statement".

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.

1.22 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 income statement 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 balance sheet date and is allocated over profits before taxation or amounts charged or credited to components of other comprehensive income and equity, as appropriate.

Deferred taxation is accounted for in full using the balance sheet 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 balance sheet 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 balance sheet date. Deferred tax is charged or credited in the income statement, 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.

1.23 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.

1.24 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.

1.25 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.

1.26 Accounting developments

1.26.1 Transition to IFRS 17 'Insurance contracts' and IFRS 9 'Financial instruments'

Changes in accounting policies and disclosures

(a) Estimated impact of the transition to IFRS 17 and IFRS 9

The Group will apply IFRS 17 and IFRS 9 for the first time on 1 January 2023. IFRS 17 is expected to bring a significant change to how the Group accounts for its insurance contracts issued and reinsurance contracts held and is therefore expected to have a material financial impact on the Group's consolidated financial statements in the period of initial application. IFRS 9 has a limited impact. The table below summarises the expected financial impact:

Estimated reduction in the Group's total equity

	1 January 2022 £m
Adjustments due to the adoption of IFRS 17: Non-life contracts	(73.9)
Adjustments due to the adoption of IFRS 9: Impairment of financial assets	(4.1)
Current tax impacts	–
Deferred tax impacts	17.8
Estimated impact of adoption of IFRS 17 and 9 after tax on total equity	**(60.2)**

The following notes provide a summary of the main accounting policies that the Group will adopt on transition to IFRS 17 and IFRS 9, as well as the significant estimates and judgements that will be made.

(b) IFRS 17 – Significant accounting policies

The Group is adopting the full retrospective approach on transition to IFRS 17 using the Premium Allocation Approach ("**PAA**").

Insurance and reinsurance contracts classification

Contract classification, as disclosed in policy note 1.3, remains unchanged on adoption of IFRS 17.

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

IFRS 17 requires that a level of aggregation is determined for applying its requirements. The level of aggregation is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. IFRS 17 also requires that no group, for aggregation purposes, may contain contracts issued more than one year apart.

1. Accounting policies continued

1.26 Accounting developments continued

1.26.1 Transition to IFRS 17 'Insurance contracts' and IFRS 9 'Financial instruments' continued

Hence, within each year of issue, portfolios of contracts are divided into three groups, as follows:

- a group of contracts that are onerous at initial recognition;
- a group of contracts that, at initial recognition, have no significant possibility of becoming onerous subsequently (if any); and
- a group of the 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.

(v) Measurement – Premium Allocation Approach ("PAA")

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 contracts longer than one year, the Group has modelled possible future scenarios and reasonably expects that 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. For insurance contracts, this is expected to equate to less than 2% of gross written premium under IFRS 4 on transition; for reinsurance contracts, this is primarily in respect of the Group's Motor excess of loss treaty and is also expected to apply to the Group's quota share reinsurance agreement.

Insurance contracts – initial measurement

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.

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 held.

Insurance acquisition cash flows for insurance contracts issued

All insurance acquisition cash flows are expensed as incurred. This includes for a small number of contracts where the coverage period exceeds a period of twelve months (see 1.26.1 (b) (v)) and there are no material amounts of acquisition costs relating to these contracts. This differs to the Group's previous policy of deferring acquisition costs over a 12-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 with the contract as an adjustment to the estimate of fulfilment cash flows.

(vi) Presentation

The Group presents separately, in the consolidated balance sheet, 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 disaggregates the total amount recognised in the income statement and insurance service result, comprising insurance revenue and insurance service expense and insurance finance income or expenses.

The Group does not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion and includes the entire change as part of the insurance service result.

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 (excluding any investment component) allocated to the period. The Group allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time. The liability for remaining coverage is not discounted.

Insurance finance income and expense

Insurance finance income or 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; and
- the effect of financial risk and changes in financial risk.

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 income statement 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. Additionally, the allocation of premiums paid will not be presented as a reduction on the face of the income statement.

(c) IFRS 17 – accounting judgements and sources of estimation uncertainty

It is expected that the Group will have additional accounting judgements and sources of estimation uncertainty on adoption of IFRS 17 as follows:

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.

Premium Allocation Approach

Accounting judgement

For a small number of insurance contracts, and reinsurance contracts, which have a coverage period that is greater than 12 months (as described in note 1.26.1 (b) (v) above), the Group elects to apply the PAA if at the inception of the contract, the Group reasonably expects that it will provide a liability for remaining coverage that would not differ materially from the General Measurement Model. The Group exercises judgement in determining whether the PAA eligibility criteria are met at initial recognition.

Onerous contracts

Source of estimation uncertainty

The Group assumes that no contracts are onerous at initial recognition unless facts and circumstances indicate otherwise. This is based on an assessment of future cash flows, which may be uncertain due to their timing, size and/or probability. 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 held contract, 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.

1. Accounting policies continued

1.26 Accounting developments continued

1.26.1 Transition to IFRS 17 'Insurance contracts' and IFRS 9 'Financial instruments' continued

Estimates of future cash flows

Source 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.

Discount rates

Accounting 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 will generally determine risk-free discount rates 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 will be 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 will be adjusted by a generally higher illiquidity premium. The illiquidity premium will be 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. Under IFRS 4, the Group does not currently discount future cash flows, except in respect of PPOs, which are discounted at a rate that is consistent with the expected return backing these long-term liabilities.

Risk adjustment

Source of estimation uncertainty

A risk adjustment for non-financial risk will be determined to reflect the compensation that the Group would require for bearing non-financial risk and its degree of risk aversion. It will be determined at Group level and allocated to groups of contracts based on the size of their reserves. The risk adjustment for non-financial risk will be determined using a confidence level technique.

The Group will estimate the probability distribution of the expected present value of the future cash flows from the contracts at each reporting date and calculate 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 will be at the 75th percentile for liabilities 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.

(d) IFRS 9 – Significant accounting policies

IFRS 9 'Financial Instruments' addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group will apply the new rules retrospectively from 1 January 2023 and comparatives for 2022 will be restated. The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2023.

The Group's debt instruments of £4,084.6 million, that are currently classified as AFS under IAS 39 'Financial Instruments: Recognition and Measurement', as at 1 January 2022 (the opening date of the comparative reporting period) will satisfy the conditions for classification as 'held to collect and sell' under IFRS 9 to be measured at FVOCI. However, the Group will apply the IFRS 9 option to designate debt instruments, that would otherwise be categorised as FVOCI, as FVTPL to reduce the accounting mismatch that would arise from measuring debt instruments at FVOCI and insurance liabilities at FVTPL and recognising insurance finance income or expense in profit or loss. The AFS reserve of £7.5 million will be transferred to retained earnings on 1 January 2022.

There are no other reclassifications as a result of applying IFRS 9 as:

- assets currently classified as HTM and loans and receivables satisfy the IFRS 9 condition to be classified as 'held-to-collect' and 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 will 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 will continue to be measured at amortised cost.

The Group's current fair value designated hedge relationships will no longer be required. The Group will continue to have a small number of immaterial designated cash flow hedges; the Group will apply the IFRS 9 hedging requirements to these cash flow hedges.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("**ECL**") rather than incurred credit losses as is the case under IAS 39. The Group has established a default probability model for its debt securities held at amortised cost and loans and receivables. As the majority of the Group's debt securities will be held at FVTPL, for which no ECL calculations are required, ECL provisions are expected to be in the region of £2.9 million on 1 January 2023.

ECLs for other receivables will be based on a probability matrix and are expected to be similar to the level of existing bad debt provisions.

(e) IFRS 9 – accounting judgements and sources of estimation uncertainty

The critical estimates and judgement disclosure for impairment of financial assets will be updated for ECL calculations. The key areas of estimation relate to:

- determining when there has been a significant increase in credit risk since initial recognition;
- inputs and assumptions used in preparing a range of unbiased and probability-weighted scenarios; and
- weightings to be applied to these different scenarios.

As the majority of financial instruments of the Group are held at FVTPL, with fair value movements included in the income statement immediately, the ECL provision is not expected to be material.

1.26.2 Other accounting developments

New IFRS standards and amendments that are issued, but not yet effective for the 31 December 2022 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.

The Group continues to defer the adoption of IFRS 9 (including 'Amendments to IFRS 9: Prepayment Features with Negative Compensation') until it adopts IFRS 17 from 1 January 2023 as allowed by 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' and 'Amendments to IFRS 4: Deferral of IFRS 9' as its activities continue to be predominately connected with insurance, with insurance liabilities making up the largest proportion of its total liabilities.

Further, Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' requires certain interim disclosures in relation to the fair value movements of financial assets as outlined below.

The fair value at the end of the reporting period for financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount are disclosed in note 43. The amount of change in the fair value during the period for these financial assets was:

- AFS debt securities £285.7 million decrease (2021: £94.5 million decrease);
- HTM debt securities £10.7 million decrease (2021: £1.7 million decrease);
- infrastructure debt £7.7 million decrease (2021: £2.1 million decrease);
- commercial real estate loans £1.0 million increase (2021: £0.5 million decrease); and
- other loans £1.0 million decrease (2021: £nil).

Derivative assets do not have contractual terms that give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding. The fair value of these financial assets is disclosed in note 43 and the amount of change in the fair value during the period was an increase of £30.9 million (2021: £26.9 million increase).

In note 3.3.3 the Group has disclosed the carrying amount of financial assets at the end of the reporting period by credit risk rating grade, as defined in IFRS 7 'Financial Instruments: Disclosures'. The fair value of financial assets that meet the 'solely payments of principal and interest' criteria, and at the end of the reporting period do not have a low credit risk, was £300.9 million (2021: £366.0 million). The carrying value of these financial assets at 31 December 2022 was £304.8 million (2021: £368.1 million).

IFRS 9 information that relates to entities within the Group that is not provided in the Group's consolidated financial statements can be obtained from their individual financial statements, which are filed at Companies House.

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.

In July 2020 a further amendment was made: 'Classification of Liabilities as Current or Non-current – Deferral of Effective Date (Amendments to IAS 1)' to defer the effective date of the January 2020 'Classification of Liabilities as Current or Non-current (Amendments to IAS 1)' to annual reporting periods beginning on or after 1 January 2023. Exposure Draft ED/2021/9 'Non-current Liabilities with Covenants (Proposed amendments to IAS 1)' published in November 2021 proposes further deferral until not earlier than 1 January 2024.

These amendments are yet to be adopted by the UK.

The following amendments are effective from I January 2023 and have been adopted by the UK.

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 narrow 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 that where payments that settle a liability are deductible for tax purposes.

The following amendments are effective from 1 January 2024 but have not yet been adopted by the UK.

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.

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 184 to 195. 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.

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 Impairment provisions – financial assets

Accounting judgement

The Group's financial assets are classified as AFS or HTM debt securities, FVTPL equity or loans and receivables. Excluding those assets held at FVTPL, the Group makes a judgement that financial assets are impaired when there is objective evidence that an event or events have occurred since initial recognition that have adversely affected the amount or timing of future cash flows from the asset. The determination of which events could have adversely affected the amount or timing of future cash flows from the asset requires judgement. In making this judgement, the Group evaluates, among other factors: the normal price volatility of the financial asset; the financial health of the investee; industry and sector performance; changes in technology or operational and financing cash flow; and whether there has been a significant or prolonged decline in the fair value of the asset below its cost. Impairment may be appropriate when there is evidence of deterioration in these factors.

On a quarterly basis, the Group reviews whether there is any objective evidence that a financial asset is impaired based on the following criteria:

- actual, or imminent, default on coupon interest or nominal;
- adverse movements in the credit rating for the investee/borrower;
- price performance of a particular AFS debt security, or group of AFS debt securities, demonstrating an adverse trend compared to the market as a whole; and
- whether an event has occurred that could be reliably estimated and which had an impact on the financial asset or its future cash flows.

The majority of the Group's financial assets are classified as AFS debt securities (31 December 2022: £3,147.5 million; 31 December 2021: £4,084.6 million). Impairment losses and exchange differences arising from translating the amortised cost of foreign currency monetary AFS financial assets are recognised in the income statement. Other changes in fair value are recognised in a separate component of equity. No impairments have been recognised in the AFS portfolio. Had all the declines in AFS debt securities asset values met the criteria above at 31 December 2022, the Group would have suffered a loss of £262.9 million (2021: £24.8 million), being the transfer of the total AFS reserve for unrealised losses to the income statement. However, these movements represent mark-to-market movements and, as there was no objective evidence of any loss events that could affect future cash flows, no impairments have been recorded.

The Group has a small portfolio of investments classified as HTM (31 December 2022: £98.2 million; 31 December 2021: £91.2 million). These assets are measured at amortised cost and there have been no impairment losses (2021: £nil).

The Group has a portfolio of investments classified as loans and receivables, primarily comprising infrastructure debt and commercial real estate loans (total 31 December 2022: £439.2 million; 31 December 2021: £451.6 million). There was an impairment of £1.8 million within the loans and receivables portfolio in the year ended 31 December 2022 (2021: £2.1 million).

2.2 Fair value of investment properties

Sources of estimation uncertainty

The Group holds a portfolio of investment properties, with a fair value at 31 December 2022 of £278.5 million (2021: £317.0 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 43).

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 20). There are no significant sources of estimation uncertainty in relation to climate-related matters in valuing the investment property portfolio.

2.3 General insurance: outstanding claims provisions and related reinsurance recoveries

Accounting judgement

Reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal actuarial best estimate. This margin is set by reference to various actuarial scenario assessments and reserve distribution percentiles. It also considers other long- and short-term risks not reflected in the actuarial inputs, as well as management's view of the uncertainties in relation to the actuarial best estimate.

Source of estimation uncertainty

The Group makes provision for the full cost of outstanding claims from its general insurance business at the balance sheet 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 2022 amounted to £2,608.2 million (2021: £2,548.4 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, as evidenced by the favourable development of historical claims reserves.

The corresponding reinsurance recoveries are calculated on an equivalent basis, with similar estimation uncertainty, as discussed in note 1.6. The reinsurance bad debt provision is mainly held against expected recoveries on future PPO payments.

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, 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 in England and Wales. The Ogden discount rate will be reviewed again at the latest in 2024. Sensitivities for the impact of a potential change in the Ogden discount rate are shown in note 3.3.1.

The Group settles some large bodily injury claims as PPOs rather than lump sum payments. The Group has estimated the likelihood of large bodily injury claims settling as PPOs. Anticipated PPOs consist of both existing large loss case reserves including allowances for development and claims yet to be reported to the Group. Reinsurance is applied at claim level and the net cash flows are discounted for the time value of money. The discount rate is consistent with the expected return on the assets backing these long-term liabilities. In 2022, the Group reviewed the estimates used to discount PPOs as described in note 35. Given the significant changes both in the current economic environment and the longer term outlook, the Group changed from flat rate inflation and discounting assumption to a yield curve approach, allowing for an increase in short-term inflation and higher long-term real returns. This resulted overall in the application of a real discount rate of 0.9% (2021: 0.0%), the combination of cash flow weighted inflation and discounting of 4.2% and 5.1% respectively, the latter driven by an expected increase in the long-term yield of the assets backing PPO liabilities.

The table in note 35 to the financial statements provides an analysis of outstanding PPO claims provisions on a discounted and an undiscounted basis at 31 December 2022 and 31 December 2021 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 CPI 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 percentages applied range from 2% to 5% and for future periods of up to 5 years, depending on the class of business and claim type and allowing for the level of inflation included in the best estimate. 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.

Changes in the climate can impact both frequency and severity of losses, particularly for wind storm 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 for the unearned part of the business, whereas uncertainty over the level of claims severity has a greater impact on both the earned and unearned claims 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, in particular increased second-hand car costs in Motor. 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 and therefore continues to remain relevant and is within the Group's booked reserve margin. 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 the management margin.

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 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 political situation, including Russia's invasion of Ukraine materially affecting European energy supply, has resulted in high inflation rates, and a cost of living crisis. This, compounded with recent UK political instability, is likely to result in a longer than expected period of low or negative growth that will significantly impact businesses and customers across the UK well into 2024.

Inflationary pressures exacerbate the exceedingly difficult trade-offs the Bank of England faces between supporting growth and controlling price pressures and are precipitating a cost of living crisis. The rise of inflation has prompted Central Banks to undergo one of the fastest programmes of interest rate rises in recent history, whilst also generating a wave of social unrest and strikes, as workers seek better pay deals to protect living standards. The Group's Investment and Treasury function has analysed the potential impact of a recession on holdings in the investment portfolio, finding that holdings are relatively safely positioned, helped by solid diversification and good ongoing investment management oversight.

Following the end of the transition period on 31 December 2020 and the trade and co-operation agreement between the UK and the EU, there remains uncertainty as to the longer term effect of Brexit on the Group, for example the risk of shortages in trades and care workers increasing claims costs.

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 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 are included in note 3.3.1.

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 socioeconomic 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, along with an assessment of the requirement for a liability adequacy provision 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, Property risk 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 2.3.

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. Claims reserves for PPOs are held on a discounted basis and are sensitive to a change in the discount rate.

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, Ogden discount rate or claims inflation) 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[1,2]	
	2022	2021
At 31 December	**£m**	£m
PPOs[3]		
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	**31.0**	43.0
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(42.8)**	(58.9)
Ogden discount rate[4]		
Impact of the Group reserving at a discount rate of 0.75% compared to minus 0.25% (2021: 0.75% compared to minus 0.25%)	**46.7**	42.5
Impact of the Group reserving at a discount rate of minus 1.25% compared to minus 0.25% (2021: minus 1.25% compared to minus 0.25%)	**(64.2)**	(59.4)
Claims inflation[5]		
Impact of a decrease in claims inflation by 200 basis points for two consecutive years	**79.4**	74.3
Impact of an increase in claims inflation by 200 basis points for two consecutive years	**(80.5)**	(75.5)

Notes:
1. These sensitivities are net of reinsurance and exclude the impact of taxation.
2. These sensitivities reflect one-off impacts at the balance sheet 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 0.9% 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. 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.
5. We have updated this sensitivity across 2021 and 2022, to a 200 basis point increase/decrease in inflation in acknowledgment of the current uncertain economic environment.

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 2022. 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.

3. Risk management continued

3.3.1 Insurance risk continued

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. 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 2023, 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 underwriting strategy which reduces high flood risk exposure. The Group expects these specific risks to materialise in the medium to longer term (see page 74 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 loss. The programme renews annually on 1 July and the existing cover for the period 1 July 2022 to 30 June 2023 has a retention of £150 million per weather event and an upper limit of £1,350 million;
- 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; and
- sector concentration risk – the concentration of the Group to any given industry sector is monitored and analysed in respect of commercial customers to ensure this risk is mitigated.

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 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 and to improve stability of earnings;
- reduce the Group's capital requirements; 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 business 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, in addition, 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 strategic asset allocation within the investment portfolio is reviewed by the Investment Committee, which makes recommendations to the Board for its investment strategy approval. The Investment Committee 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.

During this phase of economic uncertainty maturities from the in-house short and intermediate sterling credit portfolios had not been reinvested up until October, significantly increasing cash reserves and liquidity. However, to improve investment returns with a low risk to solvency, cash was reinvested into £150 million of 3 month Treasury Bills, and £41 million of government related sterling credit maturities during Q4 2022.

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 page 68 for more information on investment portfolio targets, exclusions and preferences and page 66 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.

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	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	822.0	–	480.3	–	**1,302.3**
USA	895.5	–	31.0	–	**926.5**
Zambia	1.3	–	–	–	**1.3**
Supranational	–	–	–	25.2	**25.2**
Total	**2,703.3**	**5.9**	**511.3**	**25.2**	**3,245.7**

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 2021	Corporate £m	Local government £m	Sovereign £m	Supranational £m	Debt securities total £m
Australia	215.0	—	—	—	215.0
Austria	17.7	—	—	—	17.7
Belgium	31.6	—	—	—	31.6
Canada	99.1	—	—	—	99.1
Cayman Islands	4.0	—	—	—	4.0
China	1.0	—	—	—	1.0
Czech Republic	1.0	—	—	—	1.0
Denmark	15.6	—	—	—	15.6
Finland	29.4	12.1	—	—	41.5
France	301.6	5.9	—	—	307.5
Germany	243.3	—	—	—	243.3
Ireland	1.4	—	—	—	1.4
Italy	21.0	—	—	—	21.0
Japan	48.6	—	—	—	48.6
Mexico	13.1	—	—	—	13.1
Netherlands	125.1	—	—	—	125.1
New Zealand	11.0	—	—	—	11.0
Norway	17.9	10.1	—	—	28.0
Portugal	4.9	—	—	—	4.9
South Africa	10.6	—	—	—	10.6
South Korea	3.0	—	—	—	3.0
Spain	74.3	—	—	—	74.3
Sweden	65.8	—	—	—	65.8
Switzerland	57.3	—	—	—	57.3
United Arab Emirates	3.5	—	—	—	3.5
United Kingdom	1,134.0	—	29.7	—	1,163.7
USA	1,546.1	—	5.9	—	1,552.0
Zambia	1.2	—	—	—	1.2
Supranational	—	—	—	14.0	14.0
Total	4,098.1	28.1	35.6	14.0	4,175.8

3. Risk management continued

3.3.2 Market risk continued

The table below analyses the distribution of debt securities by industry sector classifications.

	2022		2021	
At 31 December	**£m**	**%**	£m	%
Basic materials	**48.8**	**1%**	82.6	2%
Communications	**131.1**	**4%**	203.4	5%
Consumer, cyclical	**274.7**	**8%**	410.3	10%
Consumer, non-cyclical	**223.0**	**7%**	361.4	9%
Diversified	**14.3**	**0%**	19.2	0%
Energy	**81.2**	**3%**	152.8	4%
Financial	**1,452.9**	**45%**	2,050.2	49%
Industrial	**158.5**	**5%**	250.5	6%
Sovereign, supranational and local government	**542.4**	**17%**	77.7	2%
Technology	**50.2**	**2%**	121.5	3%
Transport	**13.4**	**0%**	13.4	0%
Utilities	**255.2**	**8%**	432.8	10%
Total	**3,245.7**	**100%**	4,175.8	100%

The table below analyses the distribution of infrastructure debt by industry sector classifications.

	2022		2021	
At 31 December	**£m**	**%**	£m	%
Social, of which:				
Education	**105.8**	**44%**	110.3	44%
Health	**64.1**	**27%**	67.2	26%
Other	**47.8**	**20%**	49.0	20%
Transport	**20.5**	**9%**	24.3	10%
Total	**238.2**	**100%**	250.8	100%

The Group uses its partial internal model to determine its capital requirements and market risk limits 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.

The Group's exposure to credit spread widening was partly de-risked in August via the sale of approximately £670 million of longer-dated US dollar investment grade credit.

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 Tier 2 notes issued on 27 April 2012 were redeemed in full on 27 April 2022. On the same day, the interest rate swap held to hedge the exposure to interest rates by exchanging the fixed rate of interest on these notes for a floating rate expired.

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 £286.8 million of US dollar short-duration, high-yield bonds (2021: £348.6 million), £134.4 million of US dollar subordinated financial debt and £93.6 million of Euro subordinated financial debt (2021: £123.9 million and £96.2 million, respectively).

The Group is exposed to the following interest rate benchmarks within its hedging relationships: GBP SONIA, USD SOFR and EURIBOR. The first two were subject to interest rate benchmark reform during 2021 (historically both LIBOR). The hedged items include holdings of US dollar and Euro denominated fixed rate debt securities.

Not all the infrastructure loans as at 31 December 2022 have transitioned away from GBP LIBOR over to GBP SONIA. Where legal documentation has yet to be completed, in the immediate future reference of rates will be linked to synthetic GBP LIBOR. The table below discloses in more detail for the transition from LIBOR to GBP SONIA for infrastructure loans.

Non-derivative floating rate financial instruments prior to transition	Maturing in	Number of instruments	Nominal exposure (£m)	Transition progress
Infrastructure debt linked to LIBOR	2024 - 2040	28	238.2	– 23 loans have completed transition to SONIA; – five loans (totalling £67.9 million) are yet to transition to SONIA, of which: (i) four loans are expected to transition from 6 month GBP synthetic LIBOR to SONIA on the next roll date at the end of March 2023; and (ii) one loan (totalling £7.6 million) will be repaid in full early in Q2 2023.

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 2022, the value of these property investments was £278.5 million (2021: £317.0 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 £751.0 million (2021: £1,376.5 million) of investments in US dollar bonds and Euro securities through £165.4 million (2021: £197.7 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			
		Less than 1 year	1 – 5 years	Over 5 years	**Total**
At 31 December 2022	**£m**	£m	£m	£m	**£m**
Derivative assets					
At fair value through the income statement					
Foreign exchange contracts (forwards)	**1,014.4**	24.2	—	—	**24.2**
Designated as hedging instruments					
Foreign exchange contracts (forwards)	**3.4**	0.1	—	—	**0.1**
Interest rate swaps	**240.4**	6.0	0.5	0.5	**7.0**
Total	**1,258.2**	**30.3**	**0.5**	**0.5**	**31.3**

	Notional amounts	Maturity and fair value			
		Less than 1 year	1 – 5 years	Over 5 years	**Total**
At 31 December 2022	**£m**	£m	£m	£m	**£m**
Derivative liabilities					
At fair value through the income statement					
Foreign exchange contracts (forwards)	**1,190.4**	28.4	—	—	**28.4**
Designated as hedging instruments					
Interest rate swaps	**107.6**	—	0.2	1.0	**1.2**
Total	**1,298.0**	**28.4**	**0.2**	**1.0**	**29.6**

3. Risk management continued

3.3.2 Market risk continued

Use of derivatives continued

At 31 December 2021	Notional amounts £m	Maturity and fair value: Less than 1 year £m	1 – 5 years £m	Over 5 years £m	Total £m
Derivative assets					
At fair value through the income statement					
Foreign exchange contracts (forwards)	1,695.4	27.8	—	—	27.8
Interest rate swaps	250.0	2.4	—	—	2.4
Designated as hedging instruments					
Foreign exchange contracts (forwards)	10.0	—	—	—	—
Interest rate swaps	901.0	(0.9)	3.6	3.0	5.7
Total	2,856.4	29.3	3.6	3.0	35.9

At 31 December 2021	Notional amounts £m	Maturity and fair value: Less than 1 year £m	1 – 5 years £m	Over 5 years £m	Total £m
Derivative liabilities					
At fair value through the income statement					
Foreign exchange contracts (forwards)	1,318.9	19.1	—	—	19.1
Designated as hedging instruments					
Foreign exchange contracts (forwards)	4.1	0.1	0.1	—	0.2
Interest rate swaps	9.1	—	—	0.2	0.2
Total	1,332.1	19.2	0.1	0.2	19.5

Sensitivity analysis

The table below provides a sensitivity analysis of the potential impact on financial investments and derivatives of a change in a single factor 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]		Decrease in total equity[1] at 31 December	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Spread				
Impact of a 100 basis points increase in spreads on financial investments[2,3]	**–**	–	**(82.3)**	(144.3)
Interest rate				
Impact of a 100 basis points increase in interest rates on financial investments and derivatives[2,3,4]	**5.9**	11.8	**(70.6)**	(100.6)
Investment property				
Impact of a 15% decrease in property markets	**(41.8)**	(47.5)	**(41.8)**	(47.5)

Notes:

1. 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.
2. The income statement impact on financial investments is limited to floating rate instruments and interest rate derivatives used to hedge a portion of the portfolio. The income statement is not impacted in relation to fixed rate instruments, in particular AFS debt securities, where the coupon return is not impacted by a change in prevailing market rates, as the accounting treatment for AFS debt securities means that only the coupon received is processed through the income statement, with fair value movements being recognised through equity.
3. The increase or decrease in equity does not reflect any fair value movement in infrastructure debt, commercial real estate loans and HTM debt securities that would not be recorded in the financial statements under IFRSs as they are classified as loans and receivables and HTM 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 £12.1 million (2021: £13.7 million) and a 100 basis points increase in interest rates would have been £3.7 million (2021: £4.8 million).
4. The sensitivities set out above reflect one-off impacts at 31 December, with the exception of the income statement 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.

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 2022, the Group has pledged £19.2 million in cash (2021: £26.3 million) to cover initial margins and out-of-the-money derivative positions. At 31 December 2022, counterparties have pledged £7.1 million in cash and £nil in UK Gilts (2021: £5.4 million in cash and £2.2 million in UK Gilts) 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 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 three 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; and the NIG Credit Committee is responsible for monitoring broker credit 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.

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 arises in respect of reinsurance claims against which a reinsurance bad debt provision is assessed. 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 which a reinsurance bad debt provision is assessed. 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– at the time cover is purchased. The Group's leading counterparty exposures are reviewed on a quarterly basis by the Reinsurance and Credit Manager. 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 financial and insurance 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 values of the financial assets and insurance assets listed below. The Group does not use credit derivatives or similar instruments to mitigate exposure.

At 31 December 2022	Neither past due nor impaired £m	Past due 1 – 90 days £m	Past due more than 90 days £m	Carrying value in the balance sheet £m
Reinsurance assets[1]	1,046.0	–	0.1	1,046.1
Insurance and other receivables	781.8	9.6	0.2	791.6
Derivative assets	31.3	–	–	31.3
Debt securities	3,245.7	–	–	3,245.7
Infrastructure debt	238.2	–	–	238.2
Commercial real estate loans	199.1	–	–	199.1
Cash and cash equivalents[2]	1,003.6	–	–	1,003.6
Other loans	1.9	–	–	1.9
Total	**6,547.6**	**9.6**	**0.3**	**6,557.5**

3. Risk management continued

3.3.3 Credit risk continued

At 31 December 2021	Neither past due nor impaired £m	Past due 1 – 90 days £m	Past due more than 90 days £m	Carrying value in the balance sheet £m
Reinsurance assets[1]	1,125.4	—	6.7	1,132.1
Insurance and other receivables	762.4	0.3	0.1	762.8
Derivative assets	35.9	—	—	35.9
Debt securities	4,175.8	—	—	4,175.8
Infrastructure debt	250.8	—	—	250.8
Commercial real estate loans	200.8	—	—	200.8
Cash and cash equivalents[2]	955.7	—	—	955.7
Total	7,506.8	0.3	6.8	7,513.9

Notes:
1. Reinsurance assets previously included reinsurers' unearned premium reserve with comparative data for the year ended 31 December 2021 re-presented accordingly. This change was made due to reinsurers' unearned premium reserves being assessed as having no inherent credit risks.
2. 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 2022 of £961.2 million (2021: £1,366.2 million) that can be further analysed as: secured £11.2 million (2021: £15.5 million); unsecured £795.3 million (2021: £1,193.7 million); and subordinated £154.7 million (2021: £157.0 million).

The tables below analyse the credit quality of debt securities that are neither past due nor impaired.

At 31 December 2022	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	BB+ and below £m	Not rated £m	**Total £m**
Corporate	67.7	158.1	1,268.5	920.1	287.2	1.7	**2,703.3**
Supranational	25.2	—	—	—	—	—	**25.2**
Local government	—	5.9	—	—	—	—	**5.9**
Sovereign	31.0	480.3	—	—	—	—	**511.3**
Total	**123.9**	**644.3**	**1,268.5**	**920.1**	**287.2**	**1.7**	**3,245.7**

At 31 December 2021	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	BB+ and below £m	Total £m
Corporate	58.5	334.7	1,913.3	1,439.4	352.2	4,098.1
Supranational	14.0	—	—	—	—	14.0
Local government	10.1	18.0	—	—	—	28.1
Sovereign	5.9	29.7	—	—	—	35.6
Total	88.5	382.4	1,913.3	1,439.4	352.2	4,175.8

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 207.

At 31 December 2022	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	BB+ and below £m	Not rated £m	**Total £m**
Reinsurance assets[1]	—	533.2	511.5	1.4	—	(0.1)	**1,046.0**
Insurance and other receivables[2]	—	9.2	48.5	3.3	—	720.8	**781.8**
Derivative assets	—	7.9	23.4	—	—	—	**31.3**
Infrastructure debt	—	—	38.2	193.0	7.0	—	**238.2**
Commercial estate loans	15.7	64.1	88.2	24.1	7.0	—	**199.1**
Cash and cash equivalents[3]	878.8	7.8	116.1	0.9	—	—	**1,003.6**
Other loans	—	—	—	—	—	1.9	**1.9**
Total	**894.5**	**622.2**	**825.9**	**222.7**	**14.0**	**722.6**	**3,301.9**

At 31 December 2021	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	BB+ and below £m	Not rated £m	Total £m
Reinsurance assets[1]	—	618.0	490.7	1.9	—	14.8	1,125.4
Insurance and other receivables[2]	—	37.6	27.3	13.0	—	684.5	762.4
Derivative assets	—	7.9	9.9	18.1	—	—	35.9
Infrastructure debt	—	—	67.9	175.9	7.0	—	250.8
Commercial estate loans	17.7	73.3	66.9	34.1	8.8	—	200.8
Cash and cash equivalents[3]	792.9	26.2	133.0	3.6	—	—	955.7
Total	810.6	763.0	795.7	246.6	15.8	699.3	3,331.0

Notes:

1. Reinsurance assets previously included reinsurers' unearned premium reserve. Comparative data for the year ended 31 December 2021 has been re-presented accordingly.
2. Includes receivables due from policyholders, agents, brokers and intermediaries which generally do not have a credit rating.
3. This represents money market funds with no notice period for withdrawal and cash at bank and in hand.

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 losses 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.

3. Risk management continued

3.3.5 Liquidity risk continued

At 31 December 2022	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	**Total £m**
Debt securities	798.6	979.1	807.4	531.7	128.9	**3,245.7**
Infrastructure debt	18.9	34.8	41.4	91.5	51.6	**238.2**
Commercial real estate loans	55.9	63.3	79.9	—	—	**199.1**
Cash and cash equivalents[1]	1,003.6	—	—	—	—	**1,003.6**
Other loans	—	—	1.9	—	—	**1.9**
Total	**1,877.0**	**1,077.2**	**930.6**	**623.2**	**180.5**	**4,688.5**

At 31 December 2021	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	Total £m
Debt securities	507.0	972.7	1,293.2	1,281.0	121.9	4,175.8
Infrastructure debt	14.6	34.4	34.2	101.7	65.9	250.8
Commercial real estate loans	87.0	54.0	59.8	—	—	200.8
Cash and cash equivalents[1]	955.7	—	—	—	—	955.7
Total	1,564.3	1,061.1	1,387.2	1,382.7	187.8	5,583.1

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 and financial liabilities by contractual repricing or maturity dates, whichever is earlier.

At 31 December 2022	Less than 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	**Total £m**	Carrying value £m
Subordinated liabilities	10.4	20.8	20.8	306.8	—	**358.8**	258.6
Insurance liabilities[1]	1,316.8	924.2	438.4	390.2	1,646.4	**4,716.0**	3,654.3
Borrowings	65.2	—	—	—	—	**65.2**	65.2
Lease liabilities	10.9	17.6	14.3	32.2	27.8	**102.8**	81.6
Provisions	63.7	0.5	0.1	—	—	**64.3**	64.3
Trade and other payables, including insurance payables	451.5	6.1	0.2	—	—	**457.8**	457.8
Total	**1,918.5**	**969.2**	**473.8**	**729.2**	**1,674.2**	**5,764.9**	**4,581.8**

At 31 December 2021	Less than 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	Total £m	Carrying value £m
Subordinated liabilities	272.0	20.8	20.8	52.0	265.2	630.8	513.6
Insurance liabilities[1]	1,182.2	995.1	480.1	385.8	1,549.1	4,592.3	3,680.5
Borrowings	59.2	—	—	—	—	59.2	59.2
Lease liabilities	11.2	17.9	14.6	31.7	32.8	108.2	84.2
Provisions	95.8	0.5	0.1	—	—	96.4	96.4
Trade and other payables, including insurance payables	450.6	6.4	0.3	—	—	457.3	457.3
Total	2,071.0	1,040.7	515.9	469.5	1,847.1	5,944.2	4,891.2

Note:

1. Insurance liabilities exclude unearned premium reserves as there are no liquidity risks inherent in them.

The following table analyses the undiscounted cash flows of derivative financial instruments, by contractual maturity.

At 31 December 2022	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	**Total £m**	Carrying value £m
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**

At 31 December 2021	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	Total £m	Carrying value £m
Derivative assets	27.4	3.1	3.2	2.8	—	36.5	35.9
Derivative liabilities	(19.4)	(0.1)	—	—	—	(19.5)	(19.5)
Total	8.0	3.0	3.2	2.8	—	17.0	16.4

3.4 Capital management

At 31 December 2022, the Group's capital position was comprised shareholders' equity of £1,934.0 million (31 December 2021: £2,550.2 million) and Tier 1 notes of £346.5 million (31 December 2021: £346.5 million). In addition, the Group's balance sheet also included £258.6 million of subordinated loan capital (31 December 2021: £513.6 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%.

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 £0.57 billion above an estimated SCR of £1.21 billion as at 31 December 2022 (31 December 2021: £1.03 billion and £1.35 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 medium-sized enterprises sold through the Group's brands NIG, Direct Line for Business and Churchill. NIG sells its products exclusively through brokers operating across the UK. Direct Line for Business sells its products directly to customers, and Churchill sells its products directly to customers and through PCWs.

Run-off partnerships

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 excluded the results of the run-off partnerships from its ongoing results and has restated all relevant comparatives across this review, results relating to ongoing operations will be clearly labelled. The segmental analysis has been amended to reflect the change. The operating loss relating to run-off partnerships in 2022 was £11.5 million (2021: £8.5 million).

No inter-segment transactions occurred in the year ended 31 December 2022 (2021: £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 is no individual policyholder or customer that represents 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 2022.

	Motor £m	Home £m	Rescue and other personal lines[1] £m	Commercial £m	**Total Group - ongoing operations[1] £m**	Run-off partnerships[1] £m	**Total Group £m**
Gross written premium	1,432.7	518.1	269.7	749.3	**2,969.8**	124.4	**3,094.2**
Gross earned premium	1,489.9	543.7	275.1	700.7	**3,009.4**	122.8	**3,132.2**
Reinsurance premium	(77.3)	(26.4)	(2.3)	(59.0)	**(165.0)**	(0.7)	**(165.7)**
Net earned premium	1,412.6	517.3	272.8	641.7	**2,844.4**	122.1	**2,966.5**
Investment return	28.9	9.9	2.5	9.7	**51.0**	0.6	**51.6**
Instalment income	64.7	16.5	2.7	8.5	**92.4**	—	**92.4**
Other operating income	36.2	0.5	15.6	3.0	**55.3**	—	**55.3**
Total income	1,542.4	544.2	293.6	662.9	**3,043.1**	122.7	**3,165.8**
Insurance claims	(1,197.6)	(417.3)	(147.5)	(345.1)	**(2,107.5)**	(110.5)	**(2,218.0)**
Insurance claims (payable to)/ recoverable from reinsurers	(19.8)	2.6	0.3	0.2	**(16.7)**	0.1	**(16.6)**
Net insurance claims	(1,217.4)	(414.7)	(147.2)	(344.9)	**(2,124.2)**	(110.4)	**(2,234.6)**
Of which:							
Current-year attritional	1,283.8	315.2	148.0	368.7	**2,115.7**	132.8	**2,248.5**
Prior-year reserve releases	(66.4)	(19.6)	(0.8)	(54.0)	**(140.8)**	(22.4)	**(163.2)**
Major weather events	n/a	119.1	n/a	30.2	**149.3**	n/a	**149.3**
Commission expenses	(47.4)	(26.3)	(10.7)	(124.5)	**(208.9)**	(2.2)	**(211.1)**
Operating expenses before restructuring and one-off costs	(354.8)	(111.9)	(76.0)	(135.2)	**(677.9)**	(21.6)	**(699.5)**
Total expenses	(402.2)	(138.2)	(86.7)	(259.7)	**(886.8)**	(23.8)	**(910.6)**
Operating (loss)/profit	**(77.2)**	**(8.7)**	**59.7**	**58.3**	**32.1**	**(11.5)**	**20.6**
Restructuring and one-off costs[2]							**(45.3)**
Finance costs							**(20.4)**
Loss before tax							**(45.1)**
Underwriting (loss)/profit	**(207.0)**	**(35.6)**	**38.9**	**37.1**	**(166.6)**		**(178.7)**
Loss ratio	86.2%	80.2%	54.0%	53.7%	**74.7%**		**75.3%**
Of which:							
Current-year attritional	90.9%	60.9%	54.3%	57.5%	**74.4%**		**75.8%**
Prior-year reserve releases	(4.7%)	(3.8%)	(0.3%)	(8.4%)	**(5.0%)**		**(5.5%)**
Major weather events	n/a	23.1%	n/a	4.6%	**5.3%**		**5.0%**
Commission ratio	3.4%	5.1%	3.9%	19.4%	**7.3%**		**7.1%**
Expense ratio	25.1%	21.6%	27.9%	21.1%	**23.8%**		**23.6%**
Combined operating ratio	**114.7%**	**106.9%**	**85.8%**	**94.2%**	**105.8%**		**106.0%**
Current-year combined operating ratio	119.4%	110.7%	86.1%	102.6%	**110.8%**		**111.5%**

The table below analyses the Group's assets and liabilities by reportable segment at 31 December 2022[3].

	Motor £m	Home £m	Rescue and other personal lines[1] £m	Commercial £m	**Total Group - ongoing operations[1] £m**	Run-off partnerships[1] £m	**Total Group £m**
Goodwill	130.4	45.8	28.7	10.1	**215.0**	—	**215.0**
Assets held for sale	27.7	4.8	0.6	7.5	**40.6**	0.3	**40.9**
Other segment assets	5,517.4	931.8	150.7	1,434.1	**8,034.0**	64.7	**8,098.7**
Segment liabilities	(4,119.4)	(705.4)	(91.5)	(1,106.8)	**(6,023.1)**	(51.0)	**(6,074.1)**
Segment net assets	**1,556.1**	**277.0**	**88.5**	**344.9**	**2,266.5**	**14.0**	**2,280.5**

Notes:

1. Ongoing operations and run-off partnerships – See glossary on pages 251 to 253 for definitions and appendix A – Alternative performance measures on pages 254 to 257 for reconciliation to financial statement line items.
2. See glossary on page 253 for definitions.
3. 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.

4. Segmental analysis continued

The table below analyses the Group's revenue and results by reportable segment for the year ended 31 December 2021.

	Motor	Home	Rescue and other personal lines[1]	Commercial	Total Group - ongoing operations[1]	Run-off partnerships[1]	Total Group
	£m	£m	£m	£m	£m	£m	£m
Gross written premium	1,560.8	577.8	281.1	653.0	3,072.7	98.9	3,171.6
Gross earned premium	1,597.8	579.8	274.8	617.9	3,070.3	97.7	3,168.0
Reinsurance premium	(124.5)	(26.4)	(2.5)	(56.7)	(210.1)	(0.5)	(210.6)
Net earned premium	1,473.3	553.4	272.3	561.2	2,860.2	97.2	2,957.4
Investment return	99.8	12.5	2.9	30.3	145.5	0.8	146.3
Instalment income	69.4	18.3	3.0	6.6	97.3	—	97.3
Other operating income	33.9	1.0	9.6	2.1	46.6	0.1	46.7
Total income	1,676.4	585.2	287.8	600.2	3,149.6	98.1	3,247.7
Insurance claims	(1,086.8)	(287.7)	(135.6)	(363.6)	(1,873.7)	(41.6)	(1,915.3)
Insurance claims recoverable from/ (payable to) reinsurers	139.8	7.3	—	57.6	204.7	(8.1)	196.6
Net insurance claims	(947.0)	(280.4)	(135.6)	(306.0)	(1,669.0)	(49.7)	(1,718.7)
Of which:							
Current-year attritional	1,074.1	307.9	144.4	348.2	1,874.6	64.7	1,939.3
Prior-year reserve releases	(127.1)	(45.8)	(8.8)	(61.4)	(243.1)	(15.0)	(258.1)
Major weather events	n/a	18.3	n/a	19.2	37.5	n/a	37.5
Commission expenses	(48.2)	(38.1)	(9.7)	(112.3)	(208.3)	(32.6)	(240.9)
Operating expenses before restructuring and one-off costs	(366.4)	(124.9)	(69.2)	(121.5)	(682.0)	(24.3)	(706.3)
Total expenses	(414.6)	(163.0)	(78.9)	(233.8)	(890.3)	(56.9)	(947.2)
Operating profit	314.8	141.8	73.3	60.4	590.3	(8.5)	581.8
Restructuring and one-off costs[2]							(101.5)
Finance costs							(34.3)
Profit before tax							446.0
Underwriting profit	111.7	110.0	57.8	21.4	300.9		291.5
Loss ratio	64.3%	50.7%	49.9%	54.5%	58.4%		58.1%
Of which:							
Current-year attritional	72.9%	55.7%	53.1%	62.0%	65.6%		65.5%
Prior-year reserve releases	(8.6%)	(8.3%)	(3.2%)	(10.9%)	(8.5%)		(8.7%)
Major weather events	n/a	3.3%	n/a	3.4%	1.3%		1.3%
Commission ratio	3.3%	6.9%	3.6%	20.0%	7.3%		8.1%
Expense ratio	24.8%	22.5%	25.4%	21.7%	23.8%		23.9%
Combined operating ratio	92.4%	80.1%	78.9%	96.2%	89.5%		90.1%
Current-year combined operating ratio	101.0%	88.4%	82.1%	107.1%	98.0%		98.8%

The table below analyses the Group's assets and liabilities by reportable segment at 31 December 2021[3].

	Motor	Home	Rescue and other personal lines[1]	Commercial	Total Group - ongoing operations[1]	Run-off partnerships[1]	Total Group
	£m	£m	£m	£m	£m	£m	£m
Goodwill	130.4	45.8	28.7	10.1	215.0	—	215.0
Assets held for sale	29.2	3.5	0.6	7.4	40.7	0.5	41.2
Other segment assets	6,467.2	750.1	152.2	1,566.7	8,936.2	116.2	9,052.4
Segment liabilities	(4,551.2)	(550.3)	(92.5)	(1,143.9)	(6,337.9)	(74.0)	(6,411.9)
Segment net assets	2,075.6	249.1	89.0	440.3	2,854.0	42.7	2,896.7

Notes:

1. Ongoing operations and run-off partnerships – See glossary on pages 251 to 253 for definitions and appendix A – Alternative performance measures on pages 254 to 257 for reconciliation to financial statement line items. Run-off partnerships was previously included in Rescue and other personal lines segment and the comparative data for year ended 31 December 2021 has been re-presented accordingly.
2. See glossary on page 253 for definitions.
3. 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. Net earned premium

	2022 £m	2021 £m
Gross earned premium:		
Gross written premium	**3,094.2**	3,171.6
Movement in unearned premium reserve	**38.0**	(3.6)
	3,132.2	3,168.0
Reinsurance premium paid and payable:		
Premium payable	**(141.6)**	(186.4)
Movement in reinsurance unearned premium reserve	**(24.1)**	(24.2)
	(165.7)	(210.6)
Total	**2,966.5**	2,957.4

6. Investment return

	2022 £m	2021 £m
Investment income:		
Interest income from:		
Debt securities	**78.7**	90.9
Cash and cash equivalents	**14.0**	0.2
Infrastructure debt	**7.9**	4.4
Commercial real estate loans	**8.8**	6.0
Interest income	**109.4**	101.5
Rental income from investment property	**15.6**	14.5
	125.0	116.0
Net realised (losses)/gains:		
AFS debt securities	**(24.9)**	7.9
Hedging	**(31.0)**	(5.2)
Investment property (note 20)	**–**	0.2
	(55.9)	2.9
Net unrealised (losses)/gains:		
Impairment of loans and receivables	**(1.8)**	(2.1)
Hedging	**25.0**	(8.1)
Investment property (note 20)	**(39.1)**	37.6
Equity investments held at FVTPL	**(1.6)**	–
	(17.5)	27.4
Total	**51.6**	146.3

Total investment return decreased by £94.7 million to £51.6 million (2021: £146.3 million) primarily driven by realised and unrealised losses resulting from write downs in fair value adjustments of commercial property (£39.1 million) and £24.9 million of realised losses from disposals of Group debt security holdings, predominantly relating to actions taken to reduce the Group's longer duration US dollar credit holding.

6. Investment return continued

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

	2022 £m	2021 £m
Foreign exchange hedging:		
Foreign exchange forward contracts[1]	**(184.1)**	(2.6)
Associated foreign exchange risk	**188.0**	1.9
Net gains/(losses) on foreign exchange hedging	**3.9**	(0.7)
Interest rate hedging:		
Gains on interest rate swaps[1] designated as hedge instruments	**68.8**	33.5
Change in fair value on designated hedge items	**(78.5)**	(35.1)
Interest rate hedging ineffectiveness	**(9.7)**	(1.6)
Undesignated interest rate hedging losses	**(0.2)**	(11.0)
Net losses on interest rate hedging	**(9.9)**	(12.6)
Total hedging losses	**(6.0)**	(13.3)

Note:

1. All foreign exchange forward contracts and certain interest rate swaps are measured at fair value through the income statement. There are also interest rate swaps designated as hedging instruments.

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 hedges paying a fixed rate and receiving floating interest rate swaps, which are subsequently designated as hedging instruments in a fair value hedge.

At 31 December 2022 the total USD and EUR denominated bonds was £916.4 million (2021: £1,574.2 million). The notional exposure of the interest rate swaps at 31 December 2022 was an asset of £240.4 million and a liability of £107.6 million (2021: asset of £901.0 million and a liability of £9.1 million). The hedged risk is the change in the fair value of the bonds which is attributable to changes in the SOFR and EURIBOR curves.

7. Other operating income

	2022 £m	2021 £m
Revenue from vehicle recovery and repair services	**24.2**	19.7
Vehicle replacement referral income	**14.6**	13.1
Legal services income	**4.9**	7.2
Other income[1]	**11.6**	6.7
Total	**55.3**	46.7

Note:

1. Other income includes arrangement and administration fee income.

8. Net insurance claims

	Gross 2022 £m	Reinsurance 2022 £m	Net 2022 £m	Gross 2021 £m	Reinsurance 2021 £m	Net 2021 £m
Current accident year claims paid	**1,355.3**	**(0.2)**	**1,355.1**	1,058.6	(1.1)	1,057.5
Prior accident years claims paid	**888.9**	**(69.2)**	**819.7**	793.2	(88.7)	704.5
Movement in insurance liabilities	**(26.2)**	**86.0**	**59.8**	63.5	(106.8)	(43.3)
Total	**2,218.0**	**16.6**	**2,234.6**	1,915.3	(196.6)	1,718.7

Claims handling expenses for the year ended 31 December 2022 of £188.9 million (2021: £188.4 million) have been included in the claims figures above.

9. Commission expenses

	2022 £m	2021 £m
Commission expenses	**207.5**	201.2
Expenses incurred under profit participations	**3.6**	39.7
Total	**211.1**	240.9

10. Operating expenses

	2022 £m	2021 £m
Staff costs[1]	**246.8**	268.8
IT and other operating expenses[1,2]	**180.1**	157.0
Marketing	**93.5**	112.0
Insurance levies	**93.4**	89.0
Depreciation, amortisation and impairment of intangible and fixed assets[3]	**131.0**	97.1
Loss on termination of property lease[4]	**–**	83.9
Total other operating expenses (including restructuring and one-off costs)	**744.8**	807.8
Of which restructuring and one-off costs[4,5]	**45.3**	101.5
Total excluding restructuring and one-off costs	**699.5**	706.3

Notes:
1. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
2. IT and other operating expenses include professional fees and property costs.
3. Includes right-of-use ("**ROU**") assets and property, plant and equipment. For the year ended 31 December 2022, there were impairment charges of £16.0 million which relate solely to impairment of intangible assets (2021: £2.6 million of which, £2.1 million relates to impairment of intangible assets and £0.5 million relates to ROU property assets).
4. In 2021, U K Insurance Limited signed a contract in relation to its Bromley site to surrender the current lease and DL Insurance Services Limited signed a contract to purchase the head lease. The loss on termination of property lease related to the Bromley site was allocated to restructuring and one-off costs. The value of the fixed asset capitalised was £19.8 million.
5. Restructuring and one-off costs of £45.3 million (2021: £101.5 million) are included as follows: staff costs of £3.1 million (2021: £7.8 million), other operating expenses of £26.9 million (2021: £9.3 million), impairment charges of £15.2 million (2021: £nil) and depreciation of £nil (2021: £0.5 million). Restructuring and one-off costs primarily relate to the Group's decision to exit Travel packaged bank account partnership business and the continued reduction in the number of head office sites. It is expected that the Group will incur £2.0 million of additional restructuring and one-off costs in 2023 in relation to head office sites.

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

	At 31 December		Average for the year	
	2022	2021	**2022**	2021
Insurance operations	**6,523**	6,976	**6,828**	7,502
Repair centre operations	**1,508**	1,408	**1,433**	1,432
Support	**1,356**	1,402	**1,407**	1,382
Total	**9,387**	9,786	**9,668**	10,316

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

	2022 £m	2021 £m
Wages and salaries	**391.6**	392.8
Social security costs	**43.9**	42.6
Pension costs	**26.5**	26.1
Share-based payments	**8.2**	18.4
Total	**470.2**	479.9

The table below analyses Auditor's remuneration in respect of the Group's operations.

	2022 £m	2021 £m
Fees payable for the audit of:		
The Company's annual accounts	**0.4**	0.2
The Company's subsidiaries	**2.6**	1.9
Total audit fees	**3.0**	2.1
Audit-related assurance services	**0.2**	0.2
Non-audit services	**–**	0.3
Total[1]	**3.2**	2.6

Note:
1. Total audit fees, excluding VAT.

10. Operating expenses continued

Aggregate Directors' emoluments

The table below analyses the total amount of Directors' remuneration in accordance with Schedule 5 to the Accounting Regulations.

	2022 £m	2021 £m
Salaries, fees, bonuses and benefits in kind	**2.6**	3.5
Gains on exercise of share options	**1.8**	0.8
Total	**4.4**	4.3

Further information about the remuneration of individual Directors is provided in the Directors' Remuneration Report.

At 31 December 2022, no Directors (2021: no Directors) had retirement benefits accruing under the defined contribution pension scheme in respect of qualifying service. During the year ended 31 December 2022, two Directors exercised share options (2021: two Directors).

11. Finance costs

	2022 £m	2021 £m
Interest expense on subordinated liabilities	**17.8**	33.6
Net interest received on interest rate swap[1]	**(2.2)**	(5.3)
Unrealised losses on interest rate swap[1]	**2.4**	5.8
Amortisation of arrangement costs, discount on issue and fair value hedging adjustment of subordinated liabilities	**(0.8)**	(3.0)
Interest expense on lease liabilities	**3.1**	3.2
Other interest expense	**0.1**	—
Total	**20.4**	34.3

Note:

1. As described in note 34, on 27 April 2012 the Group issued subordinated guaranteed dated Tier 2 notes with a nominal value of £500 million at a fixed rate of 9.25%. On the same date, the Group also entered into a 10-year interest rate swap to exchange the fixed rate of interest on the notes for a floating rate. This was treated as a designated hedging instrument. On 8 December 2017, the Group redeemed £250 million nominal value of the notes and the hedging instrument was redesignated accordingly. On 31 July 2020, the Group identified that the hedge no longer met the criteria of hedge effectiveness under IAS 39 and, under the rules of the standard, the accumulated hedging adjustment was amortised to the income statement from the date of the last successful hedge effectiveness test over the remaining life of the subordinated debt using an effective interest rate calculation. The remaining notes, with a nominal value of £250 million, were redeemed in full on 27 April 2022.

12. Tax (credit)/charge

	2022 £m	2021 £m
Current taxation:		
(Credit)/charge	**(9.8)**	102.6
Over-provision in respect of prior year	**(3.0)**	(8.3)
	(12.8)	94.3
Deferred taxation (note 13):		
Charge/(credit)	**3.2**	(1.1)
Under-provision in respect of prior year	**4.0**	9.1
	7.2	8.0
Current taxation	**(12.8)**	94.3
Deferred taxation (note 13)	**7.2**	8.0
Tax (credit)/charge for the year	**(5.6)**	102.3

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 19.0%[1] (2021: 19.0%).

	2022 £m	2021 £m
(Loss)/profit for the year	**(45.1)**	446.0
Expected tax (credit)/charge	**(8.6)**	84.7
Effects of:		
Disallowable expenses	**3.4**	5.0
Lease surrender	**–**	17.3
Non-taxable items	**(0.3)**	(0.6)
Higher tax rates on overseas earnings	**0.1**	—
Effect of change in corporation taxation rate[1]	**0.3**	(1.7)
Under-provision in respect of prior year	**1.0**	0.8
Revaluation of property	**1.7**	—
Deductible Tier 1 notes coupon payment in equity	**(3.2)**	(3.2)
Tax (credit)/charge for the year	**(5.6)**	102.3
Effective income tax rate	**12.4%**	22.9%

Note:

1. 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.

13. Current and deferred tax

The aggregate current and deferred tax relating to items that are credited to equity is £0.2 million (2021: £0.7 million).

The table below analyses the major deferred tax assets and liabilities recognised by the Group and movements thereon.

	Provisions and other temporary differences £m	Retirement benefit obligations £m	Depreciation in excess of capital allowances £m	Non-distributable reserve[1] £m	Share-based payments £m	AFS revaluation reserve £m	Total £m
At 1 January 2021	10.2	(1.8)	4.2	(4.9)	3.1	(19.5)	(8.7)
(Charge)/credit to the income statement	(4.0)	(0.5)	(8.9)	4.9	0.5	—	(8.0)
(Charge)/credit to other comprehensive income	—	(0.8)	—	—	—	17.1	16.3
Charge direct to equity	—	—	—	—	(0.1)	—	(0.1)
At 31 December 2021	6.2	(3.1)	(4.7)	—	3.5	(2.4)	(0.5)
(Charge)/credit to the income statement	**(1.4)**	**0.2**	**(4.3)**	**–**	**(1.7)**	**–**	**(7.2)**
Credit to other comprehensive income	**–**	**2.5**	**–**	**–**	**–**	**67.2**	**69.7**
At 31 December 2022	**4.8**	**(0.4)**	**(9.0)**	**–**	**1.8**	**64.8**	**62.0**

Note:

1. The non-distributable reserve was a statutory claims equalisation reserve calculated in accordance with the rules of the PRA. With the introduction of Solvency II on 1 January 2016, the requirement to maintain the claims equalisation reserve ceased and the balance at 31 December 2015 was released to retained earnings. The taxation of this release was spread over six years from the change in regulation. It was provided for in deferred tax above as it represented the future unwind of previously claimed tax deductions for transfers into the reserve. It was fully unwound at 31 December 2021.

In addition, the Group has an unrecognised deferred tax asset at 31 December 2022 of £13.0 million (2021: £12.8 million) in relation to capital losses of which £11.8 million (2021: £10.4 million) relates to realised losses and £1.2 million (2021: £2.4 million) relates to unrealised losses.

Deferred tax assets have been recognised in respect of AFS reserves 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 they are dependent on realising future capital gains. The deferred tax asset of £64.8 million in respect of AFS reserves relates to temporary differences arising from unrealised losses. These will be relieved for tax over 10 years as a result of the adoption of IFRS9 on 1 January 2023 triggering a tax transitional adjustment. Other deferred tax assets will be recovered over a period of one to 13 years. Recovery of deferred tax assets is dependent on future taxable profits which are expected to arise in future years without the one-off combination of factors which led to the trading loss for 2022. 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.

14. Dividends and appropriations

	2022 £m	2021 £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**	–
2021 interim dividend of 7.6 pence per share paid on 3 September 2021	**–**	101.9
2020 final dividend of 14.7 pence per share paid on 20 May 2021	**–**	198.9
	297.9	300.8
Coupon payments in respect of Tier 1 notes[1]	**16.6**	16.6
	314.5	317.4
Proposed dividends:		
2021 final dividend of 15.1 pence per share	**–**	199.4

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 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 (2021: £1.7 million).

15. (Loss)/earnings 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.

	2022 £m	2021 £m
(Loss)/earnings attributable to the owners of the Company	**(39.5)**	343.7
Coupon payments in respect of Tier 1 notes	**(16.6)**	(16.6)
(Loss)/profit for the calculation of earnings per share	**(56.1)**	327.1
Weighted average number of Ordinary Shares for the purpose of basic earnings per share (millions)	**1,304.3**	1,335.8
Effect of dilutive potential of share options and contingently issuable shares (millions)	**15.0**	20.8
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	**1,319.3**	1,356.6
Basic (loss)/earnings per share (pence)	**(4.3)**	24.5
Diluted (loss)/earnings per share (pence)	**(4.3)**	24.1

On 8 March 2022, the Group announced that the Board had approved a share buyback programme of Ordinary Shares for an aggregate purchase price of up to £100 million, for which an initial tranche of up to £50 million was completed in H1 2022. The Group repurchased 19,324,855 Ordinary Shares for an aggregate consideration of £50.1 million as reflected in retained earnings (including related transaction costs). On 18 July 2022, the Group announced in its H1 2022 trading update that the Board had decided not to launch the second £50 million tranche of the £100 million share buyback programme announced earlier in the year.

On 8 March 2021, the Group announced a share buyback programme of Ordinary Shares for an aggregate purchase price of up to £100 million, which was completed on 15 November 2021 in accordance with its terms. Across the programme, the Group repurchased and cancelled 33,838,593 ordinary shares for an aggregate consideration of £101.0 million (including related transaction costs).

After each share buyback, 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.

16. 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.

	2022 £m	2021 £m
Net assets	**1,934.0**	2,550.2
Goodwill and other intangible assets[1]	**(822.2)**	(822.5)
Tangible net assets	**1,111.8**	1,727.7
Number of Ordinary Shares (millions)	**1,311.4**	1,330.7
Shares held by employee trusts (millions)	**(13.2)**	(13.4)
Closing number of Ordinary Shares (millions)	**1,298.2**	1,317.3
Net asset value per share (pence)	**149.0**	193.6
Tangible net asset value per share (pence)	**85.6**	131.2

Note:

1. 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.

	2022 £m	2021 £m
(Loss)/earnings attributable to the owners of the Company	**(39.5)**	343.7
Coupon payments in respect of Tier 1 notes	**(16.6)**	(16.6)
(Loss)/profit for the calculation of return on equity	**(56.1)**	327.1
Opening shareholders' equity	**2,550.2**	2,699.7
Closing shareholders' equity	**1,934.0**	2,550.2
Average shareholders' equity	**2,242.1**	2,625.0
Return on equity	**(2.5%)**	12.5%

17. Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 January 2021	214.2	1,085.5	1,299.7
Acquisitions and additions	0.8	108.6	109.4
Disposals and write-off[1]	—	(12.0)	(12.0)
At 31 December 2021	215.0	1,182.1	1,397.1
Acquisitions and additions	**—**	**108.4**	**108.4**
Disposals and write-off[1]	**—**	**(71.7)**	**(71.7)**
At 31 December 2022	**215.0**	**1,218.8**	**1,433.8**
Accumulated amortisation and impairment			
At 1 January 2021	—	512.9	512.9
Amortisation charge for the year	—	71.6	71.6
Disposals and write-off[1]	—	(12.0)	(12.0)
Impairment losses[2]	—	2.1	2.1
At 31 December 2021	—	574.6	574.6
Amortisation charge for the year	**—**	**92.7**	**92.7**
Disposals and write-off[1]	**—**	**(71.7)**	**(71.7)**
Impairment losses[2]	**—**	**16.0**	**16.0**
At 31 December 2022	**—**	**611.6**	**611.6**
Carrying amount			
At 31 December 2022	**215.0**	**607.2**	**822.2**
At 31 December 2021	215.0	607.5	822.5

Notes:
1. Disposals and write-off include fully amortised intangible assets no longer utilised by the Group in its operating activities.
2. Impairment losses relate to capitalised software development costs for ongoing IT projects primarily relating to development of new systems.

Included within other intangible assets are assets still in development of £95.1 million (2021: £72.8 million). The increase of £22.3 million is primarily due to the building of a new Home platform and of new capabilities for the Group's Motor platform. The assets still in development at 31 December 2022 relate mainly to finance and core technology projects which are expected to be ready for use in 2023. 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 2022, other intangible assets additions, which are internally generated, are £106.1 million (2021: £105.9 million).

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 2021 of £0.8 million arose from the purchase of the business and assets of a vehicle repair workshop. There are no additions to goodwill in the year ended 31 December 2022.

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 at each reporting date and whenever there are indications of impairment.

The table below analyses the carrying amount of goodwill allocated to each CGU.

	2022 £m	2021 £m
Motor	**130.4**	130.4
Home	**45.8**	45.8
Rescue and other personal lines	**28.7**	28.7
Commercial	**10.1**	10.1
Run-off partnerships	**—**	—
Total	**215.0**	215.0

There is no goodwill impairment for the year ended 31 December 2022 (2021: £nil).

The recoverable amount is the higher of the CGU fair value less the costs to sell and its value-in-use. Value-in-use is the present value of expected future cash flows from the CGU. Fair value is the estimated amount that could be obtained from the sale of the CGU in an arm's-length transaction between knowledgeable and willing parties.

The recoverable amounts of all CGUs were based on the value-in-use test, using the Group's strategic plan. 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.

Sensitivity information is included to enhance user understanding of the influence of key assumptions. Following the annual impairment review, no reasonable possible change in these key assumptions would have resulted in an impairment of goodwill and other intangible assets.

	Assumptions		Sensitivity: impact on recoverable amount of a:		
	Terminal growth rate	Pre-tax discount rate	1% decrease in terminal growth rate	1% increase in pre-tax discount rate	1% decrease in forecast pre-tax profit[1]
CGU	%	%	£m	£m	£m
Motor	1.5	11.4	(197.0)	(283.2)	(292.0)
Home	1.5	11.4	(33.6)	(48.7)	(53.1)
Rescue and other personal lines	1.5	11.4	(48.8)	(69.8)	(70.5)
Commercial	1.5	11.4	(65.5)	(94.4)	(99.7)

Note:
1. Reflects a 1% decrease in the profit for each year of the Group's strategic plan, which is five years.

18. Property, plant and equipment

	Land and buildings	Other equipment	Total
	£m	£m	£m
Cost			
At 1 January 2021	79.8	195.9	275.7
Additions	19.8	9.5	29.3
Disposals	—	(7.4)	(7.4)
Assets held for sale	(42.9)	(12.7)	(55.6)
At 31 December 2021	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**
Accumulated depreciation and impairment			
At 1 January 2021	7.5	122.1	129.6
Depreciation charge for the year	1.2	10.9	12.1
Disposals	—	(5.1)	(5.1)
Assets held for sale	(4.3)	(4.1)	(8.4)
At 31 December 2021	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**

Carrying amount			
At 31 December 2022	**32.3**	**51.4**	**83.7**
At 31 December 2021	52.3	61.5	113.8

The Group is satisfied that the aggregate fair value of property, plant and equipment is not less than its carrying value.

19. Right-of-use assets

	Property £m	Motor vehicles £m	IT equipment £m	Total £m
Cost				
At 1 January 2021	195.4	12.6	1.2	209.2
Additions	4.5	1.2	—	5.7
Modifications	27.8	—	—	27.8
Disposals	(111.1)	(2.9)	—	(114.0)
At 31 December 2021	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**
Accumulated depreciation and impairment				
At 1 January 2021	63.6	7.1	0.7	71.4
Depreciation charge for the year	7.3	3.2	0.3	10.8
Disposals	(27.2)	(2.9)	—	(30.1)
Impairment losses	0.5	—	—	0.5
At 31 December 2021	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**

Carrying amount				
At 31 December 2022	**69.7**	**3.3**	**—**	**73.0**
At 31 December 2021	72.4	3.5	0.2	76.1

20. Investment property

	Retail £m	Retail warehouse £m	Supermarkets £m	Office £m	Industrials £m	Hotels £m	Alternative sector £m	**Total £m**
At 1 January 2021	31.5	19.9	52.0	10.0	105.3	55.5	17.9	292.1
Fair value adjustments	(1.5)	2.7	4.9	(0.4)	28.9	2.9	0.3	37.8
Disposals	—	—	—	(9.6)	—	—	—	(9.6)
Transferred to assets held for sale (note 30)	(3.4)	—	—	—	—	—	—	(3.4)
Capitalised expenditure	—	0.1	—	—	—	—	—	0.1
At 31 December 2021[1]	**26.6**	**22.7**	**56.9**	**—**	**134.2**	**58.4**	**18.2**	**317.0**
Fair value adjustments	**(1.6)**	**(1.6)**	**(5.8)**	**—**	**(22.3)**	**(8.1)**	**0.3**	**(39.1)**
Capitalised expenditure	**0.3**	**0.2**	**—**	**—**	**0.1**	**—**	**—**	**0.6**
At 31 December 2022[1]	**25.3**	**21.3**	**51.1**	**—**	**112.0**	**50.3**	**18.5**	**278.5**

Note:
1. The cost included in the carrying value at 31 December 2022 is £216.4 million (2021: £215.8 million).

The investment properties are measured at fair value derived from valuation work carried out at the balance sheet 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 2021.

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 table provides a sensitivity analysis for +/- 5 basis points and +/- 50 basis points movement in tenants' rental income and impact on property valuation in sterling.

		-50bp	-5bp	Baseline as at 31 December 2022	+5bp	+50bp
Equivalent yield	%	4.983	5.472	5.526	5.580	6.066
Value	£m	253.5	275.4	278.5	280.9	308.1

21. 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 did not acquire or dispose of any subsidiaries in the year ended 31 December 2022 (31 December 2021: no acquisitions or disposals).

22. Reinsurance assets

	Notes	2022 £m	2021 £m
Reinsurers' share of general insurance liabilities		**1,078.5**	1,169.6
Impairment provision[1]		**(32.4)**	(37.5)
Total excluding reinsurers' unearned premium reserves	35	**1,046.1**	1,132.1
Reinsurers' unearned premium reserve	36	**55.6**	79.7
Total		**1,101.7**	1,211.8

Note:

1. Impairment provision relates to reinsurance debtors, allowing for the risk that reinsurance assets may not be collected, or where one or more reinsurers' credit rating has been significantly downgraded and it may have difficulty in meeting its obligations. Of this amount a total of £0.1 million is past due (2021: £6.7 million).

Movements in reinsurance asset impairment provisions

	2022 £m	2021 £m
At 1 January	**(37.5)**	(46.3)
Additional provision	**(2.1)**	(3.2)
Released to income statement	**7.2**	12.0
At 31 December	**(32.4)**	(37.5)

The reinsurance asset impairment provisions include a provision for non-recovery of reinsurance receivables arising from specific incurred claims of £6.1 million (2021: £6.1 million). The remaining provision of £26.3 million (2021: £31.4 million) relates to potential credit risk exposure associated with the long-term nature of reinsurance receivables.

23. Deferred acquisition costs

	2022 £m	2021 £m
At 1 January	**186.6**	172.2
Additions	**395.7**	400.7
Recognised in the income statement	**(394.0)**	(386.3)
At 31 December	**188.3**	186.6

24. Insurance and other receivables

	2022 £m	2021 £m
Receivables arising from insurance contracts:		
Due from policyholders	**600.8**	609.2
Impairment provision of policyholder receivables	**(1.9)**	(1.7)
Due from agents, brokers and intermediaries	**119.1**	81.3
Impairment provision of agent, broker and intermediary receivables	**(0.4)**	(0.1)
Amounts due from reinsurers	**34.5**	41.0
Other debtors[1]	**39.5**	33.1
Total	**791.6**	762.8

Note:
1. The other debtors balance is comprised a number of smaller balances, each of which is non-material in nature.

Movement in impairment provisions during the year

	Policyholders £m	Agents, brokers and intermediaries £m	Total £m
At 1 January 2022	**1.7**	**0.1**	**1.8**
Additional provision	**4.5**	**0.5**	**5.0**
Released to income statement	**(4.3)**	**(0.2)**	**(4.5)**
At 31 December 2022	**1.9**	**0.4**	**2.3**

25. Prepayments, accrued income and other assets

	2022 £m	2021 £m
Prepayments	**83.5**	89.1
Accrued income from contracts with customers and other assets	**22.3**	36.0
Total	**105.8**	125.1

26. Derivative financial instruments

	2022 £m	2021 £m
Derivative assets		
At fair value through the income statement:		
Foreign exchange contracts (forwards)	**24.2**	27.8
Interest rate swaps	**–**	2.4
Designated as hedging instruments:		
Foreign exchange contracts (forwards)[1]	**0.1**	–
Interest rate swaps	**7.0**	5.7
Total	**31.3**	35.9
Derivative liabilities		
At fair value through the income statement:		
Foreign exchange contracts (forwards)	**28.4**	19.1
Designated as hedging instruments:		
Foreign exchange contracts (forwards)[1]	**–**	0.2
Interest rate swaps	**1.2**	0.2
Total	**29.6**	19.5

Note:
1. Foreign exchange contracts (forwards) are designated as cash flow hedges in relation to supplier payments.

27. Retirement benefit obligations

Defined contribution scheme

The pension charge in respect of the defined contribution scheme for the year ended 31 December 2022 was £26.5 million (2021: £26.1 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 2022 is 17 years (2021: 20 years) using accounting assumptions.

The table below sets out the principal assumptions used in determining the defined benefit scheme obligations.

	2022 %	2021 %
Rate of increase in pension payment	**2.5**	2.6
Rate of increase in deferred pensions	**2.6**	2.6
Discount rate	**4.8**	2.0
Inflation rate	**3.3**	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

	2022	2021
Life expectancy at age 60 now:		
Males	**87.2**	87.5
Females	**89.2**	89.4
Life expectancy at age 60 in 20 years' time:		
Males	**89.2**	89.3
Females	**91.0**	91.2

The table below analyses the fair value of the scheme assets by type of asset.

	2022 £m	2021 £m
Insurance policies[1]	**48.8**	—
Index-linked bonds	**0.3**	32.3
Government bonds	**0.5**	27.9
Liquidity fund[2]	**0.1**	0.5
Dynamic bond fund[3]	**–**	41.6
Defined contribution section funds[4]	**1.7**	5.4
Other	**2.0**	0.5
Total	**53.4**	108.2

Notes:

1. Insurance policies are valued at the present value of the related obligations.
2. 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.
3. The dynamic bond fund targets positive returns on a three-year rolling basis. It was invested to maximise the total return from a globally diversified portfolio, predominantly comprising high-yielding corporate and government bonds.
4. 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 228).

The majority of debt instruments held directly or through the liquidity fund have quoted prices in active markets.

27. Retirement benefit obligations continued

Movement in net pension surplus

	Fair value of defined benefit scheme assets £m	Present value of defined benefit scheme obligations £m	Net pension surplus £m
At 1 January 2021	107.7	(98.7)	9.0
Income statement:			
Net interest income/(cost)[1]	1.5	(1.4)	0.1
Administration costs	(0.8)	–	(0.8)
Statement of comprehensive income:			
Remeasurement gains			
Return on plan assets excluding amounts included in the net interest on the defined benefit asset	2.2	–	2.2
Actuarial gains of defined benefit scheme			
Experience losses	–	(5.8)	(5.8)
Gains from change in demographic assumptions	–	0.2	0.2
Gains from change in financial assumptions	–	7.2	7.2
Benefits paid	(2.4)	2.4	–
At 31 December 2021	108.2	(96.1)	12.1
Income statement:			
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 of 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**

Note:
1. The net interest income/(cost) in the income statement has been included under other operating expenses.

The table below details the history of the scheme for the current and prior years.

	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Present value of defined benefit scheme obligations	**(51.8)**	(96.1)	(98.7)	(90.3)	(78.6)
Fair value of defined benefit scheme assets	**53.4**	108.2	107.7	100.0	95.6
Net pension surplus	**1.6**	12.1	9.0	9.7	17.0
Experience gains/(losses) on scheme liabilities	**0.3**	(5.8)	2.4	0.4	–
Return on plan assets excluding amounts included in the net interest on the defined benefit asset	**(53.3)**	2.2	9.0	4.4	(3.5)

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. 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 pension cost		Impact on present value of defined benefit scheme obligations	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Discount rate				
1.0% increase in discount rate (2021: 0.25% increase in discount rate)	**–**	–	**(7.3)**	(4.8)
1.0% decrease in discount rate (2021: 0.25% decrease in discount rate)	**–**	0.2	**8.7**	4.8
Inflation rate				
1.0% increase in inflation rate (2021: 0.25% increase in inflation rate)	**–**	–	**2.8**	2.4
1.0% decrease in inflation rate (2021: 0.25% decrease in inflation rate)	**–**	–	**(2.6)**	(2.4)
Life expectancy				
1-year increase in life expectancy	**–**	0.1	**2.6**	3.0
1-year decrease in life expectancy	**–**	(0.1)	**(2.6)**	(3.0)

The most recent funding valuation of the Group's defined benefit scheme was carried out as at 1 October 2020. 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 2022, 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 2023 (2022: £nil).

28. Financial investments

	2022	2021
	£m	£m
AFS debt securities		
Corporate	**2,605.1**	4,006.9
Supranational	**25.2**	14.0
Local government	**5.9**	28.1
Sovereign	**511.3**	35.6
Total	**3,147.5**	4,084.6
HTM debt securities		
Corporate	**98.2**	91.2
Total debt securities	**3,245.7**	4,175.8
Total debt securities		
Fixed interest rate[1]	**3,232.1**	4,158.3
Floating interest rate	**13.6**	17.5
Total	**3,245.7**	4,175.8
Loans and receivables		
Infrastructure debt	**238.2**	250.8
Commercial real estate loans	**199.1**	200.8
Other loans	**1.9**	–
Total loans and receivables	**439.2**	451.6
Equity investments[2]	**13.6**	6.2
Total	**3,698.5**	4,633.6

Notes:

1. 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 2022 was £401.8 million (2021: £1,005.6 million).
2. 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.

29. Cash and cash equivalents and borrowings

	2022 £m	2021 £m
Cash at bank and in hand	**124.8**	162.8
Short term deposits with credit institutions[1]	**878.8**	792.9
Cash and cash equivalents	**1,003.6**	955.7
Bank overdrafts[2]	**(65.2)**	(59.2)
Cash and bank overdrafts[3]	**938.4**	896.5

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 2022 was 1.46% (2021: 0.16%) and average maturity was 10 days (2021: 10 days).

30. Assets held for sale

	2022 £m	2021 £m
Property, plant and equipment	**37.0**	36.8
Investment property	**3.9**	4.4
Total assets held for sale	**40.9**	41.2

The Group is 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 2022 relate to office sites in Bromley, Ipswich and Leeds (including retail space within the Bromley and Leeds properties) that are no longer required. The balance at 31 December 2021 included a property in Birmingham which was disposed of in 2022. The office site in Bromley was moved into assets held for sale in 2022.

A net impairment loss of £8.9 million (2021: £9.4 million) is included within operating expenses (as part of restructuring and one-off costs) for the write down of the carrying value of these three properties to their held for sale values.

31. Share capital

Issued and fully paid: equity shares	2022			2021		
	Number of shares	**Share capital**	**Transfer to capital redemption reserve[4]**	Number of shares	Share capital	Transfer to capital redemption reserve[4]
Ordinary Shares of 10 10/11 pence each[1]	**millions**	**£m**	**£m**	millions	£m	£m
At 1 January	**1,330.7**	**145.2**	**4.8**	1,364.6	148.9	1.1
Shares cancelled following buyback[2,3,4]	**(19.3)**	**(2.1)**	**2.1**	(33.9)	(3.7)	3.7
At 31 December	**1,311.4**	**143.1**	**6.9**	1,330.7	145.2	4.8

Notes:
1. 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.
2. On 8 March 2022, the Group announced that the Board had approved a share buyback programme of Ordinary Shares for an aggregate purchase price of up to £100 million, for which an initial tranche of up to £50 million was completed in H1 2022. The Group has repurchased 19,324,855 Ordinary Shares for an aggregate consideration of £50.1 million as reflected in retained earnings (including related transaction costs). On 18 July 2022, the Group announced in its H1 2022 trading update, that the Board had decided not to launch the second £50 million tranche of the £100 million share buyback programme announced earlier in the year.
3. On 8 March 2021, the Group announced a share buyback programme of Ordinary Shares for an aggregate purchase price of up to £100 million, which was completed on 15 November 2021 in accordance with its terms. Across the programme, the Group repurchased and cancelled 33,838,593 ordinary shares for an aggregate consideration of £101.0 million (including related transaction costs).
4. After each share buyback, 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.

Additional information including the number of shares authorised for issue is available in the Directors' Report on page 163.

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 2022, 13,214,811 Ordinary Shares (2021: 13,442,422 Ordinary Shares) were owned by the employee share trusts at a cost of £39.0 million (2021: £41.4 million). These Ordinary Shares are carried at cost and at 31 December 2022 had a market value of £29.2 million (2021: £37.5 million).

32. Other reserves

Movements in the AFS investments revaluation reserve

	2022 £m	2021 £m
At 1 January	**9.0**	83.9
Revaluation during the year – gross	**(295.8)**	(84.1)
Revaluation during the year – tax	**73.4**	15.1
Net losses/(gains) transferred to income statement on disposals - gross	**24.9**	(7.9)
Net (losses)/gains transferred to income statement on disposals - tax	**(6.2)**	2.0
At 31 December	**(194.7)**	9.0

Capital reserves

	2022 £m	2021 £m
Capital contribution reserve[1]	**100.0**	100.0
Capital redemption reserve[2]	**1,356.9**	1,354.8
Total	**1,456.9**	1,454.8

Notes:

1. Arose on the cancellation of a debt payable to a shareholder.
2. £1,350.0 million arose on the reduction of nominal value of each share in issue with a corresponding transfer to capital redemption reserve. Further additions of £2.1 million in 2022, £3.7 million in 2021 and £1.1 million in 2020 were made when shares repurchased through buyback were cancelled.

33. Tier 1 notes

	2022 £m	2021 £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 condition[1] 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:

1. 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.

34. Subordinated liabilities

	2022 £m	2021 £m
£250 million 9.25% subordinated Tier 2 notes due 2042	**–**	255.2
£260 million 4.0% subordinated Tier 2 notes due 2032	**258.6**	258.4
Subordinated Tier 2 notes	**258.6**	513.6

The 2032 and 2042 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.

34. Subordinated liabilities continued

£250 million 9.25% subordinated Tier 2 notes due 2042

The subordinated guaranteed dated notes with a nominal value of £500 million were issued on 27 April 2012 at a fixed rate of 9.25%. On the same date, the Group also entered into a 10-year interest rate swap to exchange the fixed rate of interest for a floating rate of 3-month LIBOR plus a spread of 706 basis points which was credit value adjusted to 707 basis points with effect from 29 July 2013. This was treated as a designated hedging instrument.

On 8 December 2017, the Group repurchased £250 million nominal value of the subordinated guaranteed dated notes for a purchase price of £330.1 million including accrued interest of £2.7 million and associated transaction costs of £0.6 million. The designated hedging instrument was adjusted accordingly.

During 2020, the Group identified that the hedge no longer met the criteria of hedge effectiveness under IAS 39 and, under the rules of the standard, the accumulated hedging adjustment was amortised to the income statement from the date of the last successful hedge effectiveness test over the remaining life of the subordinated debt using an effective interest rate calculation.

The remaining notes, with a nominal value of £250 million and accrued interest of £11.6 million, were redeemed in full on 27 April 2022 when the Group had its first option to repay. Associated transaction costs were £0.1 million. The interest rate swap hedging these notes expired on the same day.

£260 million 4.0% subordinated Tier 2 notes due 2032

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.

35. Insurance liabilities

	2022 £m	2021 £m
Insurance liabilities	**3,654.3**	3,680.5

Gross insurance liabilities

Accident year	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	Total £m
Estimate of ultimate gross claims costs:											
At end of accident year	2,184.0	2,094.5	2,118.1	2,157.7	2,217.3	2,300.1	2,110.4	1,847.3	1,955.8	2,294.1	
One year later	(117.6)	20.7	(30.0)	(86.7)	(116.2)	(62.3)	(67.2)	(116.8)	(52.5)		
Two years later	(153.0)	(38.4)	(143.5)	(53.3)	(103.1)	(52.0)	(56.1)	(34.4)			
Three years later	(21.0)	(144.9)	(62.4)	(82.8)	(42.4)	(9.5)	(14.0)				
Four years later	(102.1)	(50.2)	(22.9)	(46.1)	(21.0)	(15.4)					
Five years later	(50.8)	(51.6)	(22.0)	(16.7)	(12.8)						
Six years later	(27.4)	(33.6)	(9.0)	(27.0)							
Seven years later	(14.0)	(6.5)	(9.3)								
Eight years later	(0.3)	(17.4)									
Nine years later	(3.0)										
Current estimate of cumulative claims	1,694.8	1,772.6	1,819.0	1,845.1	1,921.8	2,160.9	1,973.1	1,696.1	1,903.3	2,294.1	
Cumulative payments to date	(1,686.7)	(1,715.3)	(1,732.9)	(1,772.1)	(1,799.4)	(1,913.3)	(1,669.7)	(1,326.3)	(1,351.3)	(1,208.7)	
Gross liability recognised in balance sheet	**8.1**	**57.3**	**86.1**	**73.0**	**122.4**	**247.6**	**303.4**	**369.8**	**552.0**	**1,085.4**	**2,905.1**
2012 and prior											**663.0**
Claims handling provision											**86.2**
Total											**3,654.3**

Net insurance liabilities

Accident year	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	Total £m
Estimate of ultimate net claims costs:											
At end of accident year	2,093.9	1,971.0	1,926.7	1,922.2	2,016.9	2,125.9	1,941.2	1,674.5	1,791.8	2,205.2	
One year later	(123.6)	(29.7)	(67.0)	(18.9)	(79.7)	(41.4)	(34.5)	(88.1)	(35.0)		
Two years later	(134.4)	(42.0)	(77.8)	(38.2)	(65.3)	(27.1)	(54.5)	(44.7)			
Three years later	(27.8)	(100.7)	(30.4)	(43.7)	(14.0)	(27.6)	(5.7)				
Four years later	(64.3)	(41.3)	(24.1)	(16.9)	(39.7)	(3.1)					
Five years later	(38.9)	(52.5)	(20.7)	(12.4)	(15.1)						
Six years later	(17.7)	(8.3)	(4.6)	(16.8)							
Seven years later	(10.6)	(8.0)	(7.4)								
Eight years later	0.4	(6.0)									
Nine years later	(2.7)										
Current estimate of cumulative claims	1,674.3	1,682.5	1,694.7	1,775.3	1,803.1	2,026.7	1,846.5	1,541.7	1,756.8	2,205.2	
Cumulative payments to date	(1,667.2)	(1,670.6)	(1,665.2)	(1,736.2)	(1,737.0)	(1,888.7)	(1,642.8)	(1,301.9)	(1,333.9)	(1,208.4)	
Net liability recognised in balance sheet	**7.1**	**11.9**	**29.5**	**39.1**	**66.1**	**138.0**	**203.7**	**239.8**	**422.9**	**996.8**	**2,154.9**
2012 and prior											**367.1**
Claims handling provision											**86.2**
Total											**2,608.2**

Movements in gross and net insurance liabilities

	Gross £m	Reinsurance £m	Net £m
Claims reported	2,762.0	(842.8)	1,919.2
Incurred but not reported	777.0	(182.5)	594.5
Claims handling provision	78.0	–	78.0
At 1 January 2021	3,617.0	(1,025.3)	2,591.7
Cash paid for claims settled in the year	(1,851.8)	89.8	(1,762.0)
Increase/(decrease) in liabilities:			
Arising from current-year claims	2,142.9	(166.1)	1,976.8
Arising from prior-year claims	(227.6)	(30.5)	(258.1)
At 31 December 2021	3,680.5	(1,132.1)	2,548.4
Claims reported	2,840.0	(885.2)	1,954.8
Incurred but not reported	761.8	(246.9)	514.9
Claims handling provision	78.7	–	78.7
At 31 December 2021	3,680.5	(1,132.1)	2,548.4
Cash paid for claims settled in the year	**(2,244.2)**	**69.4**	**(2,174.8)**
Increase/(decrease) in liabilities:			
Arising from current-year claims	**2,486.8**	**(89.0)**	**2,397.8**
Arising from prior-year claims	**(268.8)**	**105.6**	**(163.2)**
At 31 December 2022	**3,654.3**	**(1,046.1)**	**2,608.2**
Claims reported	**2,941.0**	**(835.7)**	**2,105.3**
Incurred but not reported	**627.1**	**(210.4)**	**416.7**
Claims handling provision	**86.2**	**–**	**86.2**
At 31 December 2022	**3,654.3**	**(1,046.1)**	**2,608.2**

35. Insurance liabilities continued

Movement in prior-year net claims liabilities by operating segment

	2022 £m	2021 £m
Motor	**(66.4)**	(127.1)
Home	**(19.6)**	(45.8)
Rescue and other personal lines - ongoing operations	**(0.8)**	(8.8)
Commercial	**(54.0)**	(61.4)
Total Group - ongoing operations	**(140.8)**	(243.1)
Run-off partnerships	**(22.4)**	(15.0)
Total Group	**(163.2)**	(258.1)

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 2022 and 31 December 2021. These represent the total cost of PPOs rather than any costs in excess of purely Ogden-based settlements.

At 31 December	Discounted 2022 £m	Undiscounted 2022 £m	Discounted 2021 £m	Undiscounted 2021 £m
Gross claims				
Approved PPO claims provisions	**497.0**	**1,393.2**	564.4	1,260.9
Anticipated PPOs	**135.8**	**301.3**	193.4	408.7
Total	**632.8**	**1,694.5**	757.8	1,669.6
Reinsurance				
Approved PPO claims provisions	**(269.5)**	**(793.1)**	(316.2)	(731.4)
Anticipated PPOs	**(91.7)**	**(232.5)**	(142.1)	(313.8)
Total	**(361.2)**	**(1,025.6)**	(458.3)	(1,045.2)
Net of reinsurance				
Approved PPO claims provisions	**227.5**	**600.1**	248.2	529.5
Anticipated PPOs	**44.1**	**68.8**	51.3	94.9
Total	**271.6**	**668.9**	299.5	624.4

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 4.2% (2021: 3.5%). The Group has estimated a cashflow-weighted average rate of interest used for the calculation of present values as 5.1% (2021: 3.5%), which results in a real discount rate of 0.9% (2021: 0%). The Group will continue to review the inflation and discount rates used to calculate these insurance reserves.

36. Unearned premium reserve

Movement in unearned premium reserve

	Gross £m	Reinsurance £m	Net £m
At 1 January 2021	1,497.1	(103.9)	1,393.2
Written in the period	3,171.6	(186.4)	2,985.2
Earned in the period	(3,168.0)	210.6	(2,957.4)
At 31 December 2021	1,500.7	(79.7)	1,421.0
Written in the period	**3,094.2**	**(141.6)**	**2,952.6**
Earned in the period	**(3,132.2)**	**165.7**	**(2,966.5)**
At 31 December 2022	**1,462.7**	**(55.6)**	**1,407.1**

37. 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 the continued employment by the Group and also the Group achieving predefined performance conditions associated with Total Shareholder Return ("**TSR**"), return on tangible equity ("**RoTE**") and from 2022, emissions. The Executive Directors are subject to an additional two-year holding period following the three-year vesting period.

Awards were made in the year ended 31 December 2022 over 4.5 million Ordinary Shares with an estimated fair value of £10.7 million at the 2022 grant dates (2021: 3.6 million Ordinary Shares with an estimated fair value of £11.3 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.

	2022	2021
Weighted average assumptions during the year:		
Share price (pence)	**243**	315
Exercise price (pence)	**0**	0
Volatility of share price	**29%**	26%
Average comparator volatility	**41%**	40%
Expected life	**3 years**	3 years
Risk-free rate	**2.09%**	0.16%

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 1.0 million Ordinary Shares (2021: 1.1 million Ordinary Shares) with an estimated fair value of £2.6 million (2021: £3.2 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 awards were made over 1.6 million Ordinary Shares (2021: 1.4 million Ordinary Shares) under this plan with an estimated fair value of £4.2 million (2021: £4.5 million) using the market value at the date of grant.

The awards outstanding at 31 December 2022 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

In early 2021, the Group offered all eligible employees a Free Share award granting 112 Ordinary Shares free of charge as a measure of thanks to the employees for the part they played in the good results that the Group reported for 2020. These awards have no performance criteria attached and vest on the third anniversary of the award grant date, subject to completion of three years' continuing employment. The Group initially granted 1.2 million Ordinary Shares with an estimated fair value of £3.7 million using the market value at the date of grant.

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.

In the year ended 31 December 2022, matching share awards were granted over 0.7 million Ordinary Shares (2021: 0.6 million Ordinary Shares) with an estimated fair value of £1.7 million (2021: £1.8 million). The fair value of each matching share award is estimated using the market value at the date of grant.

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.

37. Share-based payments continued

Movement in total share awards

	Number of share awards	
	2022	2021
	millions	millions
At 1 January	**28.4**	26.9
Granted during the year[1]	**9.8**	9.4
Forfeited during the year	**(4.3)**	(2.9)
Exercised during the year	**(5.2)**	(5.0)
At 31 December	**28.7**	28.4
Exercisable at 31 December	**2.2**	2.6

Note:
1. In accordance with the rules of the LTIP, Restricted Shares Plan and DAIP, additional awards of 2.0 million shares were granted during the year ended 31 December 2022 (2021: 1.5 million) in respect of the equivalent dividend.

In respect of the outstanding options at 31 December 2022, the weighted average remaining contractual life is 1.56 years (2021: 1.64 years). No share awards expired during the year (2021: nil).

The weighted average share price for awards exercised during the year ended 31 December 2022 was £2.41 (2021: £3.06).

The Group recognised total expenses in the year ended 31 December 2022 of £8.2 million (2021: £18.4 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.

38. Provisions

Movement in provisions during the year

	Regulatory levies	Restructuring	Other[1]	Total
	£m	£m	£m	£m
At 1 January 2022	**48.2**	**13.7**	**34.5**	**96.4**
Reclassification of staff entitlements to trade and other payables	**–**	**–**	**(28.6)**	**(28.6)**
Additional provision	**76.6**	**11.0**	**0.9**	**88.5**
Utilisation of provision	**(70.7)**	**(9.3)**	**(4.8)**	**(84.8)**
Released to income statement	**–**	**(6.7)**	**(0.5)**	**(7.2)**
At 31 December 2022	**54.1**	**8.7**	**1.5**	**64.3**

Note:
1. In 2022, the Group has reclassified balances in respect of staff entitlements, as a result of applying IAS 19 'Employee Benefits' in place of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. Staff entitlements of £25.6 million (2021: £28.6 million included in provisions) are included in accruals as at 31 December 2022 (see note 39). This adjustment has not been applied retrospectively as it is considered immaterial.

Of the above, £nil (2021: £nil) is due to be settled outside of 12 months.

Regulatory levies provisions include undiscounted balances held for MIB, FSCS and other insurance levies where the Group is charged in the following year. Restructuring includes a number of restructuring programmes within the Group, including office site closures and staff restructuring along with an impairment charge.

39. Trade and other payables, including insurance payables

	2022	2021
	£m	£m
Accruals[1]	**132.3**	109.3
Trade creditors	**70.0**	121.6
Other taxes	**98.1**	99.1
Other creditors[2]	**92.2**	73.6
Due to reinsurers	**57.4**	45.4
Due to agents, brokers and intermediaries	**3.6**	4.0
Deferred income	**3.3**	3.2
Due to insurance companies	**0.9**	1.1
Total	**457.8**	457.3

Notes:
1. In 2022, the Group has reclassified balances in respect of staff entitlements, as a result of applying IAS 19 'Employee Benefits' in place of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. See footnote 1 to note 38 for additional detail.
2. Other creditors primarily consists of balances relating to insurance policies that have been accepted but where the Group is yet to go on risk, balances relating to unearned policyholder instalment interest income and other amounts due to policyholders.

40. Notes to the consolidated cash flow statement

	Notes	2022 £m	2021 £m
(Loss)/profit for the year		**(39.5)**	343.7
Adjustments for:			
Investment return	6	**(51.6)**	(146.3)
Instalment income		**(92.4)**	(97.3)
Finance costs	11	**20.4**	34.3
Defined benefit pension scheme – net interest charge		**(0.1)**	(3.1)
Equity-settled share-based payment charge		**8.2**	18.4
Tax (credit)/charge	12	**(5.6)**	102.3
Depreciation and amortisation charge		**115.0**	94.5
Impairment of intangible and ROU assets	17/19	**16.0**	2.6
Impairment provision movements on reinsurance contracts	22	**(5.1)**	(8.8)
Impairment on assets held for sale	30	**8.9**	9.4
Loss on disposal of property, plant and equipment and ROU assets		**1.5**	86.2
Operating cash flows before movements in working capital		**(24.3)**	435.9
Movements in working capital:			
Net increase/(decrease) in net insurance liabilities including reinsurance assets, unearned premium reserves and deferred acquisition costs		**49.3**	(21.1)
Net (increase)/decrease in insurance and other receivables		**(28.8)**	85.4
Net decrease in accrued income and other assets		**19.3**	0.9
Net decrease in trade and other payables, including insurance payables and provisions		**(31.6)**	(111.0)
Cash generated from operations		**(16.1)**	390.1
Taxes paid		**(44.5)**	(118.4)
Cash flow hedges		**0.3**	0.1
Net cash (used by)/generated from operating activities before investment of insurance assets		**(60.3)**	271.8
Interest received		**225.4**	234.6
Rental income received from investment property	6	**15.6**	14.5
Purchase of investment property	20	**(0.6)**	(0.1)
Proceeds on disposal of investment property	20	**–**	9.6
Proceeds on disposal/maturity of AFS debt securities		**1,696.2**	1,170.1
Proceeds from maturity of HTM debt securities		**–**	22.4
Advances made for commercial real estate loans		**(40.8)**	(44.3)
Repayments of infrastructure debt and commercial real estate loans		**57.2**	63.2
Purchase of AFS debt securities		**(1,075.9)**	(1,291.4)
Purchase of equity investments		**(7.7)**	(1.5)
Purchase of HTM debt securities		**(7.0)**	(9.9)
Advances made for other loans		**(1.9)**	–
Cash generated from investment of insurance assets		**860.5**	167.2

40. Notes to the consolidated cash flow statement continued

The table below details changes in liabilities arising from the Group's financing activities.

	Lease liabilities		Subordinated liabilities	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
At 1 January	**(84.2)**	(152.4)	**(513.6)**	(516.6)
Repayment of subordinated liabilities[1]	**–**	–	**250.0**	–
Interest paid on subordinated liabilities	**–**	–	**22.0**	33.5
Interest rate swap cash settlement	**–**	–	**–**	–
Lease repayments	**12.0**	105.1	**–**	–
Financing cash flows	**12.0**	105.1	**272.0**	33.5
Disposals of leases	**(6.3)**	(5.9)	**–**	–
Modifications of leases	**–**	(27.8)	**–**	–
Interest on lease liabilities	**(3.1)**	(3.2)	**–**	–
Amortisation of arrangement costs and discount on issue of subordinated liabilities	**–**	–	**(0.3)**	(0.6)
Amortisation of fair value hedging	**–**	–	**1.1**	3.6
Accrued interest expense on subordinated liabilities	**–**	–	**(17.8)**	(33.5)
Net accrued interest on interest rate swap	**–**	–	**–**	–
Fair value movement in interest rate swap	**–**	–	**–**	–
Non-cash changes	**(9.4)**	(36.9)	**(17.0)**	(30.5)
At 31 December	**(81.6)**	(84.2)	**(258.6)**	(513.6)

Note:

1. As described in note 34, 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.

41. Commitments and contingent liabilities

The Group did not have any material commitments and contingent liabilities at 31 December 2022 (2021: none).

42. 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.

	2022	2021
	£m	£m
Within one year	**13.8**	13.1
In the second to fifth year inclusive	**42.9**	38.4
After five years	**59.8**	70.0
Total[1,2]	**116.5**	121.5

Notes:

1. In the table above, the amounts disclosed for year ended 31 December 2022 exclude total future aggregate minimum lease payments receivable of £5.8 million which relate to leases to third-party tenants on properties the Group has classified as assets held for sale.
2. At year ended 31 December 2022: £114.2 million of the total operating lease commitments where the Group is the lessor relates to the lease of investment properties detailed in note 20 (2021: £114.4 million).

Other lease disclosures

At 31 December 2022 the Group had committed to property leases not yet commenced with total future cash outflows of £29.0 million.

The following table analyses the amounts that have been included in the income statement for leases.

	2022 £m	2021 £m
Depreciation of ROU assets	**9.9**	10.8
(Gain)/loss on disposal of leases	**(0.5)**	83.9
Interest on lease liabilities	**3.1**	3.2
Short-term leases[2]	**1.6**	0.8
Low-value leases[2]	**1.4**	0.8
Impairment on ROU assets	**–**	0.5
Income from subleasing ROU assets	**–**	(0.1)
Total	**15.5**	99.9

Notes:
1. Total cash outflows in respect of leases was £15.0 million (2021: £106.7 million).
2. At years ended 31 December 2022 and 31 December 2021, 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.

43. 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.

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 AFS debt security assets 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, HTM debt securities, 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. HTM debt securities 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. These are based on several unobservable inputs including market multiples and cash flow forecasts.

43. Fair value continued

Comparison of carrying value to fair value of financial instruments and assets where fair value is disclosed

At 31 December 2022	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m
Assets held at fair value:					
Investment property (note 20)	**278.5**	–	–	278.5	**278.5**
Derivative assets (note 26)	**31.3**	–	31.3	–	**31.3**
AFS debt securities (note 28)	**3,147.5**	511.2	2,636.3	–	**3,147.5**
Equity investments (note 28)	**13.6**	–	0.3	13.3	**13.6**
Other financial assets:					
HTM debt securities (note 28)	**98.2**	–	28.6	61.0	**89.6**
Infrastructure debt (note 28)	**238.2**	–	–	235.7	**235.7**
Commercial real estate loans (note 28)	**199.1**	–	–	198.1	**198.1**
Other loans (note 28)	**1.9**	–	–	1.9	**1.9**
Total	**4,008.3**	**511.2**	**2,696.5**	**788.5**	**3,996.2**
Liabilities held at fair value:					
Derivative liabilities (note 26)	**29.6**	–	29.6	–	**29.6**
Other financial liabilities:					
Subordinated liabilities (note 34)	**258.6**	–	204.9	–	**204.9**
Total	**288.2**	**–**	**234.5**	**–**	**234.5**

At 31 December 2021	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m
Assets held at fair value:					
Investment property (note 20)	317.0	–	–	317.0	317.0
Derivative assets (note 26)	35.9	–	35.9	–	35.9
AFS debt securities (note 28)	4,084.6	35.6	4,049.0	–	4,084.6
Equity investments (note 28)	6.2	–	–	6.2	6.2
Other financial assets:					
HTM debt securities (note 28)	91.2	–	24.3	69.1	93.4
Infrastructure debt (note 28)	250.8	–	–	257.8	257.8
Commercial real estate loans (note 28)	200.8	–	–	198.3	198.3
Total	4,986.5	35.6	4,109.2	848.4	4,993.2
Liabilities held at fair value:					
Derivative liabilities (note 26)	19.5	–	19.5	–	19.5
Other financial liabilities:					
Subordinated liabilities (note 34)	513.6	–	543.7	–	543.7
Total	533.1	–	563.2	–	563.2

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 20 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 2021. During 2021, there was one HTM debt security with fair value of £10.7 million transferred from level 3 to level 2 due to market-observable valuation inputs.

The table below shows the unobservable inputs used by the Group in the fair value measurement of its investment property.

At 31 December 2022	Fair value £m	Valuation technique	Unobservable input	Range (weighted average)
Investment property	278.5[1]	Income capitalisation	Equivalent yield (note 20)	4.23% - 7.61% (average 5.62%)
			Estimated rental value per square foot	£6.50 - £32.92 (average £13.59)

Note:

1. The methodology of valuation reflects commercial property held within U K Insurance Limited.

The table below analyses the movement in assets carried at fair value classified as level 3 in the fair value hierarchy.

	Investment property £m	Unquoted equity investments £m
At 1 January 2022	**317.0**	**6.2**
Additions[1]	**–**	**7.7**
(Reduction)/increase in fair value in the period (note 6 & 20)	**(39.1)**	**0.3**
Foreign exchange movement	**–**	**(0.9)**
Capitalised expenditure (note 20)	**0.6**	**–**
At 31 December 2022	**278.5**	**13.3**

Note:

1. Additions to unquoted equity investments are initially recognised at fair value plus directly related transaction costs.

44. 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 2022 (2021: £nil).

Compensation of key management

	2022 £m	2021 £m
Short-term employee benefits	**7.6**	11.9
Post-employment benefits	**0.2**	0.1
Share-based payments	**3.5**	7.2
Total	**11.3**	19.2

45. Post balance sheet events

On 26 January 2023, the Group announced that its principal underwriter, U K Insurance Limited, had entered into strategic reinsurance agreements, that together comprise a 3-year structured 10% quota share arrangement. The contracts incept with effect from 1 January 2023.

On 1 March 2023, the Group's principal underwriter, U K Insurance Limited, and service company, DL Insurance Services Limited, entered into arrangements relating to Motability Operations and the motor insurance needs of approximately 600,000 of its customers.

Parent Company Balance Sheet

As at 31 December 2022

	Notes	2022 £m	2021 £m
Assets			
Investment in subsidiary undertakings	2	**3,332.6**	3,322.9
Other receivables	3	**26.8**	342.5
Current tax assets	4	**6.8**	6.4
Derivative financial instruments	5	**0.1**	0.2
Financial investments	6	**–**	45.2
Cash and cash equivalents	7	**112.3**	204.6
Total assets		**3,478.6**	3,921.8
Equity			
Shareholders' equity		**2,695.7**	2,937.9
Tier 1 notes	9	**346.5**	346.5
Total equity		**3,042.2**	3,284.4
Liabilities			
Subordinated liabilities	10	**258.6**	512.4
Borrowings	11	**176.8**	123.9
Derivative financial instruments	5	**0.1**	0.2
Deferred tax liabilities	4	**0.9**	0.9
Total liabilities		**436.4**	637.4
Total equity and liabilities		**3,478.6**	3,921.8

The attached notes on pages 244 to 248 form an integral part of these separate financial statements.

The profit for the year net of tax was £126.2 million (2021: £421.9 million).

The financial statements were approved by the Board of Directors and authorised for issue on 21 March 2023.

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 2022

	2022 £m	2021 £m
Profit for the year attributable to the owners of the Company	**126.2**	421.9
Other comprehensive gain		
Items that may be reclassified subsequently to the income statement:		
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	**126.3**	421.9

Parent Company Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital (note 8) £m	Capital reserves (note 8) £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 2021	148.9	1,451.1	7.2	(0.1)	1,329.5	2,936.6	346.5	3,283.1
Profit for the year	–	–	–	–	421.9	421.9	–	421.9
Total comprehensive income for the year	–	–	–	–	421.9	421.9	–	421.9
Dividends and appropriations paid (note 12)	–	–	–	–	(317.4)	(317.4)	–	(317.4)
Shares cancelled following buyback	(3.7)	3.7	–	–	(101.0)	(101.0)	–	(101.0)
Credit to equity for equity-settled share-based payments	–	–	17.0	–	–	17.0	–	17.0
Shares distributed by employee trusts	–	–	(19.2)	–	–	(19.2)	–	(19.2)
Total transactions with equity holders	(3.7)	3.7	(2.2)	–	(418.4)	(420.6)	–	(420.6)
Balance at 31 December 2021	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 12)	**–**	**–**	**–**	**–**	**(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**

The attached notes on pages 244 to 248 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 financial investments and 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 income statement 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, 111 and 134 – 136 of IAS 'Presentation of Financial Statements' to produce a cash flow statement and to make an explicit and unreserved statement of compliance with IFRSs;
- 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 to the consolidated financial statements.

1.2 Investment in subsidiaries

Investment in subsidiaries is stated at cost less any impairment.

1.3 Financial assets

Financial assets are classified at initial recognition and subsequently measured at amortised cost or fair value through other comprehensive income. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them.

Amortised cost

Assets which are held to collect contractual cash flows, and with contractual terms which give rise to cash flows which are solely payments of principal and interest on the principal amount outstanding, are classified as financial assets held at amortised cost. The Company initially measures financial assets held at amortised cost at fair value plus transaction costs. They are subsequently measured using the effective interest method where applicable and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

Fair value through other comprehensive income

Assets which are held both to collect contractual cash flows and to sell the financial asset, where the contractual terms of the asset give rise to cash flows which are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income, unless designated as FVTPL. The Company's financial assets at fair value through other comprehensive income relate to corporate debt securities. Movements in the carrying amount are taken through other comprehensive income, except for gains or losses recognised in the income statement when the asset is derecognised, modified or impaired.

Impairment

At initial recognition of a financial asset measured at amortised cost or fair value through other comprehensive income, an expected credit loss assessment is conducted with an impairment loss booked if material. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the credit quality and history of the financial asset or group of financial assets, as well as existing market conditions and forward-looking expectations.

At each balance sheet date, the Company assesses on a forward-looking basis whether there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as held at amortised cost or fair value through other comprehensive income is expected. The Company measures the expected loss as the difference between the carrying amount of the asset or group of assets, including the allowance for expected losses at initial recognition, and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition.

The Company applies the simplified impairment approach to trade receivables due from subsidiary undertakings.

Impairment losses, including the expected credit allowance, are recognised in the income statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for the impairment losses. If in a subsequent period the amount of the expected impairment allowance reduces, and this can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. A financial asset is written off when there is no reasonable expectation of recovery.

2. Investment in subsidiary undertakings

	2022 £m	2021 £m
At 1 January	**3,322.9**	3,305.9
Additional investment in subsidiary undertakings	**9.7**	17.0
At 31 December	**3,332.6**	3,322.9

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.

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[6]
UK Assistance Accident Repair Centres Limited[1]	02568507	United Kingdom	Motor vehicle repair services
UK Assistance Limited[1]	02857232	United Kingdom	Dormant[6]
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:			
10-15 Livery Street, Birmingham UK Limited[4]	JE109119	Jersey	Dissolved[7,8]
Brolly UK Technology Limited[1]	10134039	United Kingdom	Dormant[6]
Churchill Insurance Company Limited[1]	02258947	United Kingdom	General insurance
Direct Line Insurance Limited[1]	01810801	United Kingdom	Dormant[6]
DL Support Services India Private Limited[5]	See footnote 5	India	Support and operational services
DLG Legal Services Limited[2]	08302561	United Kingdom	Legal services
DLG Pension Trustee Limited[1]	08911044	United Kingdom	Dormant[6]
Farmweb Limited[1]	03207393	United Kingdom	Dormant[6]
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[6]
National Breakdown Recovery Club Limited[1]	02479300	United Kingdom	Dormant[6]
Nationwide Breakdown Recovery Services Limited[1]	01316805	United Kingdom	Dormant[6]
The National Insurance and Guarantee Corporation Limited[1]	00042133	United Kingdom	Dormant[6]
UKI Life Assurance Services Limited[1]	03034263	United Kingdom	Dormant[6]

Notes:

1. Registered office at: Churchill Court, Westmoreland Road, Bromley, BR1 1DP.
2. Registered office at: The Wharf, Neville Street, Leeds, LS1 4AZ.
3. U K Insurance Limited has a branch in the Republic of South Africa and a branch in the Republic of Ireland.
4. Registered office at: 22 Grenville Street, St Helier, JE4 8PX, Jersey.
5. Registered office at: ESC House, 155, 1st & 2nd Floor, Okhla Industrial Area Phase-3, New Delhi, 110020, India. Company registration number: U74140DL2014FTC265567.
6. These entities have not been audited, in accordance with the exemptions available for dormant entities under section 480 of the Companies Act 2006.
7. Under the Companies (Jersey) Law 1991, there is no requirement to file individual accounts and audit a private limited company.
8. 10-15 Livery Street, Birmingham UK Limited was dissolved on 29 December 2022.

2. Investment in subsidiary undertakings continued

At 31 December 2022, the carrying amount of the Company's net assets of £3,042.2 million (2021: £3,284.4 million) exceeded the Group's market capitalisation of £2,902.1 million (2021: £3,712.7 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 2022 (2021: £nil).

3. Other receivables

	2022 £m	2021 £m
Loans to subsidiary undertakings[1]	**21.1**	337.1
Trade receivables due from subsidiary undertakings	**5.4**	5.4
Other debtors	**0.3**	–
Total	**26.8**	342.5
Current	**26.8**	92.5
Non-current	**–**	250.0
Total	**26.8**	342.5

Note:

1. For the year ended 31 December 2021, included in loans to subsidiary undertakings was a £250 million unsecured subordinated loan to U K Insurance Limited which was settled on 25 April 2022. All loans are neither past due nor impaired.

4. Current and deferred tax

	2022 £m	2021 £m
Per balance sheet:		
Current tax assets	**6.8**	6.4
Deferred tax liabilities	**(0.9)**	(0.9)

The deferred tax liability is in respect of provisions and other temporary differences.

5. Derivative financial instruments[1]

	Notional amount 2022 £m	Fair value 2022 £m	Notional amount 2021 £m	Fair value 2021 £m
Derivative assets				
Designated as hedging instruments:				
Foreign exchange contracts (forwards)[2]	**3.4**	**0.1**	14.1	0.2
Total	**3.4**	**0.1**	14.1	0.2
Derivative liabilities				
Designated as hedging instruments:				
Foreign exchange contracts (forwards)[2]	**3.4**	**0.1**	14.1	0.2
Total	**3.4**	**0.1**	14.1	0.2

Notes:

1. The derivative assets and liabilities are both classified as level 2 within the Group's fair value hierarchy set out in note 43 of the consolidated financial statements.
2. The foreign exchange cash flow hedges have been entered into on behalf of the Group's subsidiary companies.

6. Financial investments

	2022 £m	2021 £m
Fair value through other comprehensive income debt securities[1]	**–**	45.2

Note:

1. At 31 December 2021, the fair value through other comprehensive income debt securities are corporate debt securities of £45.2 million classified as level 2 within the Group's fair value hierarchy which is set out in note 43 of the consolidated financial statements.

7. Cash and cash equivalents

	2022 £m	2021 £m
Short-term deposits with credit institutions[1]	**112.3**	204.6
Total	**112.3**	204.6

Note:
1. This represents money market funds.

8. Share capital, capital reserves and distributable reserves

Full details of the share capital and capital reserves of the Company are set out in notes 31 and 32 to the consolidated financial statements.
Of the Company's total equity, £1,094.6 million (2021: £1,333.0 million), being the total of its retained earnings less unrealised losses of £nil (2021: £0.1 million), is considered to be distributable reserves.

9. Tier 1 notes

Full details of the Tier 1 notes of the Company are set out in note 33 to the consolidated financial statements.

10. Subordinated liabilities

	2022 £m	2021 £m
£250 million 9.25% subordinated Tier 2 notes due 2042	**–**	254.1
£260 million 4.0% subordinated Tier 2 notes due 2032	**258.6**	258.3
Total	**258.6**	512.4

The 2032 and 2042 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 2022 was £204.9 million (2021: £543.7 million).

£250 million 9.25% subordinated Tier 2 notes due 2042

The subordinated guaranteed dated notes with a nominal value of £500 million were issued on 27 April 2012 at a fixed rate of 9.25% with a redemption date of 27 April 2042. On 8 December 2017, the Company repurchased £250 million nominal value of subordinated guaranteed dated notes for a purchase price of £330.1 million including accrued interest of £2.7 million and associated transaction costs of £0.6 million. The remaining notes, with a nominal value of £250 million and accrued interest of £11.6 million, were redeemed in full on 27 April 2022 when the Group had its first option to repay. Associated transaction costs were £0.1 million.

£260 million 4.0% subordinated Tier 2 notes due 2032

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.

11. Borrowings

	2022 £m	2021 £m
Loans from fellow subsidiaries within the Group[1]	**176.8**	123.9

Note:
1. Included in the above is a loan of £69.2 million (2021: £93.8 million) from UK Assistance Accident Repair Centres Limited. All loans from fellow Group subsidiaries are repayable by 31 December 2024.

12. Dividends

Full details of the dividends paid and proposed by the Company are set out in note 14 to the consolidated financial statements.

13. Share-based payments

Full details of share-based compensation plans are provided in note 37 to the consolidated financial statements.

14. 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.

15. 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 10 to the consolidated financial statements, the compensation for key management is set out in note 44 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 calendar[1]

2023

Date	Event
13 Mar	Preliminary Results 2022 announcement
09 May	Annual General Meeting
02 August	Half-year report 2023
07 November	Trading update for the third quarter of 2023

Annual General Meeting

The 2023 AGM will be held at No 1 Minster Court, Mincing Lane, London, EC3R 7AA on Tuesday, 9 May 2023, 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 31 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 260. 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.

How to avoid share fraud

- Remember that FCA-authorised 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 £2,000 across an individual's entire share portfolio for the tax year 2022 to 2023. This tax-free allowance will reduce to £1,000 for the tax year 2023 to 2024 and 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.
Adjusted gross written premium	An amended gross written premium number that identifies the impact of a contractual change to Green Flag premium such that a portion of income that was previously included in gross written premium is now included in service fee income.
Adjusted solvency capital ratio	The ratio of Solvency II own funds to the solvency capital requirement at 31 December 2021, excludes the Tier 2 subordinated debt which was redeemed on 27 April 2022.
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.
Bootstrapping	A statistical sampling technique used to estimate reserve variability around the Actuarial Best Estimate ("**ABE**"). Results produced from bootstrapping historical data are used to set and inform the level of margin incorporated in the Management Best Estimate ("**MBE**").
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 balance sheet is classified as Tier 2 capital for Solvency II purposes.
Carbon emissions: **Scope 1** **Scope 2** **Scope 3 under our direct control** **Total 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 under our direct control** – includes indirect emissions that occur in the Group's value chain, under its direct control, such as waste disposal and business travel. **Total Scope 3** – includes all other indirect emissions that occur in the Group's value chain and purchased goods and services, excluding investments.
Claims frequency	The number of claims divided by the number of policies per year.
Claims handling provision (provision for losses and loss-adjustment expense)	Funds set aside by the Group to meet the estimated cost of settling claims and related expenses that the Group considers it will ultimately need to pay.
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 loss, commission and expense ratios. The ratio measures the amount of claims costs, commission and operating expenses, compared to net earned premium generated. A ratio of less than 100% indicates profitable underwriting. **Normalised combined operating ratio** adjusts loss and commission ratios for weather and changes to the Ogden discount rate. **Current-year combined operating ratio** is calculated using the combined operating ratio less movement in prior-year reserves. (See page 257 alternative performance measures.)
Commission ratio	The ratio of commission expense divided by net earned premium. (See page 254 alternative performance measures.)
Current-year attritional loss ratio	The loss 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 254 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.
Expense ratio	The ratio of operating expenses divided by net earned premium. (See page 254 alternative performance measures).
Fair value through profit or loss ("FVTPL")	A financial asset or liability where at each balance sheet date the asset or liability is remeasured to fair value and any movement in that fair value is taken directly to the income statement.
Finance costs	The cost of servicing the Group's external borrowings and including the interest on right-of-use assets.

Term	Definition and explanation
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	The total premiums from insurance contracts that were incepted during the 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.
Incurred but not reported ("IBNR")	Funds set aside to meet the cost of claims for accidents that have occurred but have not yet been reported to the Group. This includes an element of uplift on the value of claims reported.
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.
Insurance liabilities	This comprises insurance claims reserves and claims handling provision, which the Group maintains to meet current and future claims.
Investment income yield	The income earned from the investment portfolio, recognised through the income statement during the period (excluding unrealised and realised gains and losses, impairments and fair value adjustments) divided by the average assets under management ("**AUM**"). The average AUM derives from the period's opening and closing balances for the total Group. (See page 254 alternative performance measures.)
Investment return	The investment return earned from the investment portfolio, including 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 254 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.
Loss ratio	Net insurance claims divided by net earned premium. (See page 254 alternative performance measures.)
Malus	An arrangement that permits unvested remuneration awards to be forfeited, when the Company considers it appropriate.
Management's best estimate ("MBE")	These reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal ABE.
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 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 earned premium	The element of gross earned premium less reinsurance premium ceded for the period where insurance cover has already been provided.
Net insurance claims	The cost of claims incurred in the period less any claims costs recovered under reinsurance contracts. It includes claims payments and movements in claims reserves.
Net insurance margin ("NIM")	This is a proposed IFRS 17 key performance indicator based on the ratio of an insurance service return divided by a view of net insurance contract revenue. The definition of an insurance service return is the sum of the net insurance contract revenues, net insurance contract claims, acquisition costs and operating expenses, compared to the net insurance contract revenues generated. We will provide definitions of these terms reconciled to the statutory basis in future disclosures.
Net investment income yield	This is calculated in the same way as investment income yield but includes the cost of hedging. (See page 254 alternative performance measures.)
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.
Ongoing operations	The Group's ongoing operations include Motor, Home, Rescue and other personal lines and Commercial segments and excludes the run-off partnerships segment. Please also refer to **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' and run-off partnerships does not meet the criteria of a discontinued operation and has not been accounted for as such. (See page 255 alternative performance measures.)

Term	Definition and explanation
Operating expenses	These are the expenses relating to business activities excluding restructuring and one-off costs. (See page 255 alternative performance measures.)
Operating profit	The pre-tax profit that the Group's activities generate, including insurance and investment activity, but excluding finance costs, restructuring and one-off costs.
Own Risk and Solvency Assessment ("ORSA")	A forward-looking assessment of the Group's risks and associated capital requirements, over the business planning period.
Periodic 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.
Reserves	Funds that have been set aside to meet outstanding insurance claims and IBNR.
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.
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.
Return on tangible equity ("RoTE")	This is adjusted (loss)/profit after tax divided by the Group's average shareholders' equity less goodwill and other intangible assets. Profit after tax is adjusted to exclude restructuring and one-off costs and to include the Tier 1 coupon payments. It is stated after charging tax using the UK standard rate of 19%. (See page 255 alternative performance measures.)
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.
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 255 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 255 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.
Underwriting result	This is the profit or loss from operational insurance activities, excluding investment return and other operating income. It is calculated as net earned premium less net insurance claims and total expenses, excluding restructuring and one-off costs.

Appendix A – Alternative performance measures

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 251 to 253 and reconciled to the most directly reconcilable line items in the financial statements and notes. Note 4 on page 212 of the consolidated financial statements presents a reconciliation of the Group's business activities on a segmental basis to the consolidated income statement. All note references in the table below are to the notes to the consolidated financial statements on pages 184 to 241.

Group APM	Closest equivalent IFRS measure	Definition and/or reconciliation	Rationale for APM
Adjusted gross written premium	Gross written premium	Adjusted gross written premium is defined in the glossary on page 251 and reconciled on page 256.	This measure identifies the impact of a contractual change to Green Flag Rescue premium such that a portion of income that was previously included in gross written premium is now included in service fee income. The measure supports comparability with prior period gross written premium. This measure was introduced with effect from 1 January 2022.
Adjusted solvency capital ratio	This measure is based on the Group's Solvency II balance sheet and therefore there is no IFRS equivalent	Adjusted solvency capital ratio is defined in the glossary on page 251 and reconciled on page 256.	This is a measure that shows the Group's solvency ratio at 31 December 2021, excluding the Tier 2 subordinated debt which was redeemed on 27 April 2022.
Combined operating ratio	Profit before tax	Combined operating ratio is defined in the glossary on page 251 and reconciled in note 4 on page 213.	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.
Commission ratio	Commission expense	Commission ratio is defined in the glossary on page 251 and is reconciled in note 4 on page 213.	Expresses commission expense, in relation to net earned premium.
Current-year attritional loss ratio	Net insurance claims	Current-year attritional loss ratio is defined in the glossary on page 251 and is reconciled to the loss ratio (discussed below) on page 213.	Expresses claims performance in the current accident year in relation to net earned premium.
Current-year combined operating ratio	Profit before tax	Current-year combined operating ratio is defined in the glossary on page 251 and is reconciled on page 213.	This is a measure of underwriting profitability, excluding the effect of prior-year reserve movements.
Expense ratio	Total expenses	Expense ratio is defined in the glossary on page 251 and is reconciled in note 4 on page 213.	Expresses underwriting and policy expenses in relation to net earned premium. Note that restructuring and one-off costs are not considered as underwriting costs and are not included in expense ratio calculations.
Investment income yield	Investment income	Investment income yield is defined in the glossary on page 252 and is reconciled on page 256.	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 252 and is reconciled on page 256.	Expresses a relationship between the investment return and the associated opening and closing assets adjusted for portfolio hedging instruments.
Loss ratio	Net insurance claims	Loss ratio is defined in the glossary on page 252 and is reconciled in note 4 on page 213.	Expresses claims performance in relation to net earned premium.
Net investment income yield	Investment income	Net investment income yield is defined in the glossary on page 252 and is reconciled on page 256.	Expresses a relationship between the net investment income and the associated opening and closing assets adjusted for portfolio hedging instruments.

Group APM	Closest equivalent IFRS measure	Definition and/or reconciliation	Rationale for APM
Normalised combined operating ratio	Profit before tax	Combined operating ratio and normalised combined operating ratio are defined in the glossary on page 251 and reconciled on page 257.	This is a measure of underwriting profitability excluding the variances of actual weather costs from our assumptions, Ogden discount rate changes and restructuring and one-off costs. It also excludes non-insurance income. A ratio of less than 100% represents an underwriting profit and a ratio of more than 100% represents an underwriting loss.
Ongoing operations (see also run-off partnerships)	Multiple - rationale for APM	Ongoing operations and run-off partnerships are defined in the glossary on pages 252 and 253 and reconciled in note 4 on page 213.	As noted in the Acting CEO and CFO reviews, the Group has 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 this business 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 expenses	Total expenses	Operating expenses are defined in the glossary on page 253 and reconciled in note 4 on page 213.	This shows the expenses relating to business activities excluding restructuring and one-off costs.
Operating profit	Profit before tax	Operating profit is defined in the glossary on page 253 and reconciled in note 4 on page 213.	This shows the underlying performance (before tax and excluding finance costs and restructuring and one-off costs) of the business activities.
Return on tangible equity	Return on equity	Return on tangible equity is defined in the glossary on page 253 and is reconciled on page 257.	This shows performance against a measure of equity that is more easily comparable to that of other companies.
Tangible equity	Equity	Tangible equity is defined in the glossary on page 253 and is reconciled in note 16 on page 221.	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 253 and reconciled in note 16 on page 221.	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.
Underwriting result	(Loss)/profit before tax	Underwriting result is defined in the glossary on page 253 and is reconciled in note 4 on page 213.	This shows underwriting performance calculated as net earned premium less net claims and operating expenses, excluding restructuring and one-off costs.

Investment income and return yields[1]

	Notes[2]	2022 £m	2021 £m
Investment income	6	**125.0**	116.0
Hedging to a sterling floating rate basis[3]	6	**(6.0)**	(13.3)
Net investment income		**119.0**	102.7
Net realised and unrealised (losses)/gains excluding hedging		**(67.4)**	43.6
Total investment return	6	**51.6**	146.3
Opening investment property		**317.0**	292.1
Opening financial investments		**4,633.6**	4,681.4
Opening cash and cash equivalents		**955.7**	1,220.1
Opening borrowings		**(59.2)**	(51.9)
Opening derivatives asset[4]		**14.3**	8.0
Opening investment holdings		**5,861.4**	6,149.7
Closing investment property		**278.5**	317.0
Closing financial investments	28	**3,698.5**	4,633.6
Closing cash and cash equivalents	29	**1,003.6**	955.7
Closing borrowings	29	**(65.2)**	(59.2)
Closing derivatives asset[4]		**1.6**	14.3
Closing investment holdings		**4,917.0**	5,861.4
Average investment holdings[5]		**5,389.2**	6,005.6
Investment income yield[1]		**2.3%**	1.9%
Net investment income yield[1]		**2.2%**	1.7%
Investment return yield[1]		**1.0%**	2.4%

Notes:
1. See glossary on page 252 for definitions.
2. See notes to the consolidated financial statements.
3. Includes net realised and unrealised gains/(losses) on derivatives in relation to AUM.
4. See footnote 1 on page 34 (Investment holdings).
5. Mean average of opening and closing balances.

Adjusted gross written premium

	Rescue - ongoing operations £m	Of which: Green Flag direct £m	Total Rescue and other personal lines £m	Total Group - ongoing operations £m	Of which: direct own brands £m
FY 2022					
Gross written premium	**139.5**	**84.0**	**269.7**	**2,969.8**	**2,082.9**
Effect of service fees recognised as other income	**4.2**	**4.2**	**4.2**	**4.2**	**4.2**
Adjusted gross written premium	**143.7**	**88.2**	**273.9**	**2,974.0**	**2,087.1**

Adjusted solvency capital ratio[1]

	2021 £bn
Total eligible own funds	2.38
Less: Tier 2 subordinated debt redeemed on 27 April 2022	(0.25)
Add back: ineligible Tier 3 capital	0.03
	2.16
Solvency capital requirement	1.35
Adjusted solvency capital ratio	160%

Note:
1. See glossary on page 251 for definition.

Normalised combined operating ratio - ongoing operations[1,2]

	Home 2022	Home 2021	Commercial 2022	Commercial 2021	Total 2022	Total 2021
Loss ratio	**80.2%**	50.7%	**53.7%**	54.5%	**74.7%**	58.4%
Commission ratio	**5.1%**	6.9%	**19.4%**	20.0%	**7.3%**	7.3%
Expense ratio	**21.6%**	22.5%	**21.1%**	21.7%	**23.8%**	23.8%
Combined operating ratio	**106.9%**	80.1%	**94.2%**	96.2%	**105.8%**	89.5%
Effect of weather						
Loss ratio	**(13.0%)**	5.5%	**(1.3%)**	0.1%	**(2.7%)**	1.1%
Commission ratio	**0.8%**	(0.4%)	**(0.1%)**	—	**0.2%**	(0.1%)
Combined operating ratio normalised for weather	**94.7%**	85.2%	**92.8%**	96.3%	**103.3%**	90.5%

Notes:
1. Ongoing operations – see footnote 1 on page 213.
2. See glossary on page 251 for definition.

Operating expenses[1]

	Note[2]	2022 £m	2021 £m
Operating expenses (including restructuring and one-off costs)	10	**744.8**	807.8
Less: restructuring and one-off costs	10	**(45.3)**	(101.5)
Operating expenses	10	**699.5**	706.3

Notes:
1. See glossary on page 253 for definition.
2. See notes to the consolidated financial statements.

Return on tangible equity[1]

	2022 £m	2021 £m
(Loss)/profit before tax	**(45.1)**	446.0
Add back restructuring and other one-off costs	**45.3**	101.5
Coupon payments in respect of Tier 1 notes	**(16.6)**	(16.6)
Adjusted (loss)/profit before tax	**(16.4)**	530.9
Tax credit/(charge) (2022 and 2021 UK standard tax rate of 19%)	**3.1**	(100.9)
Adjusted (loss)/profit after tax	**(13.3)**	430.0
Opening shareholders' equity	**2,550.2**	2,699.7
Opening goodwill and other intangible assets	**(822.5)**	(786.8)
Opening shareholders' tangible equity	**1,727.7**	1,912.9
Closing shareholders' equity	**1,934.0**	2,550.2
Closing goodwill and other intangible assets	**(822.2)**	(822.5)
Closing shareholders' tangible equity	**1,111.8**	1,727.7
Average shareholders' tangible equity[2]	**1,419.8**	1,820.3
Return on tangible equity	**(0.9%)**	23.6%

Notes:
1. See glossary on page 253 for definition.
2. Mean average of opening and closing balances.

Appendix B

In-force policies (thousands)

	31 Dec 2022	31 Dec 2021
Direct own brands	**3,756**	3,869
Partnerships	**80**	102
Motor	**3,836**	3,971
Direct own brands	**1,732**	1,879
Partnerships	**769**	788
Home	**2,501**	2,667
Rescue - ongoing operations	**2,185**	2,273
Pet	**128**	138
Other personal lines - ongoing operations	**111**	94
Rescue and other personal lines - ongoing operations	**2,424**	2,505
Of which: Green Flag Direct	**1,106**	1,179
Direct own brands	**651**	602
NIG and other	**277**	269
Commercial	**928**	871
Total in-force policies - ongoing operations[1]	**9,689**	10,014
Of which: direct own brands	**7,245**	7,529
Run-off partnerships	**2,188**	4,551
Total in-force policies[1]	**11,877**	14,565

Note:
1. The reduction in in-force policies principally relates to the removal of travel insurance cover from a partner's bank account proposition.

Adjusted gross written premium[1]

	FY 2022 £m	FY 2021 £m
Direct own brands	**1,398.5**	1,515.2
Partnerships	**34.2**	45.6
Motor	**1,432.7**	1,560.8
Direct own brands	**381.5**	416.7
Partnerships	**136.6**	161.1
Home	**518.1**	577.8
Rescue - ongoing operations	**143.7**	155.2
Pet	**70.8**	71.4
Other personal lines - ongoing operations	**59.4**	54.5
Rescue and other personal lines - ongoing operations	**273.9**	281.1
Of which: Green Flag direct	**88.2**	88.3
Direct own brands	**218.9**	187.4
NIG and other	**530.4**	465.6
Commercial	**749.3**	653.0
Total adjusted gross written premium - ongoing operations	**2,974.0**	3,072.7
Of which: direct own brands	**2,087.1**	2,207.6
Run-off partnerships	**124.4**	98.9
Total adjusted gross written premium	**3,098.4**	3,171.6

Note:
1. See glossary on page 251 for definition and appendix A – Alternative performance measures on page 256 for reconciliation to financial statement line items.

Forward-looking statements disclaimer

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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, financial condition, prospects, growth, 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, combined operating ratio, percentage targets for current-year contribution to operating profit, prior-year reserve releases, cost reductions, reduction in 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 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;
- 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, 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.

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